

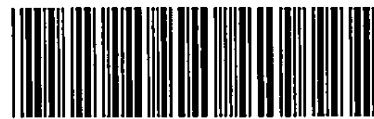
Ship (2006) Limited

Financial Statements

For the year ended 31 December 2011

Registered no: 5820318

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Ship (2006) Limited

Report for the year ended 31 December 2011

	Pages
Directors and advisers	2
Director's report	3-4
Statement of director's responsibilities	5
Independent Auditor's report	6-7
Group profit and loss - technical account	8
Group profit and loss - non - technical account	9
Statement of total recognised gains and losses	9
Reconciliation of movements in shareholders' funds	9
Group balance sheet	10-11
Company balance sheet	12
Group statement of cash flows	13
Notes to the financial statements	14-25

Ship (2006) Limited

Directors and advisers

Director

G P Nash

Secretary and registered office

Norose Company Secretarial Services Limited
3 More Riverside
London SE1 2AQ

Statutory Auditor

Ernst & Young LLP
1 More London Place
London SE1 2AF

Solicitors

Norton Rose
3 More Riverside
London SE1 2AQ

Ship (2006) Limited

Year Ended 31 December 2011

Director's report

The director presents his report and financial statements for the year ended 31 December 2011

Principal activity and review of the business

The company was incorporated on 17th May 2006 and it commenced trading on 28th June 2006

The company's principal activity is that of a holding company. The principal subsidiary company is a wholly owned non-life insurance company, The Underwriter Insurance Company Limited (TUIC), which was acquired on 20th July 2006. TUIC carried on non-life insurance business within the United Kingdom until 11 July 2003 when it ceased effecting new contracts of insurance.

During the year to 31st December 2011, TUIC continued to operate broadly in line with the assumptions and projections contained within its Scheme of Operations (SoO) approved by the directors and filed with the FSA. There were no significant variances from key performance indicators during the period.

The Company transferred by group relief for payment the majority of its tax losses that arose in the period ending 31st December 2006 to its current ultimate shareholders. The proceeds of the receivable group relief have not yet been recognised in the Company. The consideration for the group relief has been deferred until HMRC agree the tax computations of the current ultimate shareholders. HMRC have appealed to have the decision reviewed by the Tax Tribunal. The date of the review has not yet been agreed but is expected to be towards the end of 2012. The Company is obligated to pay 50% of the costs of the appeals and provision has been made for £650,000 in respect of legal costs in connection with this appeal and any further appeals to the higher Courts. The company and shareholders have agreed to be bound by the outcome of another case with similar issues. The company is not sharing in the costs of the other related case.

Going concern

As described in note 13, there is considerable uncertainty as to the amounts at which claims will be settled. These circumstances give rise to a material uncertainty that may cast doubt about the company's ability to continue as a going concern. In the event of significant deterioration in claims costs compared to the amounts currently provided, the going concern basis may no longer be appropriate.

Results and dividends

The result for the year is a loss as set out in the profit and loss account on pages 8 and 9.

The director does not recommend the payment of a dividend (2010, £nil).

Share capital

On 28th June 2006 the company's issued share capital was increased to,
10,000 A Ordinary shares of 1p
1,090,000 B Ordinary shares of 1p

Details of Director

The name of the director who held office during the whole of the period is as shown on page 2.

No director had any interest in the share capital of the company during the year.

Ship (2006) Limited

Year Ended 31 December 2011

Director's Report (cont'd)

Creditor payment policy

The Company's policy is to adhere to the terms and conditions agreed between it and its suppliers

Director's declaration

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware.

The director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution will be proposed at the annual general meeting for the re-appointment of Ernst & Young LLP as the auditor of the company

By order of the board



G P Nash
Director

Ship (2006) Limited

Year Ended 31 December 2011

Statement of director's responsibilities

The director is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the director is required to:

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

The director is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The director is responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Ship (2006) Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHIP (2006) LIMITED

We have audited the consolidated financial statements of Ship (2006) Limited for the year ended 31 December 2011 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, the Group Reconciliation of Movements in Shareholders' Funds, the Group and Parent Company Balance Sheets, the Group Statement of Cash Flows and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non financial information in the Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- Give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's loss for the year then ended,
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- Have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of Matter – Uncertainty attaching to the outcome of the run-off of the company's business

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Notes 1, 2 and 13 concerning the company's ability to continue as a going concern. The ultimate net liability will vary as a result of subsequent information and developments and significant adjustments may be necessary to the amounts provided. The conditions explained in notes 1, 2 and 13 indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

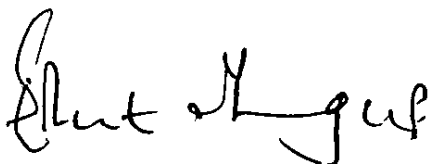
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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



T J Leggett (Senior statutory auditor)

For and on behalf of Ernst & Young LLP (Statutory Auditor)

London

30 April 2012

Ship (2006) Limited

Group Profit and Loss account For the year ended 31 December 2011

		Year ended 31 Dec 2011 £'000	£'000	Year ended 31 Dec 2010 £'000	£'000
	Notes				
Technical account – general business					
Gross premiums written	3(a)	(2)		(51)	
Outward reinsurance premiums	3(b)	(7)		(6)	
		-----		-----	
Earned premiums, net of reinsurance	3(b)		(9)		(57)
Claims paid					
Gross amount		(10,955)		(24,527)	
Reinsurers' share		7,165		11,513	
		-----		-----	
Net of reinsurance		(3,790)		(13,014)	
Change in the provision for claims					
Gross amount		13,690		4,160	
Reinsurers' share		(9,216)		10,084	
		-----		-----	
Net of reinsurance		4,474		14,244	
Claims incurred, net of reinsurance	3(b)		684		1,230
Net operating expenses	4		(1,726)		(1,506)
			-----		-----
Balance on the technical account - general business			(1,051)		(333)
			=====		=====

Ship (2006) Limited

Group Profit and Loss account For year ended 31 December 2011

	Year ended 31 Dec 2011 £'000	Year ended 31 Dec 2010 £'000
Non – technical account – general business	<i>Notes</i>	
Balance on the general business technical account	(1,051)	(333)
Investment income	454	591
Investment expenses and charges	(104)	(53)
Realised gains on exchange	34	46
Unrealised gains on investments	108	156
Realised(losses)/gains on investments	(147)	16
Unrealised losses on exchange	(25)	(494)
Amortisation of goodwill arising on acquisition of subsidiary	10(b) 28	356
Other Income	25	25
Profit /(loss) on ordinary activities before tax	(678)	310
Tax on profit on ordinary activities	8 -	-
Profit /(loss) for the financial period after tax	(678)	310
Retained profit for the financial period transferred to reserves	(678)	310

There is no material difference between the results disclosed in the profit and loss account and the result on an unmodified historical cost basis. Accordingly, a note on the historical cost profits and losses for the reporting period is not given.

All amounts are derived from continuing operations.

Group statement of total recognised gains and losses

	£'000	£'000
Profit /(loss) for the year	(678)	310
Total recognised gains and losses in the year	(678)	310

Group reconciliation of movements in shareholders' funds for the year ended 31 December 2011

	£'000	£'000
Total recognised gains and losses	(678)	310
Opening shareholders' funds	930	620
Closing shareholders' funds	252	930

Ship (2006) Limited

Group Balance Sheet As at 31 December 2011

	<i>Notes</i>	31 Dec 2011 £'000	31 Dec 2010 £'000
ASSETS			
Intangible Assets			
Goodwill – Negative goodwill	<i>10(b)</i>	(373)	(1,712)
Investments			
Other financial investments	<i>10(a)</i>	35,126	41,967
Reinsurers' share of technical provisions			
Claims outstanding	<i>13</i>	22,800	32,026
Debtors			
Debtors arising out of reinsurance operations		107	807
Other assets			
Cash at bank and in hand		2,464	726
Prepayments and accrued income			
Accrued interest		13	32
Prepaid operational expenses		43	56
Sundry debtors		45	5
		101	93
Total assets			
		60,225	73,907

Ship (2006) Limited

Group Balance Sheet As at 31 December 2011

		31 Dec 2011 £'000	31 Dec 2010 £'000
	<i>Notes</i>		
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	11	11	11
Profit and Loss Account	12	241	919
		<hr/>	<hr/>
Shareholders' funds attributable to equity interests		252	930
		<hr/>	<hr/>
Technical provisions			
Provision for claims outstanding	13	46,749	60,402
		<hr/>	<hr/>
		46,749	60,402
		<hr/>	<hr/>
Creditors			
Creditors arising out of direct insurance operations		251	38
Creditors arising out of reinsurance operations	15	2,348	2,233
Other creditors including taxation and social security	15	1,346	537
		<hr/>	<hr/>
		3,945	2,808
		<hr/>	<hr/>
Creditors due after one year			
Creditors arising out of reinsurance operations	16	3,310	5,109
Provision for deferred consideration	20	5,969	4,658
		<hr/>	<hr/>
Total equity and liabilities		60,225	73,907
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 3 April 2012 and were signed on its behalf by



G P Nash
Director

Ship (2006) Limited

Company Balance Sheet As at 31 December 2011

	Notes	31 Dec 2011 £'000	31 Dec 2010 £'000
ASSETS			
Investments			
Subsidiary undertakings	10(b)	5,969	5,930
		<u>5,969</u>	<u>5,930</u>
Current Assets			
Cash at bank and in hand		13	8
Prepaid operational expenses		7	7
		<u>20</u>	<u>15</u>
Total assets		<u>5,989</u>	<u>5,945</u>
LIABILITIES			
Capital and reserves			
Called up share capital	11	11	11
Retained losses		(15)	(15)
		<u>(4)</u>	<u>(4)</u>
Total capital and reserves		<u>(4)</u>	<u>(4)</u>
Creditors			
Other creditors		24	19
		<u>24</u>	<u>19</u>
Provision for deferred consideration	20	5,969	5,930
		<u>5,969</u>	<u>5,930</u>
Total liabilities		<u>5,989</u>	<u>5,945</u>

These financial statements were approved by the board of directors on 2 April 2012 and were signed on its behalf by



G P Nash
Director

Ship (2006) Limited

Group Statement of Cash Flows At 31 December 2011

		Year ended 31 Dec 2011 £'000	Year ended 31 Dec 2010 £'000
	<i>Notes</i>		
Net cash outflow from operating activities	<i>19</i>	(4,729)	(4,480)
Returns on investments and servicing of finance			
Investment income and gains		424	143
Investment expenses and charges		(79)	144
		<u>(4,384)</u>	<u>(4,193)</u>
Taxation			
Corporation tax paid		-	-
Net cash outflow before management of liquid resources and financing		(4,384)	(4,193)
Management of liquid resources			
Decrease in financial investments		6,841	4,196
Financing			
Issue of ordinary share capital	<i>11</i>	-	-
Increase in cash		<u>2,457</u>	<u>3</u>
Reconciliation of net cash flow to movement in net debt			
Increase in cash		2,457	3
Cash inflow from financial investments		(6,841)	(4,196)
Change on net debt resulting from cash flows		<u>(4,384)</u>	<u>(4,193)</u>
Movement in net debt		(4,384)	(4,193)
Net debt at the beginning of period		(58,871)	(54,678)
Net debt at 31 December 2011		(63,255)	(58,871)

Ship (2006) Limited

Notes to the Financial Statements

At 31st December 2011

1 Basis of preparation

The financial statements have been prepared pursuant to the requirements of the Companies Act 2006, incorporating the special provisions for insurance companies in Schedule 3 to the Large and Medium- Sized Companies and Groups (Accounts and Reports) Regulations 2008 and are prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, amended in December 2006

The balance sheet of the parent company ("the Company") is prepared in accordance with the provisions of Schedule 1 of the Large and Medium-sized Groups (Accounts and Reports) Regulations 2008. No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006

The company owns 100% of the share capital of The Underwriter Insurance Company Limited. Following deterioration in this company's financial strength, from 11 July 2003 the directors decided that the company should cease to effect new contracts of insurance. The directors of The Underwriter Insurance Company Limited concluded on the basis of information currently available that the run-off will be solvent and that the company anticipates that it will continue to meet all valid claims in full. The accounts of that company were therefore prepared on a going concern basis at 31st December 2011.

As described in note 13, there is considerable uncertainty as to the amounts at which claims will be settled. These circumstances give rise to a material uncertainty that may cast doubt about the company's ability to continue as a going concern. In the event of significant deterioration in claims costs compared to the amounts currently provided, the going concern basis may no longer be appropriate.

Basis of consolidation

The group financial statements consolidate the financial statements of Ship (2006) Limited and its wholly owned subsidiary undertakings drawn up to 31 December each year. All intra group balances, transactions, income and expenses and profits and losses arising from intra group transactions are eliminated in full on consolidation.

The Underwriter Insurance Company Limited has been included in the group financial statements using the acquisition method of accounting. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

2 Accounting policies

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

Basis of accounting for underwriting activities

The accounts are prepared in accordance with the historical cost convention and on the going concern basis. All business is accounted for on an annual basis.

Premium income

Written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial period, together with adjustments arising in the financial period to premiums receivable in respect of business written in previous financial years.

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

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being assumed.

Ship (2006) Limited

Notes to the Financial Statements (cont'd)

At 31st December 2011

2 Accounting policies (cont'd)

Claims

Claims incurred in respect of general business consists of claims and claims handling expenses paid during the financial period together with the movement in the provision for outstanding claims

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and related internal and external claims handling expenses. Anticipated reinsurance recoveries, and estimates of salvage and subrogation recoveries, are disclosed separately as assets. The differences between the provisions at a balance sheet date and settlements and re-estimates in the following period are reflected in the underwriting results for that period.

Any estimate represents a point within a possible range of outcomes. Further details of estimation techniques are given in note 13

Acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring new or renewal insurance policies written during the financial period. Acquisition costs and ceding commission income which relate to a subsequent financial period are deferred and charged or credited 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 premiums written or ceded which are unearned at the balance sheet date

Investment income

Investment income is accounted for on an accruals basis, including, where appropriate, the imputed tax credit. Interest is accrued up to the balance sheet date. Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price

Unrealised gains and losses on investments represent the difference between the current value of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the current accounting period. All investment income, including realised and unrealised gains and losses on investments, is reported in the non-technical account

Run-off provision

In accordance with FRS3, the run-off provision consists of all estimated costs incurred in the administration of the run-off less projected investment returns.

Ship (2006) Limited

Notes to the Financial Statements (cont'd)

At 31st December 2011

2 Accounting policies (cont'd)

Investments

Investments, consisting of listed investments and deposits with credit institutions, are stated at their current value

Tax

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date

Deferred tax

Deferred tax liabilities and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised

Exchange rates

Assets and liabilities held in foreign currency are translated into sterling at the rates of exchange ruling at the balance sheet date and the exchange differences taken to the profit and loss account in the period. Foreign currency transactions during the period are also translated into sterling using the rate of exchange prevailing at the balance sheet date

3 Segmental analysis

3(a) Class of business

	31 Dec 2011 £'000	31 Dec 2010 £'000
Gross Premiums written		
General business	(2)	(51)
	<u>(2)</u>	<u>(51)</u>
	£'000	£'000
(Loss)/profit on ordinary activities before tax		
General business	(706)	(47)
	<u>(706)</u>	<u>(47)</u>
	£'000	£'000
Segmental net assets		
General business	6,598	7,304
	<u>6,598</u>	<u>7,304</u>

Ship (2006) Limited

Notes to the Financial Statements (cont'd) At 31st December 2011

3 Segmental analysis (cont'd)

3(b) Geographical analysis

	Year ended 31 Dec 2011 £'000 GWP	Year ended 31 Dec 2011 £'000 NEP	Year ended 31 Dec 2011 £'000 Inc Claims	Year ended 31 Dec 2011 £'000 Op Exps	Year ended 31 Dec 2011 £'000 RI Prem
Risks located in the UK	(1)	(7)	(8)	(3,444)	706
Risks located in Europe	-	-	-	(366)	75
Risks located elsewhere	(1)	-	(1)	4,494	920
	<u>(2)</u>	<u>(7)</u>	<u>(9)</u>	<u>684</u>	<u>1,701</u>

	Year ended 31 Dec 2010 £'000 GWP	Year ended 31 Dec 2010 £'000 NEP	Year ended 31 Dec 2010 £'000 Inc Claims	Year ended 31 Dec 2010 £'000 Op Exps	Year ended 31 Dec 2010 £'000 RI Prem
Risks located in the UK	(7)	(6)	(13)	(10,378)	786
Risks located in Europe	-	-	-	2,463	187
Risks located elsewhere	(44)	-	(44)	6,685	509
	<u>(51)</u>	<u>(6)</u>	<u>(57)</u>	<u>(1,230)</u>	<u>1,482</u>

GWP = Gross Written Premium Inc Claims = Net Incurred Claims
NEP = Net Earned Premium Op Exps = Operating Expenses

4 Net operating expenses

	31 Dec 2011 £'000	31 Dec 2010 £'000
Administrative expenses	1,726	1,506
Gross and net operating expenses	<u>1,726</u>	<u>1,506</u>

Ship (2006) Limited

Notes to the Financial Statements (cont'd) At 31st December 2011

5 Auditors' remuneration

The remuneration of the auditors is analysed as follows,

	31 Dec 2011 £'000	31 Dec 2010 £'000
Audit of the financial statements	10	10
Other fees to the auditors - statutory audit of subsidiaries	54	58
	<u>64</u>	<u>68</u>

6 Staff numbers and costs

With the exception of one non executive director, the company does not employ any staff

7 Directors' emoluments

Emoluments borne by that company in respect of the Director of this company were as follows

	31 Dec 2011 £'000	31 Dec 2010 £'000
Fees		
Emoluments	4	4
Company contributions to money purchase schemes	-	-
	<u>4</u>	<u>4</u>

The emoluments of the highest paid director for the year ended 31 December 2011 were £4,000

Ship (2006) Limited

Notes to the Financial Statements (cont'd)

At 31st December 2011

8 Taxation

8(i) Tax on profit/(loss) on ordinary activities

The charge is made up as follows

	31 Dec 2011 £'000	31 Dec 2010 £'000
Current tax		
UK corporation tax @ 26.49%		
Current period	-	-
Total current tax	-	-
Tax on profit/(loss) on ordinary activities	-	-

8(ii) Factors affecting the current tax charge

The charge is made up as follows

	31 Dec 2011 £'000	31 Dec 2010 £'000
Profit/(loss) on ordinary activities before tax	(676)	310
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.49% (2010 28%)	(179)	87
Amortisation of goodwill on consolidation	(8)	(100)
Tax losses carried forward	187	13
Total current tax (note 8(i))	-	-

Ship (2006) Limited

Notes to the Financial Statements (cont'd)

At 31st December 2011

8 Taxation (cont'd)

8(iii) Factors that may affect future tax charges

	31 Dec 2011 £'000	31 Dec 2010 £'000
Tax losses carried forward	2,730	2,522
Capital allowances carried forward	1,050	1,050
Total	<u>3,780</u>	<u>3,572</u>

9 Dividends

The directors have decided not to declare any dividend

10 Investments

10(a) Other financial investments

	31 Dec 2011		31 Dec 2010	
	Market value £'000	Cost £'000	Market value £'000	Cost £'000
Deposits with credit institutions	3,671	3,671	11,747	11,736
Collective investment schemes	31,455	31,291	30,220	30,091
	<u>35,126</u>	<u>34,962</u>	<u>41,967</u>	<u>41,827</u>

10(b) Investments in subsidiaries

On 20th July 2006, the company acquired The Underwriter Insurance Company Limited for an initial consideration of £10,000. Further consideration is payable contingent upon the surplus arising on the scheme of arrangement operated by The Underwriter Insurance Company Limited (see note 20). The investment in The Underwriter Insurance Company Limited has been included in the consolidated balance sheet at its fair value on the date of acquisition.

Ship (2006) Limited

Notes to the Financial Statements (cont'd) At 31st December 2011

10 Investments and cash (cont'd)

10(b) Investments in subsidiaries (cont'd)

Analysis of the acquisition of The Underwriter Insurance Company Limited

Net assets at date of acquisition

	Book value £'000
Investments	105,085
Reinsurers' share of technical provisions	51,419
Debtors arising out of reinsurance operations	1,436
Cash	3,037
Prepayments and accrued income	1,955
Creditors	(1,231)
Technical Provisions	(151,901)
Net Assets	9,800
Discharged by	
Initial consideration	10
Deferred consideration	4,509
Negative Goodwill	5,281

Negative goodwill is released to the profit and loss account in line with claims settlements in the period

The release for the period was £28 k (2010 £356k)

	31 st December 2011	31 st December 2010
	£000's	£000's
Negative goodwill at 1 st January	1,712	941
Adjustment to Negative Goodwill bought forward	(1,311)	1,127
Amortisation of goodwill for the period	(28)	(356)
Negative goodwill at 31 December	373	1,712

The adjustment to the brought forward negative goodwill arises from an increase in the deferred consideration payable see note 20)

Ship (2006) Limited

Notes to the Financial Statements (cont'd)

At 31st December 2011

11 Authorised and issued share capital

	31 Dec 2011 £	31 Dec 2010 £
Authorised		
10,000 A ordinary shares of 1p each	100	100
1,090,000 B ordinary shares of 1p each	10,900	10,900
	<u>11,000</u>	<u>11,000</u>
Allotted, called up and fully paid		
10,000 A ordinary shares of 1p each	100	100
1,090,000 B ordinary shares of 1p each	10,900	10,900
	<u>11,000</u>	<u>11,000</u>

12 Reserves

	31 December 2011 Profit and loss account £'000	31 December 2010 Profit and loss account £'000
Balance at beginning of period	919	609
Retained profit for the period	(678)	310
	<u>241</u>	<u>919</u>

13 Claims outstanding

	31 Dec 2011			31 Dec 2010		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
Notified outstanding claims	31,215	20,504	10,711	46,370	29,113	17,257
Provision for claims incurred but not reported	13,457	2,296	11,161	11,833	2,913	8,920
	<u>44,672</u>	<u>22,800</u>	<u>21,872</u>	<u>58,203</u>	<u>32,026</u>	<u>26,177</u>
Claims handling expenses	2,077	-	2,077	2,199	-	2,199
	<u>46,749</u>	<u>22,800</u>	<u>23,949</u>	<u>60,402</u>	<u>32,026</u>	<u>28,376</u>

Ship (2006) Limited

Notes to the Financial Statements (cont'd)

At 31st December 2011

The contribution from reserves release was £684k (2010 -£1,230k) which relates predominantly to improvements to the ultimate claims position on the PL class of £4,055k (2010 £3,368) less deficiencies to all other classes, most notably the Contractors All Risks class (32,628k)(2010 136k)

The ultimate cost of claims is estimated using a comparison of expected development to actual development. Judgement is used to assess the extent to which past trends may not apply in future, for example to reflect varying levels of claims inflation.

The approach adopted takes into account factors such as the nature and materiality of the business and the type of data available. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. Additional qualitative input, such as allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is also used in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, from a range, which may be significant, of possible outcomes, taking account of all the uncertainties involved. Included in the above figures are financial provisions estimated by senior management totalling £3.6m (2010 £2.5m).

There are long term casualty and liability accounts with international exposures. The principal uncertain accounts are the financial and professional indemnity books of business where claims take many years to resolve and can be influenced by changes in legislation and precedent.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share having regard for collectability. The company assumes full recovery is available if claim recoveries continue to be received in a prompt manner.

In order to assess the appropriate level of technical provisions to hold for future claims, the company uses the services of external actuaries, although after management review, the final decision on such provisions rests with the directors. Such an assessment is usually based on the claims experience of the company and the market in general. The director considers that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant material adjustments to the amounts provided.

14 Other technical provisions

Other technical provisions for the current financial period are as shown below.

Run-off provision

	31 Dec 2011 £'000	31 Dec 2010 £'000
Balance at beginning of period	-	-
Change in run-off provision in the period	-	-
Run-off provision	-	-

In accordance with FRS 3, a full provision has been made within these accounts for the total projected costs, which will be incurred in the administration of the run-off less future projected investment returns. Future inflation cost assumptions have been included within projected costs and no discounting has been applied to the projected investment returns.

Ship (2006) Limited

Notes to the Financial Statements (cont'd)

At 31st December 2011

Breakdown of run-off provision

	31 Dec 2011 £'000	31 Dec 2010 £'000
Total projected expenditure costs	(2,153)	(5,542)
Total projected investment income	3,590	4,658
	<u>1,437</u>	<u>(884)</u>

15 Creditors: amounts due within one year

Other creditors include

	31 Dec 2011 £'000	31 Dec 2010
Amounts arising out of reinsurance operations		
Due within 1 year		
Amounts due to reinsurers	379	61
Commutations received	1,969	2,172
	<u>2,348</u>	<u>2,233</u>
Accrued expenditure	1,007	212
Bank overdraft	11	-
Amounts due to related companies	328	325
	<u>1,346</u>	<u>537</u>

16 Creditors: amounts falling due after more than one year

	31 Dec 2011 £'000	31 Dec 2011 £'000
Commutations received	3,310	5,109
	<u>3,310</u>	<u>5,109</u>

17 Related party transactions

There are no related party transactions

18 Commitments

There are no capital commitments at the end of the period

Ship (2006) Limited

Notes to the Financial Statements (cont'd) At 31st December 2011

19 Notes to the consolidated statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	2011 £'000	2010 £'000
Loss on ordinary activities	(1,051)	(333)
Decrease in general insurance technical provisions (net)	(4,426)	(11,600)
Increase in debtors	700	1,575
Decrease in creditors	(662)	6,442
Decrease in prepayments and accrued income	710	(564)
Net cash outflow from operating activities	(4,729)	(4,480)

20 Provision for deferred consideration

Further consideration is payable for the acquisition of The Underwriter Insurance Company Limited and is calculated at £1 for each £1 of surplus on the scheme of arrangement operated by The Underwriter Insurance Company Limited up to a surplus of £18.5m. In excess of £18.5m the consideration reduces to 95 pence for each £1 of surplus. This consideration is payable when funds are released from the scheme of arrangement. The current estimated surplus is £8,028k (2010 £6,421k), and provision for this amount has been made in these accounts at the net present value of £5,969k (2010 £4,658k). This has given rise to an adjustment of £ (1,311k) (2010, £1,127k) to the brought forward negative goodwill balance. The amount of the surplus may significantly change in the future and this will have a direct effect on the consideration payable.