SFCR

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SOLVENCY AND FINANCIAL CONDITION REPORT (SFCR)

For the period 21 February 2017 – 20 February 2018

Executive Summary

This report covers Skuld's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management. The report is structured according to Annex XX of the European Union Commission Delegated Regulation (EU) 2015/35, and covers both Assuranceforeningen Skuld (Gjensidig) and Skuld group.

Skuld is a world leading marine insurance provider catering to the needs of shipowners, the offshore and energy sector, charterers and traders, ports and terminals, cargo and the superyacht community.
Skuld was established in Oslo in 1897 as a P&I club for Scandinavian shipowners. Since then, Skuld have grown into a diversified marine insurer and now offer bespoke covers through Skuld P&I, Skuld SMA and Skuld 1897, a syndicate at Lloyd's.

Skuld has reported a positive technical result for the 15th consecutive year, and the combined ratio was maintained below 100%. Net investment income ended the 2017 financial year at USD 46 million with an investment return of 7% for the period. The contingency reserve now stands at USD 442 million after distributing USD 10 million to members.

Skuld's overall system of governance is designed and aligned appropriately and proportionally to adequately support Skuld's business model and it underlying strategy and risk profile. Procedures are in place to ensure that Skuld has sufficient eligible capital to fulfil its operational and strategic goals, and to be able to sustain an adverse outcome without ending up in a financially distressed situation.

In line with Skuld's core business of marine insurance, underwriting risk is Skuld's main risk. Skuld is further exposed to financial risk, i.e. market risk and liquidity risk, due to the investment of premiums received from members and clients. Skuld is also exposed to internal risks arising from within the organisation, generating no strategic benefit, and to external risks. The risk universe is constantly being monitored, allowing management and the Board to understand Skuld's risk profile and to assess the risk appetite for all quantifiable risks.

Quantification of risk in a regulatory context is based on the standard formula as stipulated in the Solvency II framework.

At the 2017 financial year end, Skuld group's solvency ratio was 164.0 %, while the Norwegian Association's solvency ratio was 157.7 %. The solvency position is satisfactory with regard to regulatory requirements and Skuld's strategy.

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A. Business and performance

A.1 Business

Legal form

Assuranceforeningen Skuld (Gjensidig) ("the Norwegian Association") is a mutual insurance association, where the members of the association are also the owners through their membership as insured shipowners. There are no shareholders in the undertaking. No member holds more than a 10% vote in the General Meeting or exercises a significant influence over the management of the undertaking. The Norwegian Association is a participating undertaking with dominant influence in Skuld Mutual P&I Association (Bermuda Ltd) ("the Bermuda Association"), which according to Solvency II makes the Norwegian Association and its subsidiaries an insurance group ("Skuld group").

A list of subsidiaries of Skuld group taken into account when calculating group solvency can be found in the Qualitative Reporting Template (QRT) S.32.01.22 in the Appendix to this report. Skuld group also comprises Skuld's cell in Hydra and Skuld II Reinsurance Ltd (Bermuda), but these subsidiaries are excluded from group solvency calculations[1]. Additional details are outlined in section D.1.

Material lines of business and geographical areas

Skuld offers mutual and fixed premium marine insurance globally.

Protection & Indemnity (P&I) is Skuld's largest line of business. The P&I cover protects the members against third party losses and liabilities. Through Skuld 1897, a syndicate at Lloyd's, Skuld provides marine, energy, cargo and liability insurance. Skuld also offers Hull & Machinery and associated covers through Skuld Marine Agency.

During the last year, no significant events occurred that have had a material impact on the undertaking.

Further information

Details of supervisory authorities and external auditors are given in the table below.

Name	Function	Entity
Norwegian Financial Supervisory Authority (Finanstilsynet) Revierstredet 3, 0151 Oslo Phone: +47 22 93 98 00	Regulator	Assuranceforeningen Skuld (Gjensidig)
Bermuda Monetary Authority BMA House, 43 Victorias Street, Hamilton Phone: +441 295 5278	Regulator	Skuld Mutual P&I Association (Bermuda Ltd)
Monetary Authority of Singapore (MAS) 10 Shenton Way, MAS Building, Singapore 079117 Phone: +65 6225 5577	Regulator	Singapore Branch
Hong Kong Monetary Authority 55th Floor, Two International Finance Centre, 8 Finance Street, Hong Kong Phone: +852 2878 8196	Regulator	Hong Kong Branch
Ernst & Young AS Dronning Eufemias gate 6, 0191 Oslo Phone: +47 24 00 24 00	External Auditor	Assuranceforeningen Skuld (Gjensidig)
Ernst & Young AS Dronning Eufemias gate 6, 0191 Oslo Phone: +47 24 00 24 00	External Auditor	Skuld Marine Agency (SMA) AS Skuld Marine Claims Offics (SMCO) AS
Ernst & Young AS Level 18 North Tower, One Raffles Quay, 048583 Singapore Phone: +65 6535 7777	External Auditor	Singapore Branch
PricewaterhouseCoopers Ltd 22/F, Prince's Building, Central, Hong Kong Phone: +852 2289 8888	External Auditor	Hong Kong Branch

[1] Skuld's cell in Hydra is a segregated account and does as such not fall within the definition of an undertaking given in article 212 1(b) of the Solvency Directive 2009/138. Skuld II Reinsurance Ltd is a special purpose vehicle regulated by a third country (in this case Bermuda), complying with requirements equivalent to those set out in article 211 (2) of Delegated Regulation 2015/35 and can thus be excluded from the calculation of group solvency as provided by article 329 (3) of the same regulation.

A.2 Underwriting performance

Underwriting is carried out from the main office in Oslo, the branch offices in Singapore and Hong Kong as well as from Lloyd's syndicate Skuld 1897 in London. There has not been written any policies with a duration of more than 12 months in the 2016/17 policy year.

Premium has increased compared to the prior financial year, and the technical result remains positive, for the 15th consecutive year. Current market conditions are, however, challenging, and Skuld aims to maintain the right balance between premium levels, growth and financial strength. The churn-effect is still considerable on the mutual book of business reducing the overall growth in turnover. Skuld Marine Agency contributes with premium of USD 14 million, and a balanced effect on the bottom line. The premium for Skuld 1897 is below the level of the previous year due to de-selection. This strategy has had a positive impact, but is offset by a few large claims related to hurricanes during 2017.

Gross earned premium and calls by originating geographical area are shown in the table below.

MUSD	Gross earned premium and calls	%
Norway	33.7	7.8%
Nordic countries excl. Norway	30.2	7.0%
Germany	22.4	5.2%
Greece	13.8	3.2%
Rest of Europe	69.0	15.9%
USA	47.6	11.0%
Far East	76.0	17.6%
Other	140.1	32.4%
Total	**432.9**	**100.0 %**

Premiums within EEA	169.2	39.1%

Skuld group has several reinsurance arrangements in place, including the International Group/Pooling agreement, that help protect the technical result in case of very large claims and/or casualties.

For the year ending 20 February 2018, Skuld group reported a positive technical result of USD 10.0 million on group level, compared to USD 7.5 million the previous year.

The table below shows a summary of the technical account from statutory accounts on an IFRS basis.

Skuld group		MUSD	Norwegian Association	
2017/18	2016/17		2017/18	2016/17
432.9	398.5	Earned premium	316.3	303.3
- 82.1	- 71.6	Reinsurance premium	- 85.5	- 90.0
- 251.6	- 229.1	Net claims incurred	- 157.1	- 130.0
- 89.2	- 90.2	Net operating expenses	- 51.8	- 55.8
10.0	**7.5**	**Technical result**	**21.8**	**27.5**

A.3 Investment performance

The investment portfolio is primarily constructed to:

- hedge claims liabilities regarding exchange rate, interest rate and inflation risk,
- provide liquid assets for cash management, and
- maximise expected return within established risk constraints

Skuld Group
Skuld group's gross Investment income contribution, by asset class, including foreign exchange adjustments but before deducting investment expenses, were as follows:

- Equity shares 28.5 (30.2)
- Bonds 10.1 (-4.1)
- Other investments 3.8 (2.7)
- Other assets 3.0. (1.3)

A large part of Skuld group's investment expenses are not recognised within specific asset classes but across. The pro-rata shares of Investment expenses not directly deducted from market values were as follows:

- Equity shares 0.2 (0.30)
- Bonds 0.8 (1.10)
- Other investments 0.05 (0.07)

The Skuld group's gains and losses recognised directly in equity, gross of pro-rated share of fx-adjustment and investment expenses, amounted to USD 3.9 million (1.6).

The Skuld group had no direct investments in securitised products in 2017, nor in 2016.

Norwegian Association
The Norwegian Association's gross Investment income contribution, by asset class, including foreign exchange adjustments but before deducting investment expenses, were as follows:

- Equity shares 28.5 (29.9)
- Bonds 8.9 (-5.2)
- Other investments 3.8 (2.6)
- Other assets 3.0 (1.3)

A large part of the Norwegian Association's investment expenses is not recognised within specific asset classes but across. The pro-rata shares of Investment expenses not directly deducted from market values were as follows:

- Equity shares 0.2 (0.08)
- Bonds 0.7 (0.29)
- Other investments 0.04 (0.02)

The Norwegian Association's gains and losses recognised directly in equity, gross of pro-rated share of fx-adjustment and investment expenses, amounted to USD 3.9 million (1.6).

The Norwegian Association had no direct investments in securitised products in 2017, nor in 2016.

A.4 Performance on other activities

Through subsidiaries Skuld I and Skuld II, the Norwegian Association is a member of the Society of Lloyd's syndicates 1897 and 6126. The results from the syndicates for the reporting period were USD -12 million, compared to USD -18 million for the previous period. Income attributed to the syndicate memberships is applicable to both the Norwegian Association and Skuld group.

A.5 Any other information

All material information regarding the business and performance has been addressed in the previous sections.

B. System of governance

B.1 General information on the system of governance

Skuld group has a tradition of high governing standards. Skuld's Statutes set out the structure and roles of the governing bodies, how they are elected and their mandates.

The Skuld group's more detailed "Corporate Guidelines" cover the responsibilities of the Board of Directors, its Chairman and the President and CEO. The purpose is independence and control in governing Skuld group, while at the same time ensuring equal terms for equal members.

The General Meeting
The General Meeting is Skuld group's highest authority. All members have a right to attend, the votes of members entitled to vote are calculated on the basis of the member's total gross tonnage entered and estimated total calls.

The Committee
The Committee, composed of member representatives, supervises Skuld group's business and elects the Board of Directors.

The Board of Directors
The Board of Directors, elected mainly among Skuld group members, deals with Skuld group's strategy plan, budget and premiums, changes to statutes or rules, International Group Association (IGA) issues, reinsurance contracts, internal control procedures and more.

The Guidelines for the Board of Directors focus on the responsibility for information related to board matters. Skuld group aims at open and transparent communication with members, employees and other stakeholders.

The President and CEO
The President and CEO is responsible for the day-to-day management of the Skuld group and communicates with the Board of Directors on matters of importance to Skuld group. The President & CEO shall ensure the Skuld group's compliance with all applicable legislation and adherence to the code of conduct of the company, i.e. "Ethical Guidelines".

No material changes in the governance system have taken place over the reporting period.

Remuneration policy

Corporate guidelines for remunerations in Skuld apply to remunerations for all employees. The guidelines determine that total remunerations shall be given based on an overall assessment of the group's results as well as the unit's and each employee's contribution.

Remuneration shall be designed in such a way that it does not contribute to cause Skuld unwanted risk. The remuneration shall be competitive, but at the same time cost-effective for Skuld. The guidelines also determine that monetary remuneration shall consist of a basic salary as well as a variable portion where appropriate. The basic salary shall be remuneration for the responsibility, demands and complexity associated with the position, while variable salary shall encourage additional performance and desired behaviour. The scheme is designed in accordance with Skuld's Reward and Recognition policy and general guidelines adopted by the Board's remuneration committee. The President and CEO has the overall responsibility for Skuld's scheme in accordance with the prevailing guidelines. The corporate guidelines for variable remuneration shall ensure that Skuld's schemes prevent excessive risk-taking as well as achieve and maintain an adequate and robust solvency ratio and long-term profitability. The scheme shall support Skuld's strategy and interest and ensure compliance with Skuld defined risk appetite.

For employees subject to regulations on remuneration, a minimum of 50 per cent of the accrued variable remuneration is divided into 3 parts with a holding period (deferred and conditional) with 1/3 each year over three years. The deferred and conditional payment will follow the provisions of the remuneration regulation.

Pension scheme
The group operates various pension schemes in compliance with local laws and regulations in each country in which the group operates. A majority of employees have a hybrid pension scheme. Defined benefit and defined contribution schemes are also in use. Members of the Executive Management have a hybrid pension scheme, in addition to non-funded obligations which includes early retirement pensions and pensions for salaries exceeding 12G. Regarding the hybrid pension scheme, the association has a commitment to pay a yearly contribution for each employee in the accumulation period, in addition to a cost for future administration. The association has no obligation when the employee becomes a pensioner or chooses to leave Skuld. In the member's payment period, the life insurance company obtains the obligation to pay the members their yearly pension.

Material transactions
There were no material transactions during the reporting period with persons who exercise a significant influence on Skuld, and with members of the administrative, management or supervisory body.

B.2 Fit and proper requirements
The following persons should be evaluated and approved as "fit & proper" in accordance with the current Fit & Proper Policy:

a. Members of the Board of Directors;
b. President and CEO;
c. Members of the Executive Management;
d. Heads of Branches abroad, and
e. Persons responsible for the following key functions: internal audit, risk management, actuarial function and compliance.

Policies established to ensure key functions are fit and proper
In order to ensure the level of competence, technical expertise and experience required for the proper management of the Skuld group, and in order to comply with local and international legislation requirements established for the management and key functions of the Skuld group, the persons identified in the key functions will be evaluated in accordance with the Skuld group's Fit & Proper Policy.

Description of the evaluation process to ensure key functions are fit and proper
When performing their function, the Election Committee, Board of Directors, President and CEO and the Executive Management shall, prior to proposing the candidate for the respective position, obtain and evaluate information in order to satisfy themselves that criteria listed in the Fit & Proper Policy are met. A Fit & Proper Assessment Form shall be used for this purpose. Any findings in writing shall be kept as documented proof of the evaluation.

Recommendations of the Election Committee and the decision to hire persons to fill key functions shall be considered as documentation confirming that the respective person satisfies the "fit & proper" criteria.
If a person is changing directly from one of the above-mentioned functions to another, no new assessment is required.

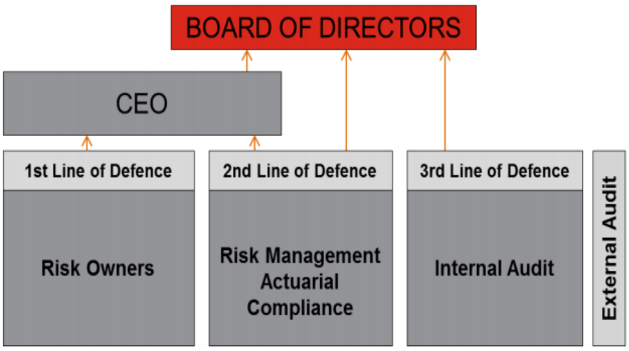
All persons listed above shall be compliant with fit & proper criteria for the whole term of their appointment/employment with the Skuld group in these positions. If the Election Committee, Board of Directors, President & CEO or Executive Management have any grounds to believe that the "fit & proper criteria" are not met in full by any of the persons to whom they apply, they shall initiate a process of re-assessment. The re-assessment process will – inter alia – include requesting information from the person concerned and collecting other available information. For the key functions mentioned in point d-e above, the Executive Management may consider the need for additional training. If the Election Committee or Executive Management conclude as a result of the re-assessment process that all the applicable criteria are not met, the recommendation for replacement shall be made to the Board of Directors or General Meeting, President and CEO or to the Executive Management.

The Skuld group shall timely advise the Norwegian Financial Supervisory Authority ("NFSA") of any new appointments/changes in the persons named in point a-e above and provide documentation confirming that the required criteria have been met. The Skuld group shall also advise NFSA if any of the persons named in point a-e above are no longer considered fit & proper under this Policy. The NFSA may require a copy of the "self-assessment" form filled in and signed by the respective person.

B.3 Risk management system including own risk and solvency assessment

The Board is responsible for ensuring that Skuld has an effective risk management system. The Board oversees that the total risk exposure is in line with Skuld's risk bearing capacity. It states the Association's Risk Appetite and sets Risk Limits that are consistent with available capital. The Board's Risk Committee prepares the Board's assessment of the Association's aggregated risk and evaluates if the Association's governance and control measures are adapted to the Association's risk levels and scope of activities.

The distribution of responsibilities with regard to risk management follows a model based on three lines of defence as illustrated in the diagram below.



The first line of defence is made up of the risk owners and their organisations. The risk owners are responsible for identifying and managing risks within their business units or department, and for executing risk assessments. Further, risk owners are responsible for setting up appropriate risk controls.

The second line of defence is made up of independent control functions for risk management, compliance and the actuarial process. The Chief Risk Officer (CRO) is responsible for the risk management and actuarial function, while the compliance function is headed by the Head of Compliance. The CRO is responsible for establishing an integrated risk management framework for all aspects of risk across the organisation. The CRO monitors the risk management system and the general risk profile, and reports independently to the Board, giving his assessment of the Association's risk picture. The CRO is responsible for the development, maintenance, governance and use of Skuld's partial internal model. Regarding the actuarial function the CRO is responsible for ensuring the requirements given in Solvency II regulations governing this function are met. The Head of Compliance is responsible for developing and maintaining a robust and effective framework for complying with internal and external regulations.

The third line of defence consists of an independent internal audit function. The internal audit function is outsourced and reports directly to the Board's Audit Committee.

Skuld has also established an advisory internal risk committee. The committee is responsible for reviewing Skuld's risk management framework and the ORSA.

The risk management department submits a monthly report to CEO and the Board, describing the development in calculated risk capital for the main risk types, as well as the development in overall risk profile and in risk limits. The CRO submits a report to each meeting of the Board's Risk Committee, giving an overview of Skuld's risk picture and an assessment of the risk level.

Own Risk and Solvency Assessment (ORSA) process

The ORSA process comprises the totality of processes and procedures that Skuld utilises to measure the strategy of the Skuld group against the risk profile to determine overall solvency needs as well as the adequacy of the system of governance.

The purpose of the process is to ensure that the Board of Directors has sufficient information to assess if the Skuld group's risk profile is within the approved risk appetite given the current and forward looking strategic decisions. All risks within Skuld's risk universe are captured in the process, and measured quantitatively by their impact on risk capital or qualitatively by their impact on the risk profile. The ORSA-process shall assess whether the Skuld group has enough capital to cover the business risk exposure in the strategy period.

Skuld runs a preliminary ORSA in connection with the financial planning process, with solvency projections over the course of a 4-year strategic planning period. This process is run after the Board's strategy process, but before renewal. The results from these projections form an important input to managements decisions and financial dispositions for the upcoming year. After renewal, solvency projections are updated, and any significant changes in the risk profile would necessitate a review of the financial plan.

The CRO is responsible for carrying out the ORSA process according to a Board approved ORSA policy which sets out requirements for the process. Results from the ORSA-process are summed up in report prepared by the CRO. The ORSA report is reviewed by the internal risk committee before submittal to the Board. Based on the report, the Board assesses whether Skuld's solvency position is satisfactory. The ORSA report, approved by the Board, is submitted to the Norwegian FSA.

Skuld will undertake an ORSA outside of the usual cycle, if the risk profile and/or and eligible capital changes significantly and the previous ORSA is no longer relevant and useful.

Based on the latest ORSA, the Board has in May 2018 concluded that Skuld's solvency position is satisfactory with regard to regulatory requirements and Skuld's strategy, both as of today, and forward looking over the forecast period 2018 to 2020.

B.4 Internal control system

Internal controls are embedded in processes and procedures, and exercised throughout all the business units taking into account independence requirements. The controls are meant to detect deviations from agreed standards for process execution, data errors and irregularities in order to prevent adverse outcomes. Each business unit leader is responsible to implement adequate internal controls within her area of responsibility. The controls are subject to regular reviews by the independent control functions, as referred to in section B.3, as well as by internal and external audit.

To ensure the effectiveness of Skuld's internal control system, all functions in the three lines of defence model are obliged to cooperate and exchange necessary information and advice.

B.5 Internal audit function

The internal audit function`s responsibility is to evaluate the adequacy and effectiveness of the internal control system, the efficiency of the risk management system and all other elements of the systems of governance. Skuld group has outsourced the Internal Audit Function, and the function reports directly to the Board of Directors.

The internal audit function prepares an annual audit plan which is based upon the risk assessment process in Skuld. The audit plan is approved by the Board's Audit Committee. In consultation with the Audit Committee, the annual plan may be updated periodically in response to emerging or other issues.

The function delivers formalised reports on each project detailing the objective, scope, findings, recommendations and summary conclusion together with detailed observations and recommendations. The implementation of recommended procedures is also monitored by the function. Findings and recommendations are reported to the Audit Committee regularly.

B.6 Actuarial function

The requirements for the Actuarial function are set out in the Solvency II Directive. Skuld's Actuarial function is organised in accordance with the requirements for independence from operational functions in order to be objective and free from influence from other functions when forming its own actuarial view and providing opinions.

The function is not responsible for calculating the technical provisions, but for coordinating the calculation process and assessing the methods, tools and data used for the evaluation. The Actuarial function must also assess the sufficiency of the technical provisions.

The function's responsibilities are:

- To coordinate the calculation of the technical provisions.
- To assess whether the methodologies and assumptions used in the calculation of the technical provisions are appropriate for the specific lines of business of the undertaking and for the way the business is managed, having regard to the available data.
- To assess whether the information technology systems used in the calculation of technical provisions sufficiently support the actuarial and statistical procedures.
- To review the quality of past best estimates and use the insights gained from comparing best estimates against experience to improve the quality of current calculations.
- To express an opinion on overall underwriting policy.
- To express an opinion on the reinsurance arrangements.
- To contribute to the effective implementation of the risk-management system.

The Actuarial function prepares an annual report to the Board of Directors on how the requirements of the Actuarial function have been discharged, and on the reliability and adequacy of the calculation of technical provisions.

B.7 Outsourcing

"Outsourcing" refers to an arrangement under which a service provider undertakes to perform a service (including a business activity, function or process) which would otherwise be undertaken by Skuld group itself.

The Board of Skuld has adopted an outsourcing policy to help identify and mitigate the risks associated with outsourcing, without hindering the efficiency and effectiveness of Skuld group's operations. According to the policy, an outsourcing agreement should be put in place between Skuld group and the service provider in the form of a legally binding written agreement which sets out the terms and conditions governing the outsourcing arrangement. Every such outsourcing agreement should address the risks and risk mitigation strategies associated with the outsourcing arrangement. The outsourcing agreement should be sufficiently flexible to allow Skuld group to retain an appropriate level of control over the outsourcing arrangement and the right to intervene with appropriate measures to meet its regulatory requirements. The outsourcing agreement should also bring out the nature of legal relationship between the parties i.e. whether agent, principal or otherwise.

The Board is responsible for approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing. In addition, the Board has overall responsibility for all outsourcing arrangements and shall review the outsourcing policy at least annually to ensure it remains fit for purpose, compliant with relevant regulatory requirements and appropriate in the context of market developments.

The criteria for approving an outsourcing arrangement are for the Management to be satisfied that:

- the benefits of the outsourcing arrangement to Skuld group in terms of access to specialist services and/or reduced costs outweigh the risks associated with the reduced control and increased risk profile of using a service provider to provide such outsourced functions; and
- the outsourcing policy has been complied with.

Fundamental responsibilities such as the setting of strategies and policies, the oversight of the operation of the company's core processes such as but not limited to underwriting and claims handling, cannot be outsourced.

B.8 Any other information

Skuld's overall system of governance is designed and aligned appropriately and proportionally to adequately support Skuld's business model and it underlying strategy and risk profile. All material information regarding the system of governance has been addressed in the previous sections.

C. Risk profile

Skuld has defined a risk universe comprising relevant risk types. For each risk type risk mitigation objectives, risk controls and risk management tools are described.

Skuld's core business is marine insurance, and underwriting risk is Skuld's main risk. Skuld is further exposed to financial risk, i.e. market risk and liquidity risk, due to the investment of premiums received from members and clients. The above-mentioned risks are accepted within Skuld's strategy in order to create value for our members. Skuld is also exposed to internal risks arising from within the organisation, generating no strategic benefit, and to external risks. A material risk in this category is operational risk. Compliance and reputational risk are also considered material for Skuld.

The risk universe is constantly being monitored, allowing management and the Board to understand Skuld's risk profile and to assess the risk appetite for all quantifiable risks.

Quantification of risk in a regulatory context is based on the standard formula as stipulated in the Solvency II framework. The standard formula defines modules for quantification of different risk types through the calculation of solvency capital requirements, and prescribes procedures to aggregate risk. The standard formula is, however, developed to be valid for a general insurer. The underwriting risk module of the standard formula will generally not give a good reflection of the real risk within a highly specialised insurance entity. In order to capture the exposure to underwriting risk in the most accurate manner, Skuld has developed a partial internal model. To assess underwriting risk, risk capital calculated through the internal model is the relevant measure.

For market risk, counterparty risk and operational risk the standard formula is deemed to capture risk adequately, and for risk assessment, solvency capital requirements calculated with the standard formula is, in Skuld's view, a relevant measure of risk exposure.

Risk concentrations

Risk concentrations can be hard to monitor and might not be captured sufficiently by the standard formula. The possibility of risk concentrations exists within underwriting risk, market risk and counterparty risk. In the market risk module, a risk estimate related to large concentrations is included, while in the counterparty risk module, risk related to counterparty default is estimated for each counterparty. The underwriting risk module considers different geographical areas, but does not distinguish between the concentration on an individual level within or between each area. A large number of different policyholders ensures, however, that undesired risk from concentrations are avoided.

C.1 Underwriting risk

The Skuld group and the Norwegian Association take on underwriting risk from members and commercial clients, making it the largest risk.

Underwriting risk is the risk of a change in value due to a deviation of the actual claims payments from the expected amount of claims payments (including expenses), and consists of reserve risk, premium risk and catastrophe risk.

Reserve risk

Reserve risk is the risk that the current claims provisions are not sufficient to cover the development of already incurred claims and related expenses. Reserve risk reflects principally the emergence of uncertainty related to actual claims' size (for reported, but not yet settled claims, i.e. RBNS) being higher than expected, and claims incurred but not yet reported (IBNR) being greater than expected. The cost of reported claims not yet paid (RBNS) is estimated by a claims handler for each individual claim and is based on relevant information available from claims reports, loss adjusters, medical certificates and information about the costs of settling claims with similar characteristics in previous periods. Statistical methods are used for calculating claims provisions for claims incurred but not yet reported (IBNR). IBNR provisions and provisions for outstanding claims are initially estimated at a gross level, and a separate calculation is carried out to estimate the size of reinsurance recoveries. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified (RBNS).

Premium risk
Premium risk relates to future exposures, future claims and their related expenses. Exposure arises on unexpired risk from contracts already underwritten (i.e. the "unearned" exposure) and from future underwritten contracts.

Catastrophe risk
Catastrophe risk refers to the risk of financial losses related to unlikely events with high severity (natural, economic and man-made disasters with immediate impact).

Risk mitigation
In order to mitigate underwriting risk, Skuld, alongside the 12 other P&I clubs, participates in the International Group of P&I clubs' (IG) pooling arrangement, where currently, claims above a certain retention level are pooled. The pooling agreement provides a solid market reinsurance program, and sets out how the losses in the pooling layers are distributed between the participating clubs. This enables solvency after events with extreme losses, but also in years with a high frequency of low severity claims. Thus, reinsurance is applied to ensure that underwriting risk is kept within the accepted risk appetite.

The clubs in the pooling arrangement retains part of the exposure, but purchases reinsurance in the market to reduce the total exposure. The P&I clubs have through IG established Hydra, a segregated account company, where each of the clubs have their own segregated cell, reinsuring part of the exposure in the Pool.

The Skuld group and the Norwegian Association also write other covers with very high vertical limits of cover (e.g. Charterer P&I and CLH and Offshore covers). These covers are reinsured in the market based on a risk assessment of the desired risk level.

Solvency capital requirements
Solvency capital requirements for underwriting risk per 20 February 2018 are shown in the table below. The capital requirements are excluding ring-fenced funds and taking into account geographical diversification.

MUSD	Skuld group	Norwegian Association
Premium and reserve risk	187.8	179.5
Catastrophe risk	19.6	19.6
Diversification	*- 13.8*	*- 13.7*
Total underwriting risk	**193.6**	**185.4**

Risk exposure as measured by the internal model is significantly lower than regulatory solvency requirement.

C.2 Market risk
Market risk refers to the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Within market risk, Skuld's main exposure is towards equity risk, interest rate risk and currency risk. Skuld is to a lesser degree exposed to spread risk, property risk and concentration risk.

Equity risk
Equity risk refers to the risk that the value of an asset or liability will change due to fluctuations in the level or volatility of the market prices for equities. Skuld's equity exposures are mainly investments in internationally diversified funds, with the majority focusing on the United States and other developed markets. There are also investments in several private equity funds as well as hedge funds.

Interest rate risk
Changes in interest yield curves affect future payments to be made in respect of claims and other liabilities and the return on investments with exposures being sensitive to changes in interest yield curves. The assets that are exposed to interest rate risk are primarily those found outside portfolio used for asset liability management purposes.

In real economic terms, Skuld is well secured against shifts in interest rates, but shifts will have an effect in the account statement because outstanding claims are held at nominal value and are not adjusted to net present value. This implies that increased interest rates could cause a drop in the Skuld's assets while the liabilities are unchanged. In real economic terms the net present value of the liabilities will have the same drop and the total effect will be limited. Surplus assets will be exposed to the same risks, as they include fixed income instruments and holdings in other currencies than USD.

Spread risk

Spread risk reflects the sensitivity of the values of investments with respect to changes in credit spreads. Thus, spread risk is primarily taking into account bonds and secured loans. Credit spreads will in general be smaller for well rated securities than for those that are poorly rated. In addition, credit spreads will vary with the duration of the securities (high spreads for lower durations, and low spreads for longer durations). An increase in the spread of 100 basis points would decrease the market value of fixed income securities by USD 6.6 million.

Currency risk

Skuld is exposed to several different currencies, and thus currency risk is present, as exchange rates will affect the value of transactions and balances. The accounting currency is USD, and this is the currency of which most assets and liabilities are denominated in. Currency forwards are the only derivatives that have been entered directly, and these are used to buy NOK to hedge administration costs in NOK. This exposure is kept off-balance, but it is included in the currency risk calculation.

Net exposure towards the 10 largest currencies per 20 February 2018 is shown in the table below.

Currency		Net exposure (USD mill)	
		Skuld group	Norwegian Association
US Dollar	*USD*	*230.7*	*190.5*
Euro	EUR	43.4	47.0
Japanese Yen	JPY	40.2	40.2
Hong Kong Dollar	HKD	26.2	26.3
Norwegian Krone	NOK	19.0	18.5
Chinese Yuan Renminbi	CNY	6.9	6.9
Singapore Dollar	SGD	6.6	6.6
Canadian Dollar	CAD	6.4	6.5
Swedish Krone	SEK	5.7	5.7
South Korean Won	KRW	5.4	5.4
Other (40 currencies)		32.1	31.1

Property risk

Property risk is insignificant as there are no large investments in properties.

Concentration risk

Concentration risk is the exposure to increased losses associated with inadequately diversified portfolios of assets and/or liabilities.

Skuld has an underlying strategy of matching insurance liabilities in terms of currency and duration with fixed interest government securities of a high quality (rating). Furthermore, Skuld holds diversified portfolios of investment types to maximise the return at the agreed level of risk. The aim is to ensure that they are able to cover for future payments of claims, and risk taking is therefore only accepted on top of the risk mitigating techniques applied. Assets are thus held in a manner that is in the best interest of the policy holders.

Risk mitigation

The main risk mitigation objective concerning market risk is to reduce the likelihood of risk materialising, and to reduce the impact, should the risk materialize.

Total risk tolerance for market risk is described in Skuld's risk appetite statement. Investment mandates are established to respect these high-level risk limits. The investment and liquidity policy assigns clear responsibilities and ensures the investment process is carried out in accordance with regulatory requirements. The investment strategy details the operationalisation of investment beliefs, policy and mandates.

The Investment department, supported by the Risk management function, is responsible for carrying out this strategy. The composition of financial assets follows the criteria and guidelines given by the market risk limits and investment strategy. Financial assets are used both for risk mitigating purposes and for maximising expected return given the specified restrictions.

To improve the risk/return relationship, funds are invested across a large number of asset classes. From 2015 the company has only passively managed instruments. Fund of fund vehicles are used to reduce manager risk in private equity.

The majority of equity holdings are invested in passively managed index tracking funds. These funds are benchmarked against an adjusted MSCI All Country World Investable Market Index. This implies a risk profile consistent with the global equity market, without overweighting specific sectors, countries or regions. The index is widely diversified, including both developed and emerging countries, small-, large- and mid-cap stocks.

Interest and currency risk of claims liabilities are immunised by asset liability management (“ALM”) in a separate portfolio. This portfolio consists of government bonds and bills issued by low risk states. Changes to the value of the ALM portfolio are accompanied by a corresponding revaluation of the claims liabilities' present value. Interest risk is immunised by holding the duration of the portfolio equal to the duration of the claims liabilities, while currency risk is minimised by letting the currency composition mirror that of the claims liabilities. Derivative contracts (futures and forward contracts) may be used to improve the matching.

Prudent person principle

Skuld’s investment and liquidity policy gives the overall objective and constraints of the operational management of the investment portfolios and has in scope all business processes dealing with risk factors included in the market risk module under Solvency II. This policy is reviewed and approved by the Board of Directors, which has the ultimate responsibility for the investments made. Skuld group has an Investment committee which follows up the Head of Investments, ensuring that prudent investments are made and that these correspond with the risk appetite of the Skuld group and the Norwegian Association. Furthermore, there are procedures and criteria outlined to monitor and evaluate the performance results achieved by investment managers on a regular basis, and reports on the performance go to the Board of Directors in addition to the Investment committee. As such, the Skuld group and the Norwegian Association meet the prudent person principle as set out in Article 132 of Directive 2009/138/EC.

Solvency capital requirements

Solvency capital requirements for market risk per 20 February 2018 are shown in the table below.

MUSD	Skuld group	Norwegian Association
Equity risk	89.6	97.6
Currency risk	48.9	49.5
Interest rate risk	13.4	14.5
Concentration risk	11.2	11.7
Spread risk	9.0	9.0
Property risk	3.1	2.8
Diversification	*- 51.7*	*- 53.8*
Total market risk	**123.7**	**131.3**

C.3 Counterparty risk

Counterparty default risk is the risk that a counterparty fails to meet its obligations.

Skuld is exposed to counterparty risk through transactions with reinsurance companies, banks, derivative counterparties, members and clients. The majority of bond holdings consist of highly rated issues. The average rating of bonds is AA (as defined by S&P). Minimum rating requirements are applied to reinsurers and banks, enabling efficient control of counterparty risk. Bank guarantees issued in favour of the Group shall not be rated below A investment grade.

This risk cover changes in value of assets and liabilities stemming from weakened credit rating and unexpected default of different counterparties. Exposures are separated into two types, where the capital charge is estimated differently based on the nature of the counterparties in the two types of categories. Type 2 exposures do not rely on the credit rating of the counterparty, as there is implicitly assumed a rating. The main contribution to counterparty risk comes from reinsurance contracts entered (Type 1), and this risk is mitigated mainly by engaging in reinsurance schemes with reinsurers that have a rating A or higher, thus lowering the probability of a default. Reinsurance is furthermore divided over many different reinsurers.

In the counterparty risk module, Skuld has also included an add-on to reflect the risk associated with Skuld's participation in Lloyd's. This add-on is the main contributor to counterparty risk, while the remaining risk mainly stems from reinsurance and cash placements.

Managing counterparty risk

Counterparty default risk is treated in the investment and liquidity process through investment and liquidity mandates, and investment and liquidity strategies. Risk limits and restrictions in these guiding documents are based on Skuld's risk appetite.

Solvency capital requirements

Solvency capital requirements for counterparty risk per 20 February 2018 are shown in the table below.

MUSD	Skuld group	Norwegian Association
Counterparty risk	112.6	110.1

C.4 Liquidity risk

Liquidity risk is the risk that Skuld is unable to meet payment obligations, with financing only possible at an excessive cost.

Whereas cash flows with regard to operating costs and receival of premium are well known, size and timing of claims payments are unpredictable. Therefore, a separate liquidity portfolio ensures sufficient cash resources to meet Skuld's daily obligations. Acceptable assets in the liquidity portfolio are restricted to overnight deposits, treasury bills with low sovereign risk, liquid money market funds with AAA rating or cash deposits.

More than 30 % of the financial instruments held by the Skuld group and the Norwegian Association can be liquidated within two days, and more than 75 % can be liquidated within five days.

Managing liquidity risk

Skuld's liquidity strategy details framework and guidelines for ensuring adequate cash management to meet liabilities in due time. The liquidity risk tolerance is set in Skuld's risk appetite statement, to minimum 3% of the total investment portfolio. Compliance with risk tolerance is monitored by enterprise risk management department.

In addition to the daily monitoring of the cash situation, the Head of Investments prepares at least annually a liquidity assessment, describing monitoring activities and assessing the tolerance limit.

Liquidity risk is considered low. No capital requirement is calculated as the risk is managed through a strong governance framework.

C.5 Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, or from personnel and systems.

Skuld group has a low appetite and tolerance for material operational risks and appropriate measures are in place to achieve a high level of operational risk awareness. Operational processes are monitored and people's behaviours and decisions are guided toward desired norms through "The Skuld Way". Operational risk is mainly controlled by active prevention.

Risk owners in all business units are responsible for implementing adequate internal controls in operational processes. Executive Management shall ensure that the necessary instructions, guidelines, processes and procedures for managing operational risk in all material products, activities, processes and systems are in place. A risk assessment process, facilitated by the CRO, forms an important part in managing operational risk. The risk matrices used in the risk assessment process are an expression of Skuld's risk appetite regarding operational risk, compliance risk and reputational risk.

For operational risk, regulations require calculation of risk capital. Unlike for financial risks there is, however, no connection between risk capital and actual risk level, so that risk capital calculations have no real control function for operational risk. Incident reporting and the follow-up of incidents is on the other hand an important tool for controlling operational risk. CRO is responsible for the framework for incident reporting, and, together with Head of Compliance, for keeping a record of all reported incidents and for monitoring actions taken to mitigate risk of recurrence.

Solvency capital requirements

Solvency capital requirements for counterparty risk per 20 February 2018 are shown in the table below.

MUSD	Skuld group	Norwegian Association
Operational risk	23.5	21.8

C.6 Other material risks

Risks described in sections C.1 to C.5 represent the primary risks in Skuld's risk universe. With the exception of liquidity risk, all of these risks are quantifiable.

Skuld is, however, exposed to a range of other non-quantifiable risks. Below follows a short description of the most material of these risks.

Strategic risk

Risk connected to Skuld's strategic moves that cause returns to vary, that involve venturing into the unknown, and that may result in corporate ruin – moves for which the outcomes and probabilities may be only partially known and where hard-to-define goals may not be met.

A robust articulation of the key elements of the strategy (intent, drivers/actions) is central in controlling this risk, making it possible to identify how the strategy will interact with the risks faced by Skuld.

Reputational risk and compliance risk

Reputational risk is the risk that adverse publicity regarding Skuld's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of Skuld. Reputational risk could arise from other risks inherent in Skuld's activities, and may give rise to counterparty risk, liquidity risk, market risk and legal risk.

Compliance risk is the risk of legal or regulatory sanctions resulting in a financial loss, or loss of reputation as a result of failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct.

The main mitigation objective for these risks is to avoid or eliminate occurrence, while the main risk management tool is risk assessment by risk owners. In the risk assessment process mentioned in section C.5, risks are assessed with regard to compliance risk and reputational risk, as well as with regard to the effect on business objectives.

Regulatory risk

Changes in current regulation (or imposition of new regulation) that will materially increase the cost of doing business.

The main mitigation objective for this risk is to reduce impact should the risk event occur. Like other external risks, this risk is controlled mainly by envisioning risks and evaluate severity through scenario planning and stress testing.

Risk related to Skuld's rating

The Norwegian Association currently holds an A-rating, and a downgrading would impact the financial credit conditions negatively, as borrowing money will be costlier. A solid financial standing is thus important for the Skuld group and the Norwegian Association.

C.7 Any other information

The Skuld group and the Norwegian Association have carried out sensitivity testing to see the impact on the solvency capital requirement and the solvency position arising from unexpected results within the different risk modules. Several different scenarios that are subject to stress testing have been defined.

These scenarios include the following:

- Premium rates decrease, which results in a worsening of the combined ratio
- Claim payables increases significantly the next years
- Negative market returns for several consecutive years

The Board of Directors is also involved in setting scenarios that are of relevance for the ORSA. Any threats or potential major changes to the daily business will typically be of interest.

In case of extraordinary circumstances requiring an improvement of the solvency situation, Skuld could either reduce the risk or raise more capital. Skuld's capital contingency plan describes clearly concrete measures to be taken, routines to be followed and responsibility for initiating and executing necessary measures. The plan also shows the effects on solvency of the different measures and describes the timeline for the measures to take effect.

D. Valuation for solvency purposes

This section specifies and describes the valuation of assets and liabilities for solvency purposes, the differences between the methods and main assumptions used for the valuation of assets for solvency purposes and those used for financial statements.

The methods and assumptions follow the principles outlined in the Solvency II directive, i.e.:

- Assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction (fair value).
- Liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.
- The materiality principle shall be considered when valuing assets and liabilities. Information is material if its omission or misstatement influences the decision-making or the judgement of the users of that information, including the supervisory authorities.
- The valuation shall be based on the assumption that the company will continue to operate and write new business for the foreseeable future (going concern basis).

The Solvency II balance sheet represents a risk-based view of the entire balance sheet as at a given date, where assets and liabilities are valuated in line with the above concepts.

No changes have been made to the recognition and valuation bases used or to estimations during the reporting period.

D.1 Assets

The composition of financial assets follows the criteria and guidelines given by the market risk limits and investment strategy. Financial assets are used both for risk mitigating purposes and for maximising expected return given the specified restrictions.

Around 75 % of investments are within fixed income, while around 22 % are equities. The majority of equity holdings are invested in passively managed index tracking funds. The investment assets are held in custody at StateStreet. In the statutory accounts balance sheet, the fair value of assets is mainly measured on a mark-to-market basis.

The table below specifies the differences between the valuation according to IFRS in financial accounts and the Solvency II balance sheet.

Skuld group			20.02.2018 MUSD	Norwegian Association		
Financial Statements	Adjust-ments	Solvency II		Financial Statements	Adjust-ments	Solvency II
-6.6	7.9	1.3	Holdings in related undertakings	50.4	-8.6	41.8
5.8	-5.8	0.0	Intangible assets	4.1	-4.1	0.0
3.4	-3.4	0.0	Software	3.3	-3.3	0.0
332.7	19.1	351.7	Reinsurers' share	364.2	32.1	396.3
335.2	**17.8**	**353.0**	**Total assets**	**422.0**	**16.0**	**438.1**

Skuld group			20.02.2017 MUSD	Norwegian Association		
Financial Statements	Adjust-ments	Solvency II		Financial Statements	Adjust-ments	Solvency II
-0.2	27.3	27.1	Holdings in related undertakings	47.0	19.2	66.2
8.6	-8.6	0.0	Intangible assets	6.3	-6.3	0.0
3.7	-3.7	0.0	Software	3.6	-3.6	0.0
90.9	46.2	137.0	Reinsurers' share	107.9	64.0	171.9
103.0	**61.2**	**164.2**	**Total assets**	**164.9**	**73.2**	**238.1**

Holdings in related undertakings

In the Norwegian Association's financial statements, an intercompany between the Norwegian Association and the Bermuda Association is recognised. For solvency purposes this intercompany is reclassified to investment.

Skuld II Re is a special purpose vehicle set up in Bermuda to assume risk originating from investment vehicles Skuld I and Skuld II. These entities are non-regulated non-insurance entities, handling Skuld's corporate membership at Lloyd's. Article 329(3) of Delegated Regulation 2015/35 sets out the treatment within the group solvency calculation for a special purpose vehicle, which is regulated by a third country (in this case Bermuda), and which complies with requirements equivalent to those set out in article 211(2) of the same regulation for SPVs. Where the participating undertaking, or one of its subsidiaries, has transferred risk to such a SPV, it should be excluded from the calculation of group solvency. Skuld has assessed these criteria to be met, and as such, the data from Skuld II Re is not consolidated into the group for solvency purposes.

Skuld Mutual P&I (Bermuda) Ltd is a member of the segregated account captive Hydra Insurance Company Ltd. And, as such, holds shares linked to Skuld's segregated account ("Skuld Hydra Cell"). The value of this investment is not included in the intercompany present in the Norwegian Association's financial statements. However, as the intercompany between the Norwegian Association and Skuld Mutual P&I (Bermuda) Ltd for solvency purposes is seen as an investment and to be valued using the adjusted equity method, the value of the shares in Hydra is included in the investment in Skuld Mutual P&I (Bermuda) Ltd in the Norwegian Association's solvency balance sheet. The adjusted equity method is also used to calculate the fair value of the shares in Skuld's Hydra Cell, based on the market value of assets and liabilities in the cell, and are classified together with Skuld Mutual P&I (Bermuda) Ltd under strategic investments. The shares in Skuld's Hydra Cell are included in the Skuld group financial statements, and valued at cost. For Solvency II purposes the adjusted equity method is used to calculate the fair value of the shares in Hydra, as the shares are considered to be a strategic investment and treated as preferential equity.

Intangible assets

In the financial statement goodwill are measured on initial recognition at the amount recognised at the acquisition date less any accumulated impairment losses. Goodwill is tested for impairment annually. Other intangible assets are measured on initial recognition at cost. Following initial recognition, other intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. For Solvency II purpose the intangible assets are adjusted to zero.

Fixed assets

Fixed assets are measured on initial recognition at cost in the financial statement. Following initial recognition, the assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. For Solvency II purposes, fixed assets are treated the same way, except for software, which is valued at zero.

Reinsurer's share

Reinsurer's share of technical gross provision is presented as an asset in the balance sheet and represents the settlements expected to be received from reinsurers according to signed contracts. Impairment losses on these assets are recognised if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that all amounts due to it under the terms of the contract may be received, and that event has a reliably measurable impact on the amounts that will be received from the reinsurer.

The reinsurer's share has, for Solvency II purposes, been discounted with the risk-free rate term structure for US dollars given by EIOPA.

D.2 Technical provisions

The IFRS value for technical provisions differs from corresponding value under Solvency II in as much as it does not include any risk margin or premium provisions, and does not include the discounting effect. Technical provisions for the Skuld group and the Norwegian Association as of 20 February 2018 are presented in the table below.

Skuld group		MUSD	Norwegian association	
Solvency II	IFRS		Solvency II	IFRS
415.2	401.4	Technical provisions	393.3	372.8
392.5		- Best estimate	370.0	
22.7		- Risk Margin	23.3	

The best estimate is here net of reinsurance. The gross best estimate was USD 706.6 million and USD 727.0 million for the Skuld group and the Norwegian Association, respectively.

Bases, methods and assumptions

The technical provisions under Solvency II are determined as the sum of best estimate liabilities and the risk margin. The sum of claims provisions and premium provisions constitute the best estimate. In the calculation of the best estimate liabilities, the business of Skuld group is split in homogenous risk groups, such that the nature, scale, complexity of the business is taken into account.

The technical provisions shall correspond to the current amount the Skuld group or the Norwegian Association would have to pay if they were to transfer their insurance obligations immediately to another undertaking. The best estimate is a probability-weighted average of future cash flows, taking the time value of money into account using the relevant risk-free interest rate term structure given by EIOPA. The risk margin is computed by calculating the discounted solvency capital for all future run-off years multiplied with the cost of capital rate set by EIOPA.

Claims provision relates to claims having occurred before or at the valuation date. Claims provisions include case estimates (estimation from claims handlers), incurred but not reported claims (IBNR), unallocated loss adjustment expenses (ULAE) and reserves for events not in data (ENID).

The premium provisions relate to claims occurring after the valuation date and during the coverage period of existing policies (within contract boundary). The cash flow components of the premium provisions are premiums to be paid in the future, claim payments, claims administration expenses, expenses for on-going administration of the in-force policies and investment expenses.

The Skuld group or the Norwegian Association have not performed any matching or volatility adjustment to the risk-free interest rate term structure, nor any transition measure on the risk-free interest rate or on technical provisions.

There were no material changes in the methods and assumptions for the calculation of technical provisions compared to the previous reporting period.

Uncertainty associated with the value of technical provisions

The best estimate projection of ultimates requires a number of assumptions about future claims development, which are inherently uncertain and contingent on future events that cannot be known at the present time. The best estimate projections are therefore subject to a significant degree of uncertainty, and the eventual cost of claims may differ—possibly substantially—from our best estimate projections at this point in time.

D.3 Other liabilities

Skuld group		MUSD	Norwegian Association	
20.02.2018	20.02.2017		20.02.2018	20.02.2017
9.6	3.9	Provisions other than technical provisions	35.9	7.1
8.2	16.1	Pension benefit obligations	5.3	13.1
101.1	78.1	Tax	103.9	79.5
0.0	6.7	Reinsurance payables	8.0	24.2
64.3	62.1	Payables (trade, not insurance)	55.6	44.4
183.2	**166.9**	**Other liabilities**	**208.8**	**168.4**

The liabilities in the table above are all valued using the same valuation bases, methods and main assumptions for solvency purposes as in the financial statements.

Tax

As a result of a change in Norwegian accounting regulations for insurance companies following the implementation of Solvency II in 2016, the contingency reserve should no longer be treated as an element of technical provisions for accounting purposes. Currently, changes in tax regulations for Norwegian insurance companies have been suggested, but are not yet approved and implemented. According to the current legislation, the contingency reserve is still a valid size.

The differences between the two frameworks results in a technical difference between the tax accounts and the financial accounts, and such a difference requires that a deferred tax item is calculated. This implies that 25% of the profit and loss is recognised as deferred cessation tax. The treatment is consistent with the treatment applied for 2016, where 75% of the contingency reserve was reclassified as equity, and 25% was recognised as deferred cessation tax.

The deferred cessation tax is, however, only a technical item, calculated to be compliant with accounting regulations, and does not represent the correct payable tax calculation, which will rather be a result of the approval of a consultation paper by the Norwegian Ministry of Finance issued in February 2018. Pure mutual marine insurers are to be exempt from taxation on premium calls. The tax exemption is not to apply to financial income. 75% of total contingency reserves is assumed to be an accumulation of premium income, which can be transferred tax-free to equity, while the remaining 25% is considered to originate from financial income and shall be recognised and taxed as income in accordance with a 10-year transitional rule.

D.4 Alternative methods for valuation

The company does not use alternative methods for valuation as set out in Article 263.

D.5 Any other information

No other material information is applicable.

E. Capital management

E.1 Own funds

The Board of Skuld has adopted a policy that sets out the overall objectives for capital management for Skuld group. Primarily, capital management has to ensure that Skuld has sufficient eligible capital to fulfil its operational and strategic goals, and to be able to sustain an adverse outcome without ending up in a financially distressed situation. Capital has to be used efficiently to meet the group's overall capital target. Skuld must have sufficient capital to cover both growth and current fluctuations in the group's exposure, while at the same time taking into account expected future capital requirements.

Overall capital targets are defined by Board approved target and limits for solvency ratio and by Skuld's strategy. Guidelines for monitoring the capital situation are in place, and the Board receives as a part of the ORSA process (see also section B.3) monthly updates on the development of own funds and solvency capital requirements.

Available Tier 1 capital (Basic Own Funds)

The table below reconciles equity as in the statutory accounts, excess of assets over liabilities and Basic Own Funds as calculated under Solvency II.

Skuld group		MUSD	Norwegian association	
20.02.2018	20.02.2017		20.02.2018	20.02.2017
335.0	**313.9**	**Statutory accounts equity**	**349.7**	**314.0**
8.9	- 0.3	Net technical provisions	2.9	- 6.1
- 22.7	- 20.8	Risk margin	- 23.3	- 20.8
101.1	-	Adjustment for deferred tax liabilities	103.9	-
24.8	7.7	Other	- 16.0	9.2
447.0	**300.5**	**Assets in excess of liabilities**	**417.2**	**296.3**
- 22.0	- 64.7	Pledged assets / Non-available own funds	- 22.0	- 64.7
425.0	**235.8**	**Basic own Funds**	**395.2**	**231.7**

The increase in Basic Own Funds is mainly due to the proposed change to the tax framework, mentioned in section D.3 ("Tax"). The expected effect from the new consultation paper based on the tax reporting for 2016 and the estimated tax position as of 20 February 2018, is zero payable tax, as Skuld will have deferred tax loss in excess of taxable transitional amount. Hence, there will no longer be any deductions due to deferred tax liabilities in the calculation of Basic Own Funds. Correspondingly, the loss-absorbing capacity of deferred taxes is no longer taken into account in the calculation of the Solvency Capital Requirement (SCR), as shown in section E.2.

Assets in excess of liabilities need to be adjusted to take into account ring-fenced funds within the Norwegian Association, and thus also in the group. Ring fenced funds affect the SCR calculation as the SCR will be calculated for each ring-fenced fund and the remaining part of business separately, before being added up. This leads to the diversification credit being lower than what would be the case if no assets were pledged. The amount of pledged assets to back up guarantees used to fund Skuld's Lloyd's operations has been reduced significantly during 2017, leading to a higher share of funds being available in the calculation of Basic Own Funds.

Available Tier 2 capital (Ancillary Own Funds)

According to the permission granted by the Norwegian FSA, the available ancillary own funds are calculated as 50% of estimated total premium for the three open policy years for policies entered into on mutual basis.

Skuld group		MUSD	Norwegian association	
20.02.2018	20.02.2017		20.02.2018	20.02.2017
316.4	327.0	Ancillary own funds	313.3	327.0

Eligible capital to cover capital requirements

The eligible capital to cover the SCR consists of Basic Own Funds, which may be taken into account in its entirety due to its permanence and loss absorbency, and Ancillary Own Funds, which may, however, only cover up to 50% of SCR.

Skuld group		MUSD	Norwegian association	
20.02.2018	20.02.2017		20.02.2018	20.02.2017
425.0	235.8	Basic Own Funds / Tier 1	395.2	231.7
186.4	142.3	Ancillary Own Funds / Tier 2	183.5	137.4
611.4	**378.1**	**Total eligible own funds to meet the SCR**	**578.8**	**369.1**

The eligible capital to cover the Minimum Capital Requirement (MCR) consists of Basic Own Funds in its entirety, and of Ancillary Own Funds, which must not exceed 20 % of MCR.

Skuld group		MUSD	Norwegian association	
20.02.2018	20.02.2017		20.02.2018	20.02.2017
425.0	235.8	Basic Own Funds / Tier 1	395.2	231.7
-	15.3	Ancillary Own Funds / Tier 2	18.4	15.1
425.0	**251.1**	**Total eligible own funds to meet the MCR**	**413.6**	**246.7**

E.2 Solvency capital requirements and minimum capital requirement

The minimum level of own funds required to operate with no regulatory intervention is represented by the SCR. Skuld calculates the SCR according to the Standard Formula defined in the Solvency II framework.

Skuld group		MUSD	Norwegian association	
20.02.2018	20.02.2017		20.02.2018	20.02.2017
193.6	222.3	Underwriting risk	185.4	209.3
123.7	111.2	Market risk	131.3	118.7
112.6	82.4	Counterparty risk	110.1	82.0
- 104.0	- 93.7	Diversification	- 105.0	- 95.2
325.9	**322.3**	**Basic Solvency Capital Requirement**	**321.8**	**314.8**
23.4	27.8	Adjustment due to RFF	23.5	25.4
23.5	13.3	Operational risk	21.8	14.1
-	- 78.9	Loss-absorbing capacity of deferred taxes	-	- 79.4
372.8	**284.5**	**SCR**	**367.1**	**274.8**
611.4	378.1	Total eligible own funds to meet the SCR	578.8	369.1
238.6	93.6	Capital surplus	211.7	94.2
164.0 %	**132.9 %**	**SCR margin / Solvency Ratio**	**157.7 %**	**134.3 %**

Skuld does not use undertaking specific parameters pursuant to Article 104(7) of Directive 2009/138/EC. In addition, no simplifications of the standard formula are applied.

Changes in the SCR over the reporting period are a result of

- changes in the reserve volume (Underwriting risk and operational risk),
- increased market value of assets (Market risk), and
- changes in credit ratings and increase in reinsurance recoverables (Counterparty risk).

As Skuld no longer applies deductions due to deferred tax liabilities (see section E.1), the loss absorbing capacity of deferred taxes is no longer taken into account in the calculation of SCR.

The absolute minimum level of own funds that is required to protect policyholders is represented by the MCR. The calculation is based on the net value of technical provisions and net written premiums over the previous 12 months. The result of the calculation is then subject to a floor and a cap of 25% and 45% of the SCR, respectively.

Skuld group		MUSD	Norwegian association	
20.02.2018	20.02.2017		20.02.2018	20.02.2017
425.0	251.1	Total eligible own funds to meet the MCR	413.6	246.7
93.4	**76.4**	**MCR**	**91.8**	**75.3**
331.6	174.7	Capital surplus	321.8	171.4
455 %	**329 %**	**MCR margin**	**451 %**	**329 %**

There have been no periods of non-compliance with the MCR or SCR during the year.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Not applicable to the Skuld group or the Norwegian Association.

E.4 Differences between the standard formula and any internal model used

Not applicable to the Skuld group or the Norwegian Association.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with Solvency Capital Requirement

Not applicable to the Skuld group or the Norwegian Association.

E.6 Any other information

There is no other material information to be disclosed.