

SFCR



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SOLVENCY AND FINANCIAL CONDITION REPORT (SFCR)

For the period 21 February 2020 – 20 February 2021

Executive Summary

This report covers business and performance, system of governance, risk profile, valuation for solvency purposes and capital management for both Assuranceforeningen Skuld (Gjensidig) and Skuld Group.

Skuld was established in Oslo in 1897 as a P&I club for Scandinavian shipowners. Since then, Skuld has grown into a diversified marine insurer catering to the needs of shipowners, the offshore and energy sector, charterers and traders, physical damage and the superyacht community.

The financial result as per 20 February 2021 shows a positive bottom line of USD 24.6 million for Skuld Group and USD 22.3 million for Assuranceforeningen Skuld. The positive result contributes to a strong capital adequacy for Skuld well above the capital requirements set by the Solvency II regulation.

The technical account is negative USD 31.1 million and USD 28.2 million, respectively, and has been significantly influenced by increased and new pool claims from other members of the International Group, alongside some own large claims within the club retention. Skuld has also been affected by some COVID-19 related claims within the cruise industry. Mutual rates have not been sustainable for some time and Skuld have started the work to bring the portfolio back into balance through improved rates for the policy year 2021. Skuld's commercial lines of business continue however to deliver positive results which partly offsets the challenging state of the mutual market.

Investment income was USD 57.2 million for Skuld Group 2020/21. The positive investment income is primarily driven by positive equity markets and declining yields.

The positive result contributes to a strong capital adequacy for Skuld well above the capital requirements set by the Solvency II regulation. At the 2020/21 financial year end, Skuld Group's solvency ratio was 184 %, while the Norwegian Association's solvency ratio was 201 %. Skuld has a clean A (stable outlook) rating by Standard & Poor's.

Skuld has a strategic focus on growth and financial stability through diversification. Member's capital is used to generate profit from commercial products, thereby supporting mutuality and mitigating volatility on operating performance. The capital required to carry out Skuld's diversification strategy has an impact on the solvency ratio. Per 20 February 2021, Skuld Group reports a solvency ratio of 184 %. Analysis show that had Skuld been a club offering only the P&I Mutual product, the equivalent solvency ratio would have been 258 %. Skuld's diversification strategy produces thus a return to support the technical result and mutuality at a "cost" of 74 percentage points in solvency ratio.

Skuld's overall system of governance is designed and aligned appropriately and proportionally to adequately support Skuld's business model and its 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.

Skuld carried out an Own risk and solvency assessment (ORSA) in May 2021. Based on the ORSA, the Board reached the conclusion that the solvency position is satisfactory with regard to regulatory requirements and Skuld's strategy. No adjustment to the capital position or the solvency target is currently mandated.

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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 taken into account when calculating solvency can be found in the Qualitative Reporting Template (QRT) S.32.01.22 in the Appendix to this report.

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. In recent years Skuld has expanded its offering beyond traditional P&I to include marine and energy insurance underwritten through Skuld Hull, integrating business written by former Skuld Marine Agency (acquired in 2016) and hull and machinery and offshore energy business written on Skuld corporate paper in its UK Branch.

In 2019, the Board of Directors approved putting Skuld's Lloyd's syndicate 1897 up for sale and the sale was completed in September 2020.

No other significant events occurred during the last year 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) Reveristredet 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)
Bank of England, Prudential Regulation Authority Threadneedle Street, London, EC2R 8AH Phone: +44 (0) 20 3461 4444	Regulator	UK Branch
Monetary Authority of Singapore (MAS) 10 Shenton Way, MAS Building, Singapore 079117 Phone: +65 6225 5577	Regulator	Singapore Branch
Insurance Authority 41 Heung Yip Rd, Wong Chuk Hang, Hongkong Phone: +852 3899 9983	Regulator	Hong Kong Branch
PwC Dronning Eufemias gate 71, 0191 Oslo Phone: +47 952 60 000	External Auditor	Assuranceforeningen Skuld (Gjensidig)
PwC 7 Straits View, Marina One, Singapore 018936 Phone: +65 6236 3388	External Auditor	Singapore Branch
PWC 22/F, Prince's Building, Central, Hong Kong Phone: +852 2289 8888	External Auditor	Hong Kong Branch

A.2 Underwriting performance

Underwriting is carried out from the main office in Oslo, and the branch offices in Singapore, Hong Kong and London.

After a number of years of softening market conditions driving premiums down, the mutual book of business have started growing during 2020/21. The growth is driven by a strong renewal with more gross tonnage and rates increasing, as well as new vessels entering the Association during the year. Hull and Machinery has grown significantly during 2020/21, driven both by organic growth, the completion of the transition out of Lloyds and onto Skuld corporate paper and significant rate increases. The Offshore products continues to grow steadily, and the FD&D products also contributed to growth, while the Fixed P&I is reduced as a consequence of effective pruning and deselection.

Combined ratio for Owner P&I Mutual was 121 % in 2020/21 compared to a target of between 100 % and 105 %. The consolidated gross claims were USD 293 million for 2020/21 (USD 181 million for 2019/20) and has been significantly influenced by increased and new pool claims from other members of the International Group, alongside some own large claims within the club retention. Skuld has also been affected by some COVID-19 related claims within the cruise industry.

For commercial business combined ratio was 94 % in 2020/21 compared to 100 % the previous year and compared to the target of 90 % or below.

At year-end 20 February 2021, Skuld Group reported a negative technical result of USD 31.1 million on group level. The table below shows a summary of the technical account from statutory accounts on an IFRS basis.

Skuld Group		USD million	Norwegian Association	
2020/21	2019/20		2020/21	2019/20
390.8	337.9	Earned premium	387.9	335.5
- 44.7	- 40.2	Reinsurance premium	- 102.5	- 80.1
- 301.6	- 233.6	Net claims incurred	- 243.1	- 198.5
- 75.6	- 68.5	Net operating expenses	- 70.5	- 64.4
- 31.1	- 4.5	Technical result	- 28.2	- 7.6

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

USD million	Gross earned premium and calls	%
Norway	39.6	10.1%
Nordic countries excl. Norway	25.0	6.4%
Germany	24.9	6.4%
Greece	26.3	6.7%
United Kingdom	11.7	3.0%
Rest of Europe	74.7	19.1%
USA	40.1	10.3%
Far East	82.3	21.0%
Other	66.3	17.0%
Total	390.8	100.0 %
Premiums within EEA	190.5	49 %

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.

A.3 Investment performance

The investment return ended at 9.8 % in 2020/21 compared to 5.5 % in 2019/20.

Skuld's investments are allocated across several asset classes and regions. 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

Investments are allocated between several asset classes with the main categories presented in this report. The total performance of the investment portfolio in 2020/21 is considered in line with the main indices it follows, although actual risk exposure has been kept lower during the year.

The first month of the financial year saw global equity markets drop more than 30% as the covid-19 virus caused lockdowns everywhere. As investors fled to safe havens, the US dollar strengthened substantially in March, which isolated is negative for unhedged positions but favourable for locking future costs in Norwegian kroner. After this first month of extreme conditions, financial markets stabilised and Skuld's investment portfolio reached break even by the summer. As vaccines and vaccination plans were developed, asset valuations remained high, and the US dollar weakened throughout the year, contributing positively to portfolio return. Towards the end of the period, mid- and long-term yields shifted back up to where they were at the end of the previous year, as market participants estimate growth and inflation picking up faster than projected by central banks. Non-listed markets with exposure to Private Equity, Absolute return fixed income, Infrastructure and strategic equity returned 26.1% this year, even above the strong 20.5% performance in global equities.

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 41.0 (28.9)
- Bonds 25.1 (16.7)
- Other investments -1.7 (5.6)

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 0.4 (0.1)
- Bonds 0.4 (0.3)
- Other investments 0.1 (0.02)

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 3.8 million (3.0). This direct equity contribution is part of the above Equity shares figures.

The Skuld Group had no direct investments in securitised products in 2021/20, nor in 2020/19.

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 39.8 (28.9)
- Bonds 27.1 (13.0)
- Other investments -8.1 (5.3)

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 0.4 (0.3)
- Bonds 0.9 (0.1)
- Other investments 0.1 (0.05)

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 3.8 million (3.0). This direct equity contribution is part of the above Equity shares figures.

The Norwegian Association had no direct investments in securitised products in 2020/21, nor in 2019/20.

A.4 Performance on other activities

All material activities have been addressed in the previous sections.

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 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.

Skuld'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, while at the same time ensuring equal terms for equal members.

Skuld's Code of Conduct describes ethical commitments and requirements and sets expectations for personal conduct and business practise based on Skuld's culture and core values. It highlights the principles that guide our business conduct and together with other external and internal regulations and requirements, it applies to all directors, leaders, employees and others who perform services on behalf of Skuld.

The General Meeting

The General Meeting is Skuld'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's business and elects the Board of Directors.

The Board of Directors

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

An Audit Committee has been established by the Board to support the Board in overseeing

- the company's financial statements and the company's accounting and financial reporting processes and financial statement audits,
- the company's compliance with legal and regulatory requirements,
- the independent auditor's qualifications, independence and performance
- the company's systems of disclosure controls and procedures, internal controls over financial reporting, and compliance with ethical standards adopted by the company.

A Risk Committee has been established by the Board to support the Board in overseeing the effectiveness of Skuld's risk, capital and solvency management frameworks in order to support the strategic objectives, support and inform business plans, ensure that current and future risk are identified, assessed and monitored in line with risk appetite and ensure that adequate capital is maintained against the risks associated with business activities.

The Guidelines for the Board of Directors focus on the responsibility for information related to board matters. Skuld 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 Skuld and communicates with the Board of Directors on matters of importance to Skuld. The President & CEO shall ensure Skuld'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 Skuld'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

Skuld operates various pension schemes in compliance with local laws and regulations in each country in which the Skuld 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 12G¹. 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,
- e. CEO or other actual leader of the Association's insurance agent(s) and any of its employees acting as insurance agents, and

¹ G is a base amount used by the Norwegian Labour and Welfare Administration to calculate benefits. It is adjusted each year and per 1 May 2020 1 G corresponds to NOK 101 351.

- f. 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 Skuld, and in order to comply with local and international legislation requirements established for the management and key functions of Skuld, the persons identified in the key functions will be evaluated in accordance with the Skuld'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.

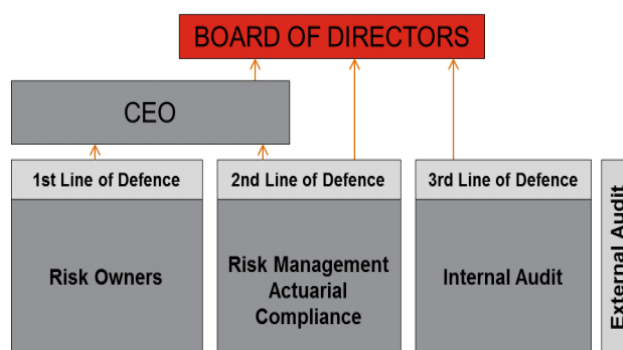
All persons mentioned above shall be compliant with fit & proper criteria for the whole term of their appointment/employment with Skuld in these positions. If the Election Committee, Board of Directors, President & CEO or Executive Management have any grounds to believe that the "fit & proper criteria" 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 and f 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.

Skuld will advise the Norwegian Financial Supervisory Authority (NFSA) of any new appointments/ changes in the persons named in point a-f above and provide documentation confirming that the required criteria have been met. Skuld will also advise NFSA if any of the persons named in point a-f above are no longer considered fit & proper.

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 Skuld's risk appetite and sets risk limits that are consistent with available capital. The Board's Risk Committee prepares the Board's assessment of aggregated risk and evaluates if governance and control measures are adapted to 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 Chief Compliance Officer (CCO). 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 Skuld's risk picture. Regarding the actuarial function the CRO is responsible for ensuring the requirements given in Solvency II regulations governing this function are met. The CCO 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 and the Board, giving an overview of Skuld's risk picture and an assessment of the risk level. The CCO submits a report to each meeting of the Board's Audit Committee and the Board, giving an overview of the compliance status in Skuld and describing current compliance risks and documenting controls that have been performed.

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 Skuld 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'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 Skuld 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 a report prepared by the CRO. The ORSA report is reviewed by the internal risk committee and subject to internal audit review 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 concludes 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 2021 to 2024, irrespective of scenario. In the Board's view, no adjustment to the capital position or the solvency target is currently mandated.

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 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 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's operations. According to the policy, an outsourcing agreement should be put in place between Skuld 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 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 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 its 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 (SCR) 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, SCR 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 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 IBNR provisions. 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, where information about the claim is available.

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). When calculation SCR for catastrophe risk, Skuld follows the approach described in solvency regulations.

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 retention level of USD 10 million 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 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. In addition to the above, Skuld has a separate treaty structure for non-poolable exposure, and for Skuld Hull.

Solvency capital requirements

SCR for underwriting risk per 20 February 2021 are shown in the table below. The capital requirements take into account geographical diversification.

USD million	Skuld Group	Norwegian Association
Premium and reserve risk	224.6	179.6
Catastrophe risk	31.7	21.0
<i>Diversification</i>	- 21.7	- 14.7
Total underwriting risk	234.6	185.9

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 5.9 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.

Exposure towards the 10 largest currencies per 20 February 2021 is shown in the table below.

Currency		Market value (USD mill)			
		Skuld Group		Norwegian Association	
		Assets	Liabilities	Assets	Liabilities
<i>US Dollar</i>	<i>USD</i>	844.4	504.6	784.7	477.4
Euro	EUR	115.3	80.8	114.5	80.2
Norwegian Krone	NOK	83.5	139.0	77.8	133.6
British Pound	GBP	41.5	48.5	68.1	44.9
Japanese Yen	JPY	24.3	0.1	24.3	0.1
Chinese Yuan Renminbi	CNY	20.9	25.6	20.9	25.6
Hong Kong Dollar	HKD	13.4	1.3	13.5	1.5
Canadian Dollar	CAD	9.1	1.7	9.1	1.7
Australian Dollar	AUD	6.1	1.7	6.1	1.7
Swiss Franc	CHF	6.0	- 0.0	6.0	- 0.0
Other (40 currencies)		35.1	2.0	35.2	2.1

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 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

SCR for market risk per 20 February 2021 are shown in the table below.

USD million	Skuld Group	Norwegian Association
Equity risk	101.1	112.6
Currency risk	39.9	43.9
Interest rate risk	3.4	1.5
Concentration risk	-	0.2
Spread risk	11.0	10.9
Property risk	0.6	0.4
<i>Diversification</i>	- 27.9	- 29.5
Total market risk	128.1	139.9

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.

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

SCR for counterparty risk per 20 February 2021 are shown in the table below.

USD million	Skuld Group	Norwegian Association
Counterparty risk	56.3	63.3

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 receipt 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.

About 30 % of the financial instruments held by the Skuld Group and the Norwegian Association can be liquidated within two days, and around 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 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

SCR for counterparty risk per 20 February 2021 are shown in the table below.

USD million	Skuld Group	Norwegian Association
Operational risk	19.1	17.2

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 and 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 such as being associated with cases of pollution and/or wreck removal, 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, and continuous training of employees is an important mitigating measure. Skuld has an extensive training regime in place to ensure all employees have the required knowledge on the legal and regulatory framework connected to their work.

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.

External risks

External risks are risks arising from events outside Skuld and that are beyond its influence and control. External fraud are acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party; this includes money laundering. Political risk is any political change that alters the expected outcome and value of a given economic action by changing the probability of achieving business objectives. Regulatory risk are 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.

Sustainability and climate risk

Skuld has established a sustainability programme incorporating development targets and focussed activities within all relevant operational areas, and it is integrated in our core business process areas: claims, loss prevention, underwriting, finance, human resources, and communications.

Skuld's Sustainability Working Group has undertaken a materiality assessment to help prioritise areas for action. Ten material areas were identified and targeted for Skuld's sustainability activities during 2021. Risk management is among the areas of action with the highest priority for Skuld. The goal is to develop approaches to identify, measure and manage Skuld's exposure to climate risk and to support the development of sustainable strategies to make Skuld more resilient for the changes to come.

To achieve this goal, a climate risk working group has been established within Skuld to address the financial risks from climate change. As its initial task, the climate risk working group has established a foundation on which the effects from climate change on Skuld can be assessed in a systematic manner. The foundation is structured around the scientific evidence from the International Panel on Climate Change (IPCC). To ensure being updated on regulatory requirements, guidance from EIOPA such as their opinion on sustainability within Solvency II and methodological principles on stress-testing are a point of departure for the working group.

The generally accepted approach is to consider financial risks from climate change arising through two primary channels, or 'risk factors': physical and transition. These can manifest as increasing underwriting, reserving, credit, or market risk. A third risk factor -liability risks - arises from parties who have suffered loss or damage from physical or transition risk factors seeking to recover losses from those they hold responsible.

Continuous growth in CO2 emissions will increase global temperatures, leading to more extreme weather and manifestations of physical risk. If no policy actions are taken, there is no transitional risk, only steadily growing physical risk. Authorities around the world are however considering and implementing policy responses that will affect the development of emissions growth. These policy responses will affect consumers and companies around the world and they will, if they reduce emissions, reduce potential physical risk, but bring with them a risk that arises from whole sectors of the economy being forced to change their behaviour. The impact of this transitional risk depends on the manner policy responses are implemented; the longer this is delayed, the more disruptive the implementation of policy responses will be.

Physical risk

Skuld bases its assessment of physical risks stemming from climate change impacts on the report by IPCC on the impacts of global warming of 1.5 °C above pre-industrial levels and related global greenhouse gas emission pathways. Given that no effective policy responses are taken, it is expected that physical risk will crystallise and start significantly impacting Skuld's portfolio from 2050 and onwards. The climate risk working group has identified claims types that could be directly impacted by climate change, and assessed the probability of such an impact. As current data cannot be used to quantify climate change impacts on Skuld portfolio, the working group has identified action points to enable data-driven analysis of climate change impacts on adequate granularity and based on claims data.

Transitional risk

Transitional risk will affect Skuld directly and indirectly, with effects on the global economy and the shipping industry feeding through to Skuld as an insurance provider.

The obvious direct effect of transitional risk on Skuld is the need for Skuld to allocate resources to satisfy steadily increasing reporting requirements. Skuld is expected by the NFSA to take climate risk into account in the Own Risk and Solvency Assessment and publish a status of the progress of the work in the Solvency and Financial Condition Report. More detailed reporting requirements are under development, and this report will at some stage have to be supported by quantitative analysis. Current trends towards increased sustainability could affect Skuld directly through changes in requirements to buildings Skuld rents around the world and on which energy sources to be used. Both of the direct effects that currently seem relevant will lead to increased operational expenses.

The assessment of the indirect effect of transitional risk takes into account policies currently considered and technological trends. The International Maritime Organisation has an ambition to halve greenhouse gas emissions by 2050 and a vision to decarbonize shipping as soon as possible within this century. IMO follows a two-tier approach, focusing on a set of short-term measures (EEDI, EEXI, SEEMP), before embarking on more comprehensive medium- and long-term measures. While the proposed short-term measures should be adequate for reaching the 2030 goals, further measures, or increased stringency of the short-term measures, are needed to achieve the 2050 ambitions. Skuld will have to support its members and clients in this transition and will therefore have to use resources to stay ahead of the development, leading to increased operational expenses and potentially reduced premium if Skuld falls behind in the development. Keeping clients and members that fall behind on their sustainability efforts might increase reputational risk.

Current technological trends are centred around the shipping industry's efforts to significantly reduce greenhouse gas emissions and around digitisation. As ship owners adapt to new technologies, ships will likely become more complex and expensive to repair. Some of the alternative fuels currently considered might require special handling and storage, thereby increasing the risk of incidents. Claims costs per claim might increase. In this transitional period, pricing of new risks might become more complex too with a danger of underestimating actual risk. Digitisation will also increase ships' complexity, making potential claims more expensive. However, digitisation might reduce claims due to human error. Also, increased digitisation might reduce the number of personnel required onboard, with a positive effect on claims cost due to a reduced number of costly personal injury claims. Increased digitisation will require more specialised and specially trained crew and might increase operational risk in vessel management. Digitisation is also exposing the shipping industry to increasing cyber vulnerabilities, cyberattacks and threats which may have severe financial and reputational repercussions.

Risk related to Skuld's rating

Skuld 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 and stress testing to see the impact on the SCR and the solvency position arising from unexpected developments in claims, premiums and investments.

In connection with the ORSA, the Board of Directors is actively involved in setting scenarios that are of relevance. Any threats or potential major changes to the daily business will typically be of interest.

The scenarios considered in the latest ORSA include the following:

- Premium rates decrease, which results in a worsening of the combined ratio
- Claim payables increase significantly the next years
- Investment results of 0 for the years 2022 to 2024
- Pool costs stay at the level of 2020 for the years 2021 to 2024
- A reverse stress test analysing Skuld's loss-bearing capacity
- A worst-case scenario with regard to a malicious cyber attack

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 valued 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 63% of investments are within fixed income, while around 26 % 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			20.02.2021 USD million	Norwegian Association		
Financial Statements	Adjustments	Solvency II		Financial Statements	Adjustments	Solvency II
5.9	- 1.8	4.1	Fixed assets	4.9	- 1.7	3.2
9.8	-	9.8	Holdings in related undertakings	50.0	- 8.7	41.3
160.6	- 39.9	120.8	Reinsurers' share	216.9	- 69.1	147.8

Skuld Group			20.02.2020 USD million	Norwegian Association		
Financial Statements	Adjustments	Solvency II		Financial Statements	Adjustments	Solvency II
7.0	- 2.3	4.7	Fixed assets	5.7	- 2.2	3.5
0.0	- 14.3	- 14.3	Holdings in related undertakings	59.3	- 5.0	54.3
231.7	- 44.9	186.8	Reinsurers' share	285.0	- 69.7	215.4

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.

Holdings in related undertakings

For Skuld Group, the group structure in solvency calculations and statutory accounts is aligned after the sale of Skuld's syndicate at Lloyd's in 2020 and there is no longer any adjustment for value of subsidiaries.

In the Norwegian Association's financial statements, shares in subsidiaries amount to USD 9,6 million. Including a capital contribution to Skuld Mutual P&I Association (Bermuda) of USD 40.5 million, holdings in related undertakings amount to USD 50.0 million. In the Solvency II balance sheet, shares in subsidiaries are valued at USD – 10.5 million, the capital contribution is unadjusted valued at USD 40.5 million, while shares in Hydra are recognized at USD 11.4 million, totalling USD 41.3 million.

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 2021 are presented in the table below.

Skuld Group		USD million	Norwegian association	
Solvency II	IFRS		Solvency II	IFRS
563.7	529.9	Technical provisions	461.4	403.6
519.6		- Best estimate	426.4	
44.1		- Risk Margin	34.9	

The best estimate is here net of reinsurance. The gross best estimate was USD 684.4 million and USD 609.2 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 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) and unallocated loss adjustment expenses (ULAE).

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.

For calculation of the risk margin, Skuld estimates all future SCRs at once by using the modified duration of the liabilities as a proportionality factor.

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 best estimate 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

All other liabilities are valued using the same valuation bases, methods and main assumptions for solvency purposes as in the financial statements.

Tax

In previous years, the Association's risk-carrying ability has been measured by contingency reserve. As part of the implementation of Solvency II in 2016, the term contingency reserve was discontinued in the Norwegian regulatory framework and accounting standards and reclassified to equity in the financial statement and to eligible capital in Solvency II.

In parallel with the changes in Solvency II and the accounting standards, the Norwegian Ministry of Finance has worked on harmonising the tax regulations with the new standards. In 2018, new tax regulations for Norwegian insurance companies were approved, but the Norwegian Ministry of Finance is working on separate regulations for mutual marine insurance associations. Solvency calculations per 20 February 2021 are carried out in accordance with the general tax regulations for insurance companies.

Skuld is in dialogue with the Ministry of Finance regarding the new tax regulations. The dialogue has so far been constructive and positive.

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. 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 SCR.

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		USD million	Norwegian association	
20.02.2021	20.02.2020		20.02.2021	20.02.2020
385.4	360.8	Statutory accounts equity	424.5	402.3
14.8	14.4	Net technical provisions	- 21.5	- 15.9
- 44.1	- 54.2	Risk margin	- 34.9	- 49.4
-	51.2	Adjustment for value of subsidiaries	- 8.7	- 16.2
- 2.5	0.7	Other	- 1.7	1.8
349.9	373.0	Assets in excess of liabilities	356.3	322.7
- 2.8	- 5.3	Pledged assets / Non-available own funds	- 2.8	- 5.3
347.0	367.7	Basic own Funds	353.5	317.4

Statutory accounts equity has increased with the positive result for year 2020/21. Changes in net technical provisions are due to changes in interest rates, affecting the discounting of technical provisions, as well as changes in premium provisions. Risk margin for Skuld Group has decreased in line with the overall SCR as described in E.2. Changes in the value of shares in subsidiaries are also taken into account before assets in excess of liabilities, the reconciliation reserve, can be determined.

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		USD million	Norwegian association	
20.02.2021	20.02.2020		20.02.2021	20.02.2020
284.4	290.1	Available ancillary own funds	281.5	287.2

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		USD million	Norwegian association	
20.02.2021	20.02.2020		20.02.2021	20.02.2020
347.0	367.7	Basic Own Funds / Tier 1	353.5	317.4
129.5	144.9	Ancillary Own Funds / Tier 2	117.3	137.4
476.5	512.5	Total eligible own funds to meet the SCR	470.8	454.8

The eligible capital to cover the Minimum Capital Requirement (MCR) consists of Basic Own Funds in its entirety. Skuld does not hold Ancillary Own Funds that can be taken into account when calculation eligible own funds to meet the MCR.

Skuld Group		USD million	Norwegian association	
20.02.2021	20.02.2020		20.02.2021	20.02.2020
347.0	367.7	Basic Own Funds / Tier 1	353.5	317.4
-	-	Ancillary Own Funds / Tier 2	-	-
347.0	367.7	Total eligible own funds to meet the MCR	353.5	317.4

E.2 Solvency capital requirements and minimum capital requirement

Solvency capital requirements

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		USD million	Norwegian association	
20.02.2021	20.02.2020		20.02.2021	20.02.2020
234.6	220.6	Underwriting risk	185.9	186.2
128.1	129.3	Market risk	139.9	136.2
56.3	108.3	Counterparty risk	63.3	109.5
- 92.7	- 108.5	Diversification	- 93.6	- 106.7
326.3	349.7	Basic Solvency Capital Requirement	295.6	325.2
-	17.6	Adjustment due to RFF	-	23.7
19.1	19.0	Operational risk	17.2	17.6
- 86.3	- 96.6	Loss-absorbing capacity of deferred taxes	- 78.2	- 91.6
259.0	289.8	SCR	234.6	274.8
476.5	512.5	Total eligible own funds to meet the SCR	470.8	454.8
217.5	222.8	Capital surplus	236.2	180.0
184.0 %	176.9 %	SCR margin / Solvency Ratio	200.7 %	165.5 %

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 generally a result of

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

During 2020/21, Skuld has carried out improvements in data quality and changes in methodology that have affected the SCR calculation per 20 February 2021. Inclusion of a diversification benefit connected to reserve volume has reduced the SCR for Underwriting risk. SCR for counterparty risk has decreased as a

consequence of improved data quality underlying the calculations. In addition, after the sale of Skuld's syndicate at Lloyd's, the remaining ring-fenced funds have been assessed to be immaterial and the methodology of calculating SCR has been changed in accordance with guideline 5 of EIOPA-BoS-14/169.

Mutual solvency ratio

Skuld has a strategic focus on growth and financial stability through diversification. Member's capital is used to generate profit from commercial products, thereby supporting mutuality and mitigating volatility on operating performance. The capital required to carry out Skuld's diversification strategy has an impact on the solvency ratio. Per 20 February 2021, Skuld Group reports a solvency ratio of 184 %. Analysis show that had Skuld been a club offering only the P&I Mutual product, the equivalent solvency ratio would have been 258 %. Skuld's diversification strategy produces thus a return to support the technical result and mutuality at a "cost" of 74 percentage points in solvency ratio.

Minimum capital requirement

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		USD million	Norwegian association	
20.02.2021	20.02.2020		20.02.2021	20.02.2020
347.0	367.7	Total eligible own funds to meet the MCR	353.5	317.4
103.7	91.8	MCR	85.4	77.2
243.3	275.8	Capital surplus	268.1	240.2
335 %	400 %	MCR margin	414 %	411 %

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.