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ANNUAL GENERAL MEETING The Annual General Meeting will be held on 6 September 2018.

FIGURES AT A GLANCE

In a challenging market, we have maintained our track record of positive underwriting results and delivered a strong result in a volatile market. The following key figures sum up the year.

POSITIVE UNDERWRITING RESULT FOR

15 YEARS

Our controlled underwriting is of vital importance to maintain positive underwriting results.

TOTAL RETURN TO MEMBERS

10 MUSD

BOTTOM LINE RESULT

58 MUSD

Bottom-line income of USD 58 million before return to members is the second-best in Skuld's history.

TECHNICAL RESULT

5 MUSD
Members' Credit

FINANCIAL RESULT

5 MUSD
Members' Performance Bonus

PREMIUM INCOME

413 MUSD

In a very competitive market environment, our premium income grew by 23 MUSD as compared to 390 MUSD the previous year.

COMBINED RATIO

97%

A combined ratio below 100% indicates a positive underwriting result and is measured by calculating the sum of claims and operation expenses as a percentage of premium income.

The combined ratio by contribution is as follows:

MUTUAL	99%
COMMERCIAL	95%

CONTINGENCY RESERVES

442 MUSD

Skuld's contingency reserves now stand at USD 442 million after the USD 10 million distribution to members, making us robust and well placed for future challenges.

INVESTMENT RETURNS

7%

Investment returns were very favourable over the year and contributed significantly to our result.



Skuld is 'A' rated by Standard & Poor's and has a strong financial position.

Skuld maintains a strong customer focus and longstanding relationships with members and clients.

KEY FIGURES

2017

Skuld has delivered the second-best result in the company's history ending the financial year with a positive result of USD 58 million. Skuld is distributing USD 10 million to members, and the contingency reserve now stands at a record high USD 442 million after the distribution.

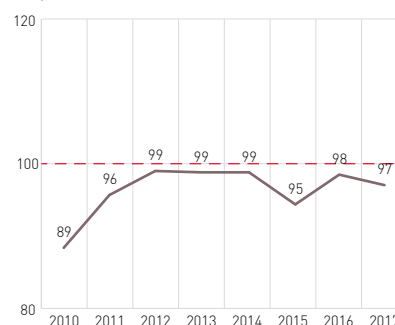
Skuld has reported a positive technical result for the 15th consecutive year, and the combined ratio was maintained below 100%. It is a challenging time for some of our members who have experienced major losses this year. The number of small claims has reduced, but Skuld has experienced a few large claims and two confirmed pool claims. The major claims have been offset by the positive contribution from our commercial efforts, and partly by positive adjustments on claims reserves on earlier policy years. At the year-end, Skuld delivered a positive technical result of USD 12 million. Skuld's diversification strategy continues to reduce volatility and is an important contributor to the positive underwriting result.

Net investment income ended the 2017 financial year at USD 46 million with an investment return of 7% for the period. This has been driven mainly by strong equity markets and higher yields in the bond portfolio. Skuld's long-term conservative investment strategy with a majority in low-risk bonds, has been a strategic choice to ensure sufficient capital to meet Skuld's obligations towards the members and for supporting sustainable further growth.

Skuld is in a financially strong position with an A (stable) rating from S&P and with a solvency ratio of 159% which is well above the capital requirement in Solvency II.

COMBINED RATIO

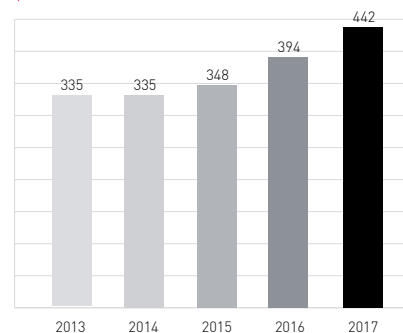
\ In percent



The combined ratio is a measure of underwriting performance calculated by the sum of claims and operation expenses as a percentage of premium income. A ratio below 100% indicates a positive underwriting result, while a ratio above 100% means that more money is paid out in claims than what is received in premiums.

CONTINGENCY RESERVE

\ USD mill.

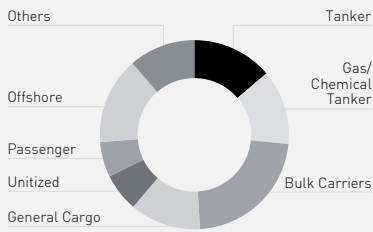


TRANSPARENCY POLICY

Skuld was the first member of the International Group of P&I clubs to publish six-month and nine-month reports in addition to the annual review and has done so since 2003. Transparent, clear and precise communication with members and clients, brokers, the general public and the media is a priority for Skuld. Our objective is to ensure that all information made available by Skuld is accurate and relevant, and we continuously develop our communication with stakeholders.

PREMIUM DISTRIBUTION*

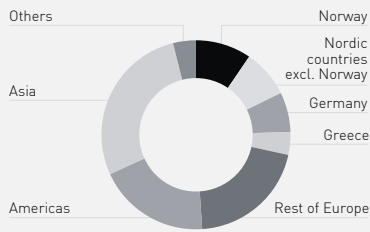
\ By vessel type



* Total gross premium all products: USD 413 million

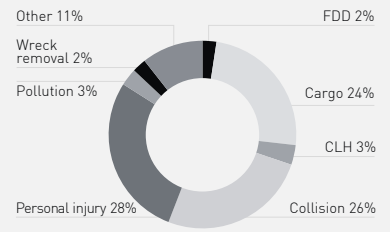
PREMIUM DISTRIBUTION

\ By region



DISTRIBUTION OF CLAIMS COSTS

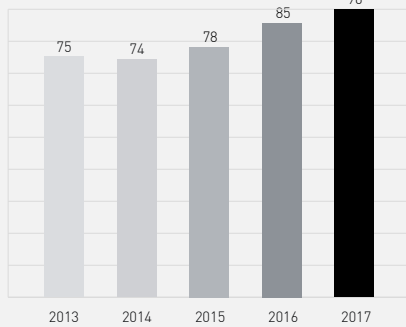
\ In percent



Only claims relating to the Association included in the above chart.

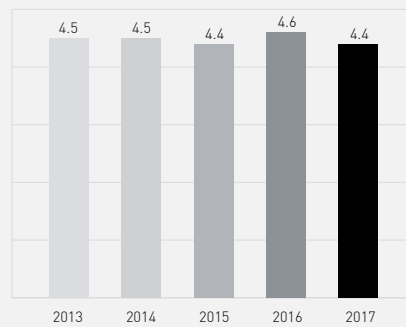
P&I OWNERS' GT

\ Mill. GT



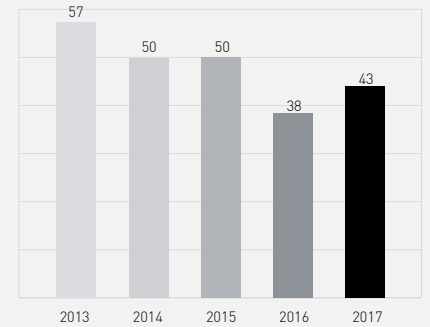
CONTINGENCY RESERVES PER GT

\ USD



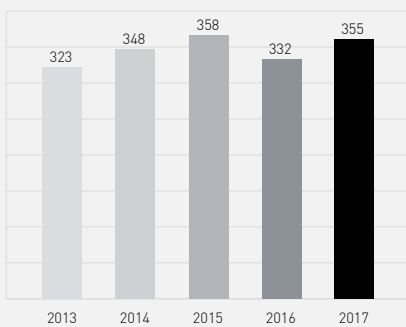
CHARTERERS' LIABILITY GROSS PREMIUM

\ USD mill.



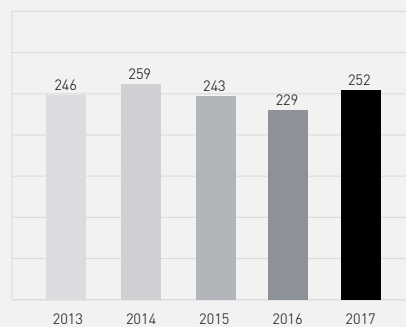
NET PREMIUMS AND CALLS FOR OWN ACCOUNT

\ USD mill.



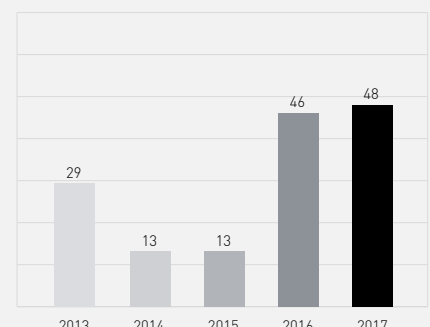
NET CLAIMS INCURRED FOR OWN ACCOUNT

\ USD mill.



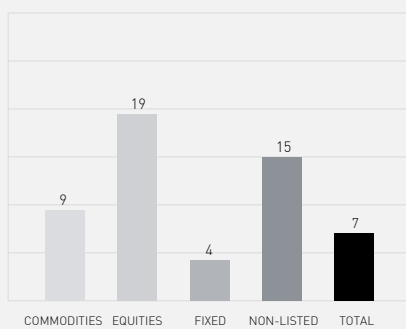
BALANCE CARRIED TO CONTINGENCY RESERVE

\ USD mill.



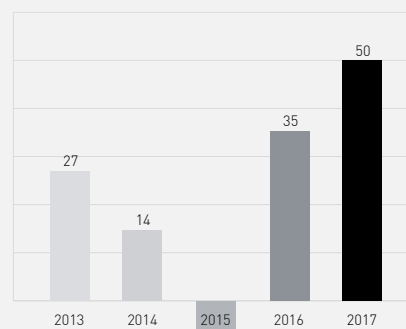
INVESTMENT PERFORMANCE

\ In percent



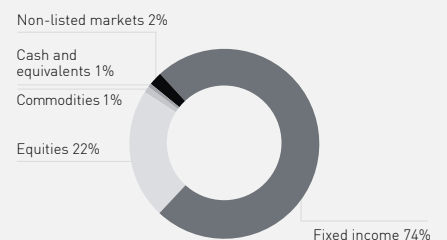
NET INVESTMENT INCOME

\ USD mill.



INVESTMENTS BY ASSET CLASS

\ In percent



CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT AS AT 20 FEBRUARY 2018

MUSD	2017	2016	Restated 2015	2014	2013
TECHNICAL ACCOUNT					
Premiums and calls	412.7	389.7	414.8	411.2	379.4
Reinsurance premiums	-57.4	-58.1	-56.7	-63.6	-56.6
Premiums for own account	355.4	331.6	358.2	347.6	322.8
Claims incurred for own account	-251.6	-229.1	-243.3	-259.1	-245.6
Acquisition costs	-78.6	-69.9	-70.1	-69.9	-58.8
Administrative expenses	-19.6	-18.6	-17.9	-17.9	-14.5
Discontinuation defined benefit scheme	6.0	0.0	0.0	0.0	0.0
Net operating expenses	-92.2	-88.5	-88.0	-87.8	-73.3
Balance carried to non-technical account	11.6	13.9	26.9	0.8	4.0
NON TECHNICAL ACCOUNT					
Balance from technical account	11.6	13.9	26.9	0.8	4.0
Net investment income	50.1	35.5	-9.4	13.3	27.1
Taxes	-0.2	-1.7	-1.2	-1.0	-2.0
Other result components	-3.9	2.9	1.5		
Distribution to members	-9.6	-4.7	-4.9		
Balance carried to contingency reserve	48.0	45.8	13.0	13.1	29.1

Syndicate 6126, Agora, is presented net in the accounts where the non-participating share is presented as reinsurance premiums.

BALANCE SHEET AS AT 20 FEBRUARY 2018

MUSD	2017	2016	Restated 2015	2014	2013
ASSETS					
Financial investments	850.7	694.0	697.5	684.9	717.5
Debtors	26.2	2.2	5.1	10.1	9.3
Other assets	146.4	265.1	186.0	171.8	108.6
Prepayment and accrued income	46.9	39.2	30.0	36.9	20.6
Total assets	1 070.1	1 000.5	918.6	903.7	856.0
LIABILITIES					
Provision for outstanding claims for own account	527.7	507.2	511.5	497.6	470.2
Contingency reserve	442.0	394.1	348.2	335.2	334.5
Minority interest	-3.4	-2.6	-0.8	-0.8	-0.3
Technical provisions for own account	966.4	898.7	858.9	832.0	804.4
Provisions for other liabilities	8.2	16.6	15.5	16.9	8.6
Creditors	58.7	46.4	17.8	24.8	23.1
Accruals and deferred income	36.8	38.7	26.3	30.0	19.9
Total liabilities	1 070.1	1 000.5	918.6	903.7	856.0

In the consolidated income and expenditure account, a relevant portion of overhead expenses are allocated to claims-, acquisition- and investment expenses respectively.

PROVING OUR STRENGTH

For a record 15th consecutive year we celebrate a positive underwriting result. We are proud to announce yet another strong bottom line as well as a total combined ratio of 97%.

“Skuld’s result and the cases handled over the year show that our size and stability cater for both the big casualties and the volatility in our markets.”

Our positive underwriting result shows the quality of our members and clients as well as the quality of our underwriting. And it offers Skuld members predictability and stability. Keeping our positive underwriting balance while not depending on investment returns has been a clear strategy for Skuld. Still, 7% investment returns were added to our strong annual result.

We experienced a few large claims but over the year the frequency of regular claims remained low which also contributed positively to the 2017 result.

There are still some challenging markets for parts of our commercial business. We are in a promising phase of improving the results of our syndicate, Skuld 1897 at Lloyd’s. We see that diversification works. We now offer a wider range of insurance products and cover a larger portion of the needs of our members and clients. Our commercial side continues to bring robust stability for our mutual owners.

Members’ premium credit and Members’ performance bonus

Based on our positive result we would again like to give something back to our membership and we will for the third consecutive year propose to the Skuld Annual General Meeting a premium credit to all mutual members. In addition, we will launch a performance bonus which rewards members of more than 12 months with Skuld and where premium contribution is higher than own claims.

The introduction of the members’ performance bonus on top of the members’ premium credit shows not only Skuld’s healthy financial state but also reinforces our profound commitment to our members.

Strong platforms providing high quality service

This is the first full year with Skuld Marine Agency (SMA) as an integrated part of Skuld. I am very pleased and grateful for the confidence SMA clients have placed in Skuld. 98% of SMA’s former business was renewed on Skuld paper and the agency is already delivering ahead of the business plan. With SMA on board we can enhance co-operation and synergies across all Skuld platforms; Skuld P&I, Skuld Marine Agency and Skuld 1897 at Lloyd’s.

We are proud of the service we offer. Over the year our casualty response and claims services have been seriously tested and our assistance to members and clients in difficult situations has again received very positive feedback.

Global knowledge and empowered local teams

Skuld has a philosophy of being close to our members and clients. Local presence at 10 important shipping locations

around the world along with a staff of maritime, technical and legal experts gives us great strength and flexibility when handling complex matters wherever they occur.

Empowerment is another vital part of the Skuld philosophy. Our staff has a high degree of freedom and authority which means that we can move fast and take quick decisions without bureaucracy. In addition, we put great emphasis in sharing competence and knowledge across offices and business units working together as one global Skuld team. Being based in different time zones around the world means that during large emergencies we can mobilise a service team quickly, which operates around the clock.

Strategic focus areas

The future is exciting. We see global trends impacting the whole marine industry, including the UN global sustainability goals, emerging marine industries and innovation in technology. At Skuld, we will make sure we meet the obligations and demands from both our members and clients and the society we all are part of.

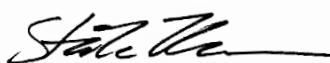
In the future, we will see more interaction and transactions performed digitally in our business. At Skuld, we launched our new website this year with a brand new logged-in area which gives members and brokers a complete overview of entered vessels and claims for their Skuld accounts. We have established a solid fundament and will keep developing further digital solutions for our members, clients and brokers as service to their operations.

Still, marine insurance is a people business and we will continue to develop and maintain our strong personal relationships with our members, brokers and clients.

Robust position for future growth

We remain cautiously optimistic for 2018/2019 admitting that the shipping and financial markets still pose challenges ahead. Skuld’s result and the cases handled over the year show that our size and stability cater for both the big casualties and the volatility in our markets.

I would like to thank all our staff for the commitment and professional service they have offered over the year and look forward to continuing to provide our members and clients with service and competence they can rely on.



STÅLE HANSEN
President and CEO

RIDING THE STORM

Skuld has been through another challenging year but in spite of a very competitive environment, I am pleased to see that Skuld again has a positive result, in fact the second best in Skuld's history.



“Skuld is well placed with a strong management team, highly skilled employees and a strong service culture”

Skuld had a successful renewal with an increase in both tonnage and number of units entered as well as new quality members joining the club. This underlines Skuld's strength in the market.

The shipping environment is still in difficult times and many members face challenges with low freight rates and strong competition. We have great respect for their situation and must stay competitive at all times while delivering the best possible products and services to meet their needs. This year's renewal is a confirmation from the members that we are on the right track.

Global shipping trends

Shipping is facing new demands such as, among others, having more environmentally-friendly ships and better-quality bunkers. The need for sustainable operation of marine industries is driving innovation in how we operate ships and provide service. Digitisation is one of the key elements in order to meet this demand.

Shipping also needs to be up to speed when it comes to compliance and the enforcement of regulations throughout the world. The risk of sanctions and trade barriers coming into effect because of international political interference is to some extent a threat.

Skuld is proactive in every respect in these developments and has an ambition to help and support members in every way from our insurance perspective.

The Skuld culture – a tool for success

The Skuld culture is a significant ingredient in Skuld's success. As fully supported by the board, Skuld will continue to develop its highly-skilled organisation to do the best possible job in helping members and clients to reduce risks, providing loss prevention advice and offering local assistance in every corner of the world.

Skuld strives for claims handling excellence. I hear about the strong claims teams from members and I see convincing examples when emergencies and claims cases are presented in the board room.

I am grateful to Skuld staff for their dedication to provide high-quality assistance to members and clients. Skuld's culture is a vital element which must be maintained.

Service and competence you can rely on

Keeping up Skuld's expert service and competence must be in balance with Skuld's financial strength, stability and reliability. Top management has a strong focus on cost factors and has maintained and even reduced costs while at the same time growing Skuld and retaining a high quality.

Last year, Skuld took over Skuld Marine Agency (SMA) in Norway and with this extra platform along with Skuld 1897 at Lloyd's, Skuld is becoming a complete marine insurance provider for P&I, H&M and a full range of other insurance products. The combination of platforms offers new and interesting synergies for all.

With Skuld's size today in number of people employed, office network and business platforms, more business may be added without necessarily adding more overheads. This puts Skuld in a favourable position.

Still, there are things we could do better. For instance, we are revising and improving the operation of Skuld's syndicate 1897 at Lloyd's. The syndicate business is of great importance for Skuld's strategy and forecasts are promising.

Looking ahead

Shipping and transportation at sea is crucial to connect the world. Around 90% of world trade is at some point carried by the international shipping industry. Skuld is, and will be, a very important part of the marine industry by providing innovative insurance services to members and clients.

Skuld is well placed with a strong management team, highly skilled employees and a strong service culture. I look forward to being part of Skuld's continued success and I would like to offer my thanks and congratulations to the entire Skuld family for another excellent year.



KLAUS KJÆRULFF
Chairman of the Board

People is our most important asset. Our service is personal and hands-on. Strong teamwork across Skuld offices and time zones underpins our close cooperation with members to protect their interests.

SERVICE AND TEAMWORK

CASUALTY RESPONSE

24/7/365 HANDS-ON CASUALTY
RESPONSE
TECHNICAL MANAGEMENT
WORLDWIDE NETWORK

15 LARGE CASUALTIES:
Salvage, wreck removal, large
scale property damage etc.
Including:
2 confirmed pool claims
6 wreck removals
2 major charter casualties

LOSS PREVENTION

More than
300 CONDITION
SURVEYS

155 SEMINARS
AND WORKSHOPS

29 WEB
ARTICLES

CLAIMS

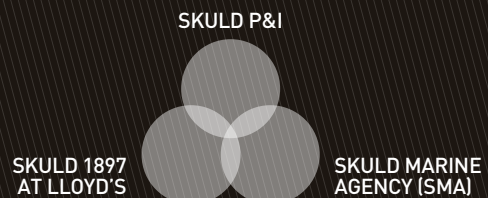
8692 CLAIMS CASES
OPENED
Including grounding,
oil spill, sinking,
collision and
personnel injury.

102 LAWYERS
and claims executives

17 LEGAL JURISDICTIONS

UNDERWRITING

SYNERGIES
We cover all marine insurance needs
of the shipping and offshore industry.



9.4%
MUTUAL TONNAGE GROWTH
Quality selection of members and vessels

Proactively serving members and clients with competence, experience and in-house legal and technical specialists.

270 EMPLOYEES

51/49 RATIO
MEN/WOMEN

9 AVERAGE YEARS
EMPLOYED

42 AVERAGE
AGE

26 NATIONALITIES
in our staff



10 OFFICES
around the world

CLAIMS HANDLING

THE SKULD WAY

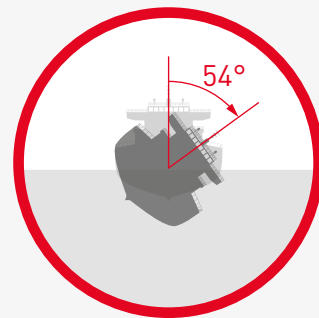
CASE EXAMPLE: MV STERNÖ

The MV Sternö collided with a lock in a canal north of Gothenburg, Sweden and had a small breach of her hull due to the contact. The Authorities feared that she would capsize into the canal and ordered the Master to take on ballast to put her aground. As a result, the vessel took a list to port and came to rest on the jetty, with her cargo holds becoming partly submerged taking on water through the hatch coamings. The river provides fresh water to the area with a potential of up to one million people being affected by any contamination.



SWEDEN

VÄSTRA
GÖTALAND



MV STERNÖ

Bulker of 1300 GT.
Home port: Kalmar
Owner: Fiducia Rederi AB
Class society: DNV GL
Year built: 1970
Years entered with Skuld: 25

TIMELINE OF EVENTS

Skuld's emergency response includes being proactive and to offer hands-on support and on site expertise.



FACTS

2 Skuld people mobilised onsite

5 Skuld people worked on the case

25 Stakeholder interests involved

136 Hours worked by the onsite team

27 Days until the vessel was refloated and removed from the canal

8 Risks covered

GOVERNANCE



CORPORATE SOCIAL RESPONSIBILITY

Skuld's corporate governance policy and ethical guidelines require management and employees to observe a high standard of business and personal ethics in the conduct of their duties and responsibilities. Management and employees must practise fairness, honesty and integrity when dealing with colleagues, members and clients, business partners, the public, the business community, suppliers, competitors or government authorities.

REDUCING ENVIRONMENTAL THREATS

As a marine insurance provider, Skuld contributes to the protection of the marine environment by constantly working to reduce the risk of casualties and to mitigate consequential environmental damage.

FRAUD PREVENTION

When acting on behalf of a Skuld entity, neither management nor employees shall gain unfair advantage through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or other unfair practices.

No Skuld employee shall directly or indirectly offer, promise, give or accept bribes, illegal or inappropriate gifts or other undue advantages or remuneration in order to achieve business or other personal advantage.

PROTECTION OF PERSONAL DATA

Protection of personal data has received increased attention during 2017. Skuld needs to process personal data for instance in claims and HR processes and is committed to ensure confidentiality, integrity and to process personal data in compliance with the new European requirements, the EU's General Data Protection Regulation (GDPR).

HUMAN RIGHTS AND EMPLOYMENT CONDITIONS

Skuld's policy prohibits unlawful discrimination against employees, members and clients or suppliers on account of ethnic or national origin, age, sex or religion.

Skuld's internal control and compliance system is designed to mitigate the risks of non-compliance.



CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

All figures in USD 1,000

	Note	2017	2016
TECHNICAL ACCOUNT			
Premiums and calls			
Gross premiums and calls	2, 12, 13	412 739	389 735
- Reinsurance premium	12, 13	-57 363	-58 136
Earned premiums and calls for own account		355 376	331 598
Claims incurred			
Gross claims paid	3, 12, 13	273 777	247 647
- Reinsurance recoveries	3, 12, 13	-29 529	-11 951
Gross change in estimated outstanding claims	3, 12, 13	283 998	34 159
- Reinsurers share	3, 12, 13	-276 665	-40 711
Claims incurred for own account		251 580	229 143
Operating expenses			
Acquisition costs	4	78 615	69 902
Administrative expenses	4	19 648	18 608
Discontinuation defined benefit scheme		-6 019	0
Net operating expenses		92 244	88 510
Balance carried to non-technical account		11 552	13 945
NON-TECHNICAL ACCOUNT			
Balance from technical account		11 552	13 945
Investment income			
Investment income		7 272	4 424
Unrealised gains / losses on investments		48 630	33 966
Realised gains / losses on investments		1 383	-6 644
Total investment income / expenses		57 285	31 746
Investment management expenses			
Investment management expenses		1 550	1 469
Foreign exchange adjustments			
Foreign exchange adjustments		-5 653	5 182
Balance before tax on ordinary activities		61 634	49 405
Taxes			
Taxes		166	1 712
Other result components			
Other result components		-3 937	2 872
Profit and loss		57 531	50 565
Distribution to members		-9 580	-4 720
Balance carried to contingency reserve		47 951	45 845

BALANCE SHEET

All figures in USD 1,000

	Note	20.02.2018	20.02.2017
ASSETS			
Intangible assets			
Goodwill	5	1 643	2 269
Intangible assets	5	4 116	6 311
Total intangible assets		5 759	8 579
Financial assets			
Strategic investments		10 773	10 196
Shares	6	174 270	150 478
Bonds	6	637 020	497 770
Other investments	6	28 250	33 925
Other assets		339	1 614
Total financial assets		850 651	693 983
Debtors			
Members and brokers		1 760	-4 231
Reinsurers		8 520	3 293
Other debtors		15 876	3 136
Total debtors		26 156	2 198
Other assets			
Fixed assets	5	8 396	9 247
Cash at bank		132 221	247 286
Total other assets		140 617	256 533
Prepayments and accrued income			
Prepayments and accrued income		46 908	39 171
Total assets		1 070 091	1 000 465
LIABILITIES			
Technical provisions			
Gross provision for outstanding claims	9	925 721	617 049
Reinsurer's share	9	-397 980	-109 856
Provisions for outstanding claims for own account	8	527 741	507 194
Contingency reserve	7	442 026	394 075
Minority interest		-3 396	-2 560
Technical provisions for own account	8, 9	966 371	898 708
Provisions for other liabilities			
Pension liabilities		8 207	16 074
Provision for taxation		0	509
Total provisions for other liabilities		8 207	16 582
Creditors			
Members and brokers		10 451	7 927
Reinsurers		0	60
Other creditors		48 275	38 443
Total creditors		58 726	46 430
Accruals and deferred income			
Accruals and deferred income		36 787	38 744
Total liabilities		1 070 091	1 000 465

Paris, 3 May 2018

sign. Klaus Kjærulff Chairman of the Board	sign. Martin Larsen Board member	sign. Alexey Ostapenko Board member	sign. Bernt O. Bodal Board member
sign. John P. Tavlarios Board member	sign. Manfredi Lefebvre D'Ovidio Board member	sign. Trygve Seglem Board member	sign. Terje Hj Michelsen Board member
sign. Erik Hånell Board member	sign. Ann-Marie Åström Board member	sign. Catherine Cheung Board member	sign. Tor Christian Guttormsen Employees representative
sign. Claus Spinding Employees representative	sign. Ståle Hansen President & CEO		

Note 1 ACCOUNTING POLICY

The accounts have been prepared according to regulations for Norwegian Insurance Companies and are prepared in USD. These sets of USD accounts are based on the official Norwegian accounts, but some reclassifications and modifications have been made in order to make the accounts comparable to the accounts of the other P&I clubs in the International Group.

- Provisions for bad and doubtful debts are included in calls and premiums.
- Interest on overdue payments is included in calls and premiums.
- Claims management expenses are included in claims incurred.

The notes have been prepared in accordance with International Group of P&I Clubs' agreed accounting standards, hence they are a simplified version of the official accounts.

Basis of accounting

The accounts are prepared on an annual accounting basis and include the following:

- All premiums for policies commencing during the year.
- The cost of claims incurred and reinsurance for the current year.
- Any adjustments relating to earlier years.
- Operating expenses and investment income.

Consolidation

The consolidated accounts include the accounts for Skuld Mutual Protection & Indemnity Association (Bermuda) Ltd, and the Association's subsidiaries: Vika Management AS, Skuld Germany GmbH, Skuld Far East Ltd, Skuld Hellas Ltd, Skuld North America Inc, Skuld Services Ltd, Skuld Marine Agency (SMA) AS, Skuld Marine Claims Office (SMCO) AS, Skuld Investments Ltd, Skuld I Ltd (capital provider for Syndicate 1897 at Lloyd's) and Skuld II Ltd (capital provider for Syndicate 1897 at Lloyd's), Hydra Insurance Company Ltd, Skuld Holding Ltd, Skuld Re Ltd and Skuld II Reinsurance (Bermuda) Ltd are fully-owned and controlled by Skuld Mutual Protection & Indemnity Association (Bermuda) Ltd. In the accounts, shares in subsidiaries, receivables from and payables to subsidiaries, and transactions between the Companies within the Group, have been eliminated.

Calls and Premiums

Calls and premiums include gross calls and supplementary calls, less return premiums and provisions for bad and doubtful debts. These calls and premiums are the total receivable for the whole period of cover provided by the contracts commencing during the accounting period, together with any premium adjustments relating to prior accounting years and unearned premium for future accounting years. The calls and premiums include provisions for estimated future supplementary calls in respect of open policy years. The calls and premiums, reinsurance premiums, claims and commission to brokers are allocated to the policy year to which they relate. A substantial part of the Lloyd's Syndicate's premiums for the policy year 2017 will be earned in 2018.

Claims

The claims expenses include all claims incurred during the year together with claims administration expenses. The technical provision for claims outstanding includes an element of claims incurred but not reported (IBNR). Provisions for claims are assessed individually by the claims handlers, and IBNR provision is based on empirical data for estimating the extent of subsequent claims based on statistical models. In addition, unallocated loss adjustment expenses are included in the technical provision for claims.

Reinsurance premiums

These include premiums payable to market underwriters, charged to the consolidated income and expenditure account on an accruals basis.

Reinsurance recoveries

Reinsurance recoveries are accrued to match relevant claims, and include estimated recoveries on estimated outstanding claims.

Operating expenses

Operating expenses consist of acquisition cost and administrative expenses, and prepayments that are accrued for.

Foreign currency

Income and expenses in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Assets and liabilities in foreign currencies are converted to the functional currency at the exchange rate at the date of the balance sheet. Changes in valuations due to changes in exchange rates between the date of the transaction and the date of the balance sheet are recognised in the income statement.

Investments

Financial assets are measured at transaction value at initial recognition. After initial recognition, financial assets are measured at fair value with profit and loss recognised in the income statement. Divested financial assets are measured at transaction value at derecognition.

Taxes

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities. Deferred tax assets are recognised when it is probable that the Association or Group will have a sufficient profit for tax purposes in subsequent periods to utilise the tax asset. Similarly, the company will reduce a deferred tax asset to the extent that the Association or Group no longer regards it as probable that it can utilise the deferred tax asset.

Deferred tax and deferred tax assets are measured on the basis of the expected future tax rates applicable to the companies in the Group where temporary differences have arisen.

Deferred tax and deferred tax assets are recognised at their nominal value and classified as non-current asset (long-term liabilities) in the balance sheet.

Other result components

Other result components consist of exchange differences on subsidiaries.

Note 2

PREMIUMS DISTRIBUTED BY COUNTRY

All figures in USD 1,000

Country	Premiums	%
Norway	32 121	7.8%
Nordic countries excl. Norway	28 837	7.0%
Germany	21 313	5.2%
Greece	13 199	3.2%
Rest of Europe	65 824	15.9%
USA	45 357	11.0%
Far East	72 485	17.6%
Other	133 605	32.4%
Total gross premiums and calls	412 739	100.0%

Note 3

NET CLAIMS INCURRED

All figures in USD 1,000

	2017	2016
Gross claims paid		
Own claims	261 937	229 122
Group Pooling arrangements	11 840	18 525
Gross claims paid	273 777	247 647
Reinsurers' recoveries		
Group Pooling arrangements	-34 223	-3 652
Market underwriters	4 694	-8 299
Reinsurers' recoveries	-29 529	-11 951
Net claims paid	244 247	235 695
Change in provision for gross claims		
Provision opening balance	617 049	584 607
Provision closing balance	925 721	617 049
Change in currency valuation at year end	-24 674	1 717
Gross change in estimated outstanding claims	283 998	34 159
Less movements in provision for reinsurers' share		
Provision opening balance	-109 856	-72 395
Provision closing balance	-397 980	-109 856
Change in currency valuation at year end	11 459	-3 250
Reinsurers' share	-276 665	-40 711
Change in provision for future claims		
Net change in claims provision	7 333	-6 552
Claims incurred for own account	251 580	229 143

Note 4

NET OPERATING EXPENSES

All figures in USD 1,000

	Group		Association	
	2017	2016	2017	2016
Administrative expenses	19 648	18 608	11 111	11 166
Commissions	47 116	44 569	22 343	21 895
Allocated underwriting expenses	24 137	22 273	23 165	20 893
Marketing	3 579	2 236	1 655	1 034
Surveys	530	534	526	530
Depreciation intangible asset	3 253	289	2 195	289
Acquisition costs	78 615	69 902	49 883	44 642
Discontinuation defined benefit scheme	-6 019	0	-6 019	0
Net operating expenses	92 244	88 510	54 975	55 808

The method for reallocation of administrative expenses for the association has been modified in 2017/2018. The comparable figures for 2016/2017 are presented accordingly.

In the P&L, direct claims cost and a relevant portion of overhead expenses are allocated to claims-, acquisition- and investment expenses respectively. The consolidated figures include the Skuld group's share of Syndicate 1897 at Lloyd's operating expenses.

In accordance with Schedule 3 of the international Group Agreement, the Association is required to disclose the Average Expense Ratio for the Association's P&I business. The operating expenses include all expenditure incurred in operating the Association's P&I business, excluding expenditure dealing with claims and a reasonable allocation of general overhead expenses. The premium includes all earned premium allocated to the policy year of origin.

For the five year period ended 20 February 2018, a ratio of 12.7% (12.8% at 20 February 2017) has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant Financial Statements.

Note 5

FIXED ASSETS

All figures in USD 1,000

	Fixed assets	Intangible assets	Goodwill
Cost			
As at 20 February 2017	15 923	6 600	2 701
Purchases in the year	1 279	0	0
Sales / Scrapping in the year	-1 425	0	0
As at 20 February 2018	15 778	6 600	2 701
Depreciation			
As at 20 February 2017	6 682	289	0
Depreciation on sold / scrapped assets	-1 394	0	0
Depreciation this year	2 091	2 195	1 059
As at 20 February 2018	7 381	2 484	1 059
Net book value			
As at 20 February 2017	9 247	6 311	2 269
As at 20 February 2018	8 396	4 116	1 643

Note 6

FINANCIAL INVESTMENTS

All figures in USD 1,000

	2017	2016
	Market value	Market value
Shares		
Listed shares and funds	174 270	150 478
Total shares	174 270	150 478
Bonds		
Treasuries	563 191	437 964
Corporate Securities	48 648	40 387
Cash and Money Market	4 610	1 642
Other	20 571	17 777
Total bonds	637 020	497 770
Other investments		
Commodity	9 402	7 658
Hedge Funds	5 062	9 814
Private Equity	13 786	16 453
Total other investments	28 250	33 925

Note 7

CONTINGENCY RESERVE

All figures in USD 1,000

	2017	2016
Contingency reserve opening balance	394 075	348 230
Balance carried forward to contingency reserve	47 951	45 845
Contingency reserve closing balance	442 026	394 075

Note 8

PROVISIONS FOR OUTSTANDING CLAIMS BY POLICY YEAR

All figures in USD 1,000

	2017	2016	2015	Closed years	Total
Gross estimated outstanding including IBNR	468 692	118 374	81 801	237 198	906 065
The Association's estimated share of other associations' pool-claims including IBNR	11 768	2 099	1 985	3 803	19 656
Gross provision for outstanding claims	480 461	120 473	83 786	241 001	925 721
Estimated outstanding recoveries including IBNR from:					
Pooling agreements	180 438	4 663	0	12 586	197 687
Group excess loss	0	0	0	11 211	11 211
Other reinsurers' share	149 487	18 903	9 984	10 707	189 082
Total estimated outstanding recoveries	329 925	23 566	9 984	34 505	397 980
Provisions for outstanding claims for					
own account	150 536	96 907	73 802	206 497	527 741
Contingency reserve	6 726	24 861	5 709	404 730	442 026
Minority interest	-836	-1 738	-557	-265	-3 396
Technical provisions for own account	156 426	120 030	78 954	610 961	966 371

Note 9

TECHNICAL PROVISIONS FOR OWN ACCOUNT

All figures in USD 1,000	2017	2016
P&I		
Gross estimated outstanding including IBNR	738 191	487 224
The Association's estimated share of other associations' pool-claims including IBNR	19 656	20 436
Gross provision for outstanding claims	757 847	507 660
Estimated outstanding recoveries from		
Pooling agreements	-197 687	-25 029
Other reinsurers' share	-135 302	-65 444
Total estimated outstanding recoveries	-332 989	-90 473
Provision for outstanding claims for own account P&I	424 858	417 187
Lloyd's Syndicate		
Gross estimated outstanding including IBNR	137 563	90 819
Gross provision for outstanding claims	137 563	90 819
Estimated outstanding recoveries from		
Other reinsurers' share	-58 641	-18 257
Total estimated outstanding recoveries	-58 641	-18 257
Provision for outstanding claims for own account Lloyd's Syndicate	78 922	72 562
Other		
Gross estimated outstanding including IBNR	30 311	18 570
Gross provision for outstanding claims	30 311	18 570
Estimated outstanding recoveries from		
Other reinsurers' share	-6 349	-1 125
Total estimated outstanding recoveries	-6 349	-1 125
Provision for outstanding claims for own account Other	23 961	17 445
Total P&I, Lloyd's Syndicate and Other		
Provision for outstanding claims for own account	527 741	507 194
Contingency reserve	442 026	394 075
Minority interest	-3 396	-2 560
Technical provision for own account	966 371	898 708

Note 10

OFF-BALANCE SHEET ITEMS

Guarantees

Bank Guarantees and "Club Letter of Guarantees" amounting in total to USD 880 million have been issued in connection with claims, of which the latter makes up by far the greater part. The face value of these guarantees greatly exceeds the expected payments from the related claims. The expected payments from these claims are fully covered in the provisions made for outstanding claims. The Association entered into a 10-years lease period for the Oslo office building commencing 1 June 2012.

Note 11

RISK MANAGEMENT AND REPORTING

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 investment activities. Operational risk is also relevant for Skuld.

Underwriting risk

The main documents for managing underwriting risk are Skuld's underwriting policy, describing management of underwriting risk, and more detailed underwriting instructions. Skuld's reinsurance policy describes the management of the reinsurance process. The main tool for managing and controlling underwriting risk is Skuld's partial internal model, calculating risk capital, the development of which is followed at least monthly by Enterprise Risk Management department. In order to mitigate underwriting reinsurance is applied to ensure that underwriting risk is kept within risk appetite.

Note 11

Financial Risk

Financial risk consists of market risk, counterparty default risk and liquidity risk. Skuld is exposed to these types of risk through investment activities and the reinsurance programme. Total risk tolerance for market risk is described in Skuld's risk appetite statement. Investment mandates are established to respect these risk limits. The investment strategy details the operationalisation of investment beliefs, policy and mandates. Skuld's liquidity strategy details a framework and guidelines for ensuring adequate cash management to meet liabilities in due time.

Market risk

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 private equity funds as well as hedge funds. Shifts in interest rates will have an effect in the financial 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.

Counterparty default risk

Bond issuers, account receivables, bank deposits and reinsurers represent important counterparty risks. The majority of bond holdings consist of high 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.

Liquidity risk

Liquidity is controlled by placing parts of financial assets in instruments that are highly liquid. A separate portfolio containing liquid bank deposits ensures sufficient cash resources to meet Skuld's daily obligations.

Operational 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. A risk assessment process, carried out at least bi-annually, as well as incident reporting and the follow-up of incidents are important tools to manage operational risk.

Note 12

POLICY YEAR STATEMENT BY CLASS AS AT 20.02.18

All figures in USD 1,000	2017	2016	2015
P&I			
Advance calls, releases and other gross premiums charged in:			
years to 20 February 2016	0	0	277 245
years to 20 February 2017	0	266 089	23 380
current accounting year	256 505	23 075	686
	256 505	289 164	301 311
Supplementary calls levied in:			
years to 20 February 2017	0	0	0
current accounting year	0	0	0
	0	0	0
Total calls and premiums	256 505	289 164	301 311
Reinsurance premiums	-47 237	-49 287	-48 909
	209 268	239 877	252 402
Claims incurred net of reinsurance recoveries	-192 430	-183 614	-171 768
Net underwriting profit	16 839	56 263	80 634
Net operating expenses	-52 929	-56 307	-56 781
Net investment income	40 191	29 629	-9 836
Taxes	-81	-1 610	-1 092
Total P&I	4 020	27 975	12 926

	2017	2016	2015
Lloyd's Syndicate			
Advance calls, releases and other gross premiums charged in:			
years to 20 February 2016	0	0	51 142
years to 20 February 2017	0	55 719	32 522
current accounting year	68 757	45 598	3 199
	68 757	101 317	86 863
Total calls and premiums	68 757	101 317	86 863
Reinsurance premiums	-26 810	-25 994	-8 918
	41 947	75 323	77 945
Claims incurred net of reinsurance recoveries	-26 386	-58 449	-60 747
Net underwriting profit	15 560	16 874	17 198
Net operating expenses	-24 876	-31 833	-30 961
Net investment income	4 435	5 820	9 395
Taxes	0	0	0
Total Lloyd's Syndicate	-4 881	-9 139	-4 368
	2017	2016	2015
Other			
Advance calls, releases and other gross premiums charged in:			
years to 20 February 2016	0	0	18 735
years to 20 February 2017	0	18 115	1 223
current accounting year	32 888	398	41
	32 888	18 512	19 999
Supplementary calls levied in:			
years to 20 February 2017	0	0	0
current accounting year	0	0	0
	0	0	0
Total calls and premiums	32 888	18 512	19 999
Reinsurance premiums	553	1 493	-746
	33 441	20 006	19 253
Claims incurred net of reinsurance recoveries	-27 515	-14 311	-14 699
Net underwriting profit	5 926	5 694	4 554
Net operating expenses	-3 723	416	1 660
Net investment income	5 470	23	-8 991
Taxes	-85	-101	-71
Total Other	7 588	6 033	-2 848
Total P&I, Lloyd's Syndicate & Other	6 726	24 868	5 709

Calls and premiums, reinsurance premiums, claims and commission to brokers are allocated to the policy year to which they relate. A substantial part of the Lloyd's Syndicate's premiums for the policy year 2017 will be earned in 2018. Operating expenses and investment income have been allocated to the policy year corresponding to the accounting year. Premiums and reinsurance for special purpose syndicate Agora is presented with gross amounts in the table above.

Note 13

POLICY YEAR STATEMENT AS AT 20.02.18 - MUTUAL AND FIXED BUSINESS

All figures in USD 1,000

	2017	2016	2015
Mutual			
Total calls and premiums	192 993	203 952	215 706
Reinsurance premiums	-24 025	-30 156	-28 052
	168 968	173 796	187 653
Claims incurred net of reinsurance recoveries	-161 375	-142 789	-127 886
Net underwriting profit	7 593	31 007	59 768
Net operating expenses	-39 024	-39 657	-39 230
Net investment income	26 476	24 823	-8 591
Taxes	-52	-1 146	-791
Total Mutual	-5 007	15 028	11 156
Lloyd's Syndicate			
Total calls and premiums	68 757	101 317	86 863
Reinsurance premiums	-26 810	-25 994	-8 918
	41 947	75 323	77 945
Claims incurred net of reinsurance recoveries	-26 386	-58 449	-60 747
Net underwriting profit	15 560	16 874	17 198
Net operating expenses	-24 876	-31 833	-30 961
Net investment income	4 435	5 820	9 395
Taxes	0	0	0
Total Lloyd's Syndicate	-4 881	-9 139	-4 368
Fixed			
Total calls and premiums	96 400	103 725	105 605
Reinsurance premiums	-22 659	-17 638	-21 603
	73 741	86 087	84 002
Claims incurred net of reinsurance recoveries	-58 570	-55 137	-58 581
Net underwriting profit	15 171	30 950	25 421
Net operating expenses	-17 629	-16 233	-15 891
Net investment income	19 185	4 828	-10 236
Taxes	-113	-566	-373
Total Fixed	16 614	18 980	-1 079
Total Mutual, Lloyd's Syndicate & Fixed business	6 726	24 868	5 709

Calls and premiums, reinsurance premiums, claims and commission to brokers are allocated to the policy year to which they relate. A substantial part of the Lloyd's Syndicate's premiums for the policy year 2017 will be earned in 2018. Operating expenses and investment income have been allocated to the policy year corresponding to the accounting year. Premiums and reinsurance for special purpose syndicate Agora is presented with gross amounts in the table above.

