

ANNUAL ACCOUNTS

SKULD 2009

CONSOLIDATED
INCOME AND
EXPENDITURE
ACCOUNT

All figures in USD 1000	Note	2009	2008
TECHNICAL ACCOUNT			
Premiums and calls			
Gross premiums and calls	2	255 386	213 239
- Reinsurance premium		-26 507	-23 350
Earned premiums and calls for own account		228 879	189 889
Claims incurred			
Gross claims paid	3	194 414	188 895
- Reinsurance recoveries	3	-66 838	-47 895
Gross change in estimated outstanding claims	3	94 909	-58 192
- Reinsurers share	3	-43 450	61 492
Claims incurred for own account		179 035	144 301
Operating expenses			
Acquisition costs	4	30 194	22 617
Administrative expenses	4	9 023	10 059
Net operating expenses		39 217	32 675
Balance carried to non-technical account		10 626	12 913
NON-TECHNICAL ACCOUNT			
Balance from technical account		10 626	12 913
Investment income			
Investment income		11 488	16 374
Unrealised gains / loss on investments		44 587	-54 186
Realised gains / loss on investments		-304	-37 061
Total investment income		55 770	-74 873
Investment expenses			
Investment management expenses		857	777
Foreign exchange adjustments			
Foreign exchange adjustments		-2 847	2 518
Balance before tax on ordinary activities		62 693	-60 219
Taxes			
Taxes		5 685	-874
Balance carried to contingency reserve		57 008	-59 346

**BALANCE
SHEET AS
OF 20.02.10**

All figures in USD 1000	Note	2009	2008
ASSETS			
Financial assets			
Real estate		251	251
Mortgages		1 647	1 580
Other loans		428	478
Alternative investments	6	21 664	25 498
Financial instruments	6	0	135
Shares	6	53 075	41 329
Bonds	6	436 983	327 568
Total financial assets		514 048	396 839
Debtors			
Members and brokers		605	319
Reinsurers		7 385	68
Other debtors		1 284	844
Total debtors		9 273	1 231
Other assets			
Fixed assets	5	2 575	3 194
Pension assets		1 962	1 954
Cash at bank		32 771	34 881
Total other assets		37 308	40 029
Prepayments and accrued income			
Prepayments and accrued income	7	6 705	3 374
Total assets		567 334	441 473
LIABILITIES			
Technical provisions			
Provisions for outstanding claims for own account	9	333 202	273 179
Contingency reserve	8	201 505	143 967
Technical provisions for own account	9,10	534 707	417 146
Provisions for other liabilities			
Pension liabilities		6 909	4 912
Provision for taxation		7 853	2 410
Total provisions for other liabilities		14 762	7 323
Creditors			
Members and brokers		2 358	8 123
Reinsurers		3 310	4 647
Other creditors		6 227	3 445
Total creditors		11 895	16 215
Accruals and deferred income			
Accruals and deferred income		5 970	789
Total liabilities		567 334	441 473

11 May, 2010

Erik Gløersen
Chairman of the board

Klaus Kjærulf
Vice Chairman

Sergey Popravko

Trygve Seglem

Nils Olav Aardal

Peter Wilsund

Ulrika Leikvang

John P. Tavlarios

Ulf G. Ryder

Marnix J. van Overklift

Douglas Jacobsohn
CEO

Note 1 ACCOUNTING POLICY

The accounts are prepared in USD, but in the official accounts for Skuld, USD has been converted to NOK. Furthermore, the accounts have been prepared in compliance with the regulations from the Norwegian Banking, Security and Insurance Commission. These regulations are based on EU accounting standards.

The USD accounts are based on the official accounts, but some reclassifications have been made to make the accounts more comparable to the accounts of the other P&I clubs.

- 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.

There are also some deviations from the official accounts in the Notes.

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 Seminar Services AS, Skuld AB (New), Skuld Germany GmbH, Skuld Insurance Eastern Europe ZAO, Moskva, Skuld Far East Ltd., Skuld Hellas Ltd., Skuld North America Inc., Hydra Insurance Company Ltd., Alvema SA and APS Generalagenturet for Skuld, Copenhagen.

In the accounts, shares in subsidiaries, receivables from and payables to subsidiaries, and transactions between the Association and the subsidiaries, 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.

The calls and premiums include provisions for estimated future supplementary calls in respect of open policy years.

Claims

The claims expenses include all claims incurred during the year together with claims management expenses. The technical provision for claims outstanding includes an element of claims incurred but not reported (IBNR). Historical data is used in assessing IBNR. Provision for the cost of future claims handling is not included.

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

Account is taken of accruals and prepayments in arriving at operating expenses.

Foreign currency

Assets and liabilities have been translated to USD at the rate of exchange on the balance sheet date.

Investments

Account is taken of accrued interest on fixed interest securities and deposits; dividends are credited when receivable.

The investments are assessed at market value on the balance sheet date.

Note 2 PREMIUMS DISTRIBUTED BY COUNTRY

Country	Premiums	%
Norway	27 194	10,6%
Nordic countries excl. Norway	33 042	12,9%
Germany	29 833	11,7%
Greece	16 785	6,6%
Rest of Europe	71 587	28,0%
USA	21 460	8,4%
Far East	35 697	14,0%
Other	19 788	7,7%
Total gross premiums and calls	255 386	100,0%

Note 3 NET CLAIMS INCURRED

	2009	2008
Gross claims paid		
Members' claims	209 659	204 746
Group Pooling arrangements	-15 245	-15 850
Gross claims paid	194 414	188 895
Reinsurers' share		
Group Pooling arrangements	-28 477	-46 043
Market underwriters	-38 361	-1 852
Other P&I Associations	0	0
Reinsurers' share	-66 838	-47 895
Net claims paid	127 576	141 000
Change in provision for gross claims		
Provision opening balance	424 337	493 205
Provision closing balance	494 963	424 337
Change in currency valuation at year end	24 283	10 676
Change in provision for gross claims	94 909	-58 192
Less movements in provision for reinsurers' share		
Provision opening balance	-151 158	-212 275
Provision closing balance	-161 761	-151 158
Change in currency valuation at year end	-32 847	375
Less movements in provision for reinsurers' share	-43 450	61 492
Change in provision for future claims		
Net change in claims provision	51 460	3 300
Claims incurred for own account	179 035	144 301

Note 4 NET OPERATING EXPENSES

	2009	2008
Administrative expenses	9 023	10 059
Salary, etc.	10 701	5 743
Commissions	13 909	11 976
Marketing	2 001	1 989
Surveys	310	329
Other acquisition costs	3 273	2 580
Acquisition costs	30 194	22 617
Net operating expenses	39 217	32 675

In the P&L, direct claims cost and a relevant portion of overhead expenses are allocated to claims-, acquisition- and investment expenses respectively.

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 years ended 20th February 2010, a ratio of 12.2% (12.7% at 20th February 2009) 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

	Fixed assets
Cost	
As at 20th February 2009	9 802
Purchases in the year	441
Sales / Scrapping in the year	-151
As at 20th February 2010	10 093
Depreciation	
As at 20th February 2009	6 609
Depreciation on sold / scrapped assets	-117
Depreciation this year	1 026
As at 20th February 2010	7 518
Net book value	
As at 20th February 2009	3 194
As at 20th February 2010	2 575

Note 6 FINANCIAL INVESTMENTS

	2009 Market value	2008 Market value
Shares		
Norwegian shares	1 490	112
Foreign shares	51 585	41 217
Total shares	53 075	41 329
Bonds		
Treasuries	182 387	140 460
Asset Backed Securities	35 057	23 478
Mortgage Backed Securities	10 218	7 069
Corporate Securities	122 875	91 627
Government Agency Securities	36 883	25 335
Cash and Money Market	49 563	39 600
Total bonds	436 983	327 568
Alternative investments		
Commodity derivatives	4 533	3 315
Hedge Funds	9 126	17 064
Private Equity	8 005	5 119
Total alternative investments	21 664	25 498

Note 7 PREPAYMENTS AND ACCRUED INCOME

	2009	2008
Accrued interest	13	13
Other prepayments	6 692	3 361
Prepayments and accrued income	6 705	3 374

Note 8 CONTINGENCY RESERVE

	2009	2008
Contingency reserve opening balance	143 967	203 518
Balance carried forward to contingency reserve	57 008	-59 346
Difference related to subsidiaries	530	-205
Contingency reserve closing balance	201 505	143 967

Note 9 PROVISIONS FOR OUTSTANDING CLAIMS BY POLICY YEAR

	2009	2008	2007	Closed years	Total
Gross estimated outstanding including IBNR	84 300	66 379	205 215	124 231	480 125
associations' pool-claims including IBNR	10 088	1 259	2 084	1 407	14 838
Gross provision for outstanding claims	94 387	67 638	207 299	125 638	494 963
Estimated outstanding recoveries including IBNR from:					
Pooling agreements	0	-3 378	55 518	4 221	56 361
Group excess loss	0	3 378	114 756	2 728	120 862
Other reinsurers' share	-46 824	667	3 812	26 883	-15 463
Total estimated outstanding recoveries	-46 824	667	174 086	33 832	161 761
Provisions for outstanding claims for own account	141 211	66 971	33 213	91 806	333 202
Contingency reserve	72 883	-79 530	-15 556	223 708	201 505
Technical provisions for own account	214 094	-12 559	17 658	315 514	534 707

Note 10 TECHNICAL PROVISIONS FOR OWN ACCOUNT

	2009	2008
P&I		
Gross estimated outstanding including IBNR	460 268	357 668
The Association's estimated share of other associations' pool-claims including IBNR	14 838	48 647
Gross provision for outstanding claims	475 106	406 315
Estimated outstanding recoveries from:		
Pooling agreements	-56 361	-40 628
Other reinsurers' share	-105 592	-110 630
Total estimated outstanding recoveries	-161 953	-151 258
Provision for outstanding claims for own account	313 153	255 056

FD&D		
Gross estimated outstanding including IBNR	19 857	18 023
The Association's estimated share of other associations' pool-claims including IBNR	0	0
Gross provision for outstanding claims	19 857	18 023
Estimated outstanding recoveries from:		
Pooling agreements	0	0
Other reinsurers' share	192	100
Total estimated outstanding recoveries	192	100
Provision for outstanding claims for own account	20 049	18 123
Total P&I and FD&D		
Provision for outstanding claims for own account	333 202	273 179
Contingency reserve	201 505	143 967
Technical provision for own account	534 707	417 146

Note 11 OFF-BALANCE SHEET ITEMS

Guarantees

Bank Guarantees and "Club Letter of Guarantees" amounting in total to USD 447.7 mill 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 exceed 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 has entered into a 10 years lease period for the Oslo office building starting 01.12.2002.

Note 12 FINANCIAL RISK

Interest and currency risks are integrated in the Asset-Liability Management. Asset- and liability sensitivities are "matched" - immunising the claim liabilities towards changes in the general interest rate level. Changes to the value of the Association's fixed income securities are accompanied by a corresponding revaluation of the claim liabilities' present value. This is achieved by managing the fixed income portfolio around a constant duration, based on the weighted claim duration of 2.3 years. The currency mix of the liabilities is matched with an appropriate amount of assets. Derivative contracts (swaps and forward contracts) are used to improve the matching.

The stock portfolio is managed passively, benchmarked against the MSCI All Country World Index. This implies a risk profile consistent with the global stock market, without overweight towards specific sectors, countries or regions.

Note 13 POLICY YEAR STATEMENT BY CLASS AS AT 20.02.10

	2009	2008	2007
P&I			
Advance calls, releases and other gross premiums charged in:			
years to 20th February 2009	0	199 894	185 784
current accounting year	241 594	1 487	564
	241 594	201 381	186 347
Supplementary calls levied in:			
years to 20th February 2009	0	0	0
current accounting year	0	0	0
	0	0	0
Total calls and premiums	241 594	201 381	186 347
Reinsurance premiums	-28 086	-22 185	-18 140
	213 508	179 196	168 207
Claims incurred net of reinsurance recoveries	-150 247	-151 102	-160 358
	63 260	28 094	7 850
Net operating expenses	-37 017	-30 852	-27 881
Net investment income	49 746	-69 447	8 252
Taxes	-5 431	830	-3 099
Total P&I	70 558	-71 375	-14 879
FD&D			
Advance calls, releases and other gross premiums charged in:			
years to 20th February 2009	0	10 559	9 821
current accounting year	11 242	151	42
	11 242	10 710	9 864
Supplementary calls levied in:			
years to 20th February 2009	0	0	0
current accounting year	0	0	0
	0	0	0
Total calls and premiums	11 242	10 710	9 864
Reinsurance premiums	0	0	0
	11 242	10 710	9 864
Claims incurred net of reinsurance recoveries	-9 011	-13 437	-9 144
	2 231	-2 727	720
Net operating expenses	-1 973	-1 786	-1 659
Net investment income	2 321	-3 686	429
Taxes	-254	44	-167
Total FD&D	2 325	-8 155	-677
Total P&I and FD&D	72 883	-79 530	-15 556

Calls and premiums, reinsurance premiums, claims and commission to brokers are allocated to the policy year to which they relate. Operating expenses and investment income have been allocated to the policy year corresponding to the accounting year.

Note 14 POLICY YEAR STATEMENT AS AT 20.02.09 – MUTUAL AND FIXED BUSINESS

	2009	2008	2007
Mutual			
Total calls and premiums	195 339	155 194	135 301
Reinsurance premiums	-21 986	-13 457	-11 867
	173 353	141 737	123 434
Claims incurred net of reinsurance recoveries	-133 301	-129 615	-126 775
	40 052	12 122	-3 341
Net operating expenses	-30 126	-23 641	-20 875
Net investment income	40 807	-54 227	6 228
Taxes	-4 451	648	-2 323
Total Mutual	46 281	-65 098	-20 312
Fixed			
Total calls and premiums	57 497	56 897	58 439
Reinsurance premiums	-6 100	-8 728	-6 273
	51 397	48 169	52 166
Claims incurred net of reinsurance recoveries	-25 957	-34 924	-42 726
	25 439	13 245	9 440
Net operating expenses	-8 863	-8 997	-8 665
Net investment income	11 260	-18 906	2 453
Taxes	-1 234	226	-943
Total Fixed	26 602	-14 432	2 285
Total Mutual and Fixed business	72 883	-79 530	-18 027

Calls and premiums, reinsurance premiums and claims are allocated to the policy year to which they relate. Commission has been allocated to the respective policy year. Other operating expenses and net investment income have been allocated to the policy year corresponding to the accounting year.



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