



SKULD
ANNUAL ACCOUNTS

2006

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

All figures in USD 1000

TECHNICAL ACCOUNT	Note	2006	2005
Premiums and calls			
Gross premiums and calls	2	174 122	156 816
- Reinsurance premium		-19 028	-16 880
Earned premiums and calls for own account		155 094	139 936
Claims incurred			
Gross claims paid	3	113 006	91 196
- Reinsurance recoveries	3	-3 203	-3 703
Gross change in estimated outstanding claims	3	23 512	2 949
- Reinsurers share	3	-12 204	4 770
Claims incurred for own account		121 112	95 212
Operating expenses			
Acquisition costs	4	18 417	15 897
Administrative expenses	4	8 826	8 106
Net operating expenses		27 244	24 003
Balance carried to non-technical account		6 738	20 720
NON-TECHNICAL ACCOUNT			
Balance from technical account		6 738	20 720
Investment income			
Investment income		2 400	4 597
Unrealised gains / loss on investments		22 253	-8 673
Realised gains / loss on investments		9 535	28 497
Total investment income		34 188	24 421
Investment expenses			
Investment management expenses		765	957
Foreign exchange adjustments			
Foreign exchange adjustments		232	-1 798
Balance before tax on ordinary activities		40 392	42 386
Taxes			
Taxes		-12	239
Balance carried to contingency reserve		40 405	42 148

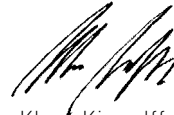
BALANCE SHEET AS OF 20.02.07

ASSETS	Note	2006	2005
Financial assets			
Real estate		229	229
Mortgages		1 868	6 483
Other loans		859	1 450
Commodities	6	12 037	9 271
Hedge Funds	6	11 748	9 290
Private Equity	6	630	0
Shares	6	132 762	114 384
Bonds	6	250 659	230 492
Total financial assets		410 790	371 599
Debtors			
Members and brokers		2 214	3 428
Reinsurers		2 793	2 304
Other debtors		285	467
Total debtors		5 292	6 198
Other assets			
Fixed assets	5	4 271	5 415
Pension assets		2 791	3 248
Cash at bank		42 547	30 280
Total other assets		49 609	38 943
Prepayments and accrued income			
Prepayments and accrued income	7	2 423	1 860
Total assets		468 114	418 600
LIABILITIES			
Technical provisions			
Provisions for outstanding claims for own account	9	260 012	248 317
Contingency reserve	8	191 366	150 707
Technical provisions for own account	9.10	451 378	399 023
Provisions for other liabilities			
Pension liabilities		4 697	4 008
Provision for taxation		95	4 659
Total provisions for other liabilities		4 793	8 667
Creditors			
Members and brokers		1 431	1 676
Reinsurers		4 769	3 299
Other creditors		2 397	3 180
Total creditors		8 597	8 155
Accruals and deferred income			
Accruals and deferred income		3 347	2 754
Total liabilities		468 114	418 600

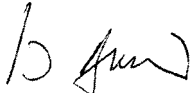
Copenhagen, 15 May 2007



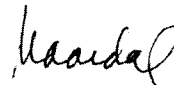
Erik Gløersen
Chairman of the Board



Klaus Kjærulff
Vice Chairman



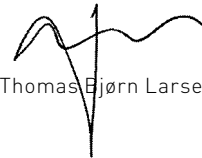
Torleiv Aaslestad



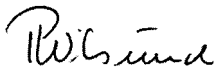
Nils Aardal



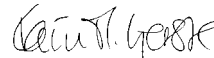
Tom E. Jebsen



Thomas Bjørn Larsen



Peter Wilsund



Karin M. Gjersøe



John P. Tavlarios



Douglas Jacobsohn
President and CEO

NOTES

NOTE 1, ACCOUNTING POLICY

The accounts are prepared in USD, but in the official accounts for Skuld, USD has been converted to NOK and Norwegian language has been used. 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; Skuld ASA, Skuld Seminar Services AS, Skuld AB, Skuld Germany GmbH, Skuld Insurance Eastern Europe ZAO, Moskva, Skuld Far East Ltd., Skuld Hellas Ltd., Skuld Re, Skuld Re II, 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	Premiums	%
Country		
Norway	23 908	13,7%
Nordic countries excl. Norway	23 218	13,3%
Germany	20 267	11,6%
Greece	7 869	4,5%
Rest of Europe	50 333	28,9%
USA	13 660	7,8%
Far East	22 347	12,8%
Other	12 520	7,2%
Total gross premiums and calls	174 122	100,0%

NOTE 3, NET CLAIMS INCURRED	2006	2005
Gross claim paid		
Members' claims	122 600	101 764
Group Pooling arrangements	-9 593	-10 568
Gross claim paid	113 006	91 196
Reinsurers' share		
Group Pooling arrangements	-933	-2 688
Market underwriters	-2 269	-1 015
Other P&I Assosiations	0	0
Reinsurers' share	-3 203	-3 703
Net claims paid	109 804	87 493
Change in provision for gross claims		
Provision opening balance	283 264	284 437
Provision closing balance	308 240	283 264
Change in currency valuation at year end	-1 464	4 122
Change in provision for gross claims	23 512	2 949
Less movements in provision for reinsurers' share		
Provision opening balance	-34 947	-39 378
Provision closing balance	-48 228	-34 947
Change in currency valuation at year end	1 077	340
Less movements in provision for reinsurers' share	-12 204	4 770
Change in provision for future claims		
Net change in claims provision	11 308	7 719
Claims incurred, for own account	121 112	95 212

NOTE 4, NET OPERATING EXPENSES	2006	2005
Administrative expenses	8 826	8 106
Salary, etc.	5 011	4 839
Commissions	9 488	7 840
Marketing	1 315	1 127
Surveys	310	222
Other acquisition costs	2 294	1 869
Acquisition costs	18 417	15 897
Net operating expenses	27 244	24 003

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 2007, a ratio of 10.9% (11.1% at 20th February 2006) 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 2006	10 760
Purchases in the year	406
Sales / Scrapping in the year	-408
As at 20th February 2007	10 758
Depreciation	
As at 20th February 2006	5 327
Depreciation on sold / scrapped assets	-389
Depreciation this year	1 550
As at 20th February 2007	6 487
Net book value	
As at 20th February 2006	5 415
As at 20th February 2007	4 271

NOTE 6, FINANCIAL INVESTMENTS	2006	2005
	Market value	Market value
Shares:		
Norwegian shares	474	381
Foreign shares	132 287	114 004
Total shares	132 762	114 385
Bonds:		
Treasuries	19 877	47 602
Asset Backed Securities	54 555	13 116
Mortgage Backed Securities	10 887	66 235
Corporate Securities	109 030	98 302
Government Agency Securities	32 498	7 783
Cash and Money Market	23 811	2 106
Total bonds	250 659	235 143
Alternative investments:		
Commodity derivatives	12 037	9 271
Hedge Funds	11 748	9 290
Private Equity	630	0
Total alternative investments	24 414	18 561

NOTE 7, PREPAYMENTS AND ACCRUED INCOME	2006	2005
Accrued interest	101	55
Other prepayments	2 322	1 805
Prepayments and accrued income	2 423	1 860

NOTE 8, CONTINGENCY RESERVE	2006	2005
Contingency reserve opening balance	150 707	113 064
Balance carried forward to contingency reserve	40 405	42 148
Difference related to subsidiaries*)	255	-4 505
Contingency reserve closing balance	191 366	150 707

*) Difference (in 2005) related to subsidiaries, is deferred tax related to Captive subsidiaries. The amount, MUS\$ 4,5 is reclassified from Contingency reserve to provision for taxation. This is a correction of the amount that was booked directly to equity in the year when the acquisition took place.

NOTE 9, PROVISIONS FOR OUTSTANDING CLAIMS BY POLICY YEAR	2006	2005	2004	Closed years	Total
Gross estimated outstanding including IBNR	84 436	37 314	33 035	106 394	261 180
The Association's estimated share of other associations' pool-claims including IBNR	22 571	6 195	4 843	13 451	47 060
Gross provision for outstanding claims	107 007	43 509	37 878	119 846	308 240
Estimated outstanding recoveries including IBNR from:					
Pooling agreements	7 928	0	2 512	6 648	17 088
Group excess loss	0	0	0	7 230	7 230
Other reinsurers' share	4 756	1 859	4 090	13 206	23 911
Total estimated outstanding recoveries	12 684	1 859	6 602	27 084	48 228
Provisions for outstanding claims for own account	94 324	41 650	31 276	92 762	260 012
Contingency reserve	25 470	34 525	24 763	106 608	191 366
Technical provisions for own account	119 793	76 176	56 039	199 369	451 378

NOTE 10, TECHNICAL PROVISIONS FOR OWN ACCOUNT	2006	2005
--	-------------	-------------

P&I

Gross estimated outstanding including IBNR	250 337	241 943
The Association's estimated share of other associations' pool-claims including IBNR	47 060	31 589
Gross provision for outstanding claims	297 398	273 532

Estimated outstanding recoveries from:

Pooling agreements	-17 088	-13 765
Other reinsurers' share	-31 241	-21 039
Total estimated outstanding recoveries	-48 329	-34 804

Provision for outstanding claims for own account

249 069	238 728
----------------	----------------

FD&D

Gross estimated outstanding including IBNR	10 842	9 731
The Association's estimated share of other associations' pool-claims including IBNR	0	0
Gross provision for outstanding claims	10 842	9 731

Estimated outstanding recoveries from:

Pooling agreements	0	0
Other reinsurers' share	100	-143
Total estimated outstanding recoveries	100	-143

Provision for outstanding claims for own account

10 942	9 589
---------------	--------------

Total P&I and FD&D

Provision for outstanding claims for own account	260 012	248 317
Contingency reserve	191 366	150 707
Technical provision for own account	451 378	399 023

NOTE 11, OFF-BALANCE SHEET ITEMS

Guarantees

Bank Guarantees and "Club Letter of Guarantees" amounting in total to USD 190.5 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.

Currency contracts

<u>Contract Description</u>	<u>Settlement date</u>	<u>Currency sold forward</u>	<u>Currency bought forward</u>
NOK/USD bought forward	15-03-07	14 700	2 297
"	13-04-07	3 800	594
"	15-05-07	8 800	1 375
"	15-06-07	9 000	1 406
"	13-07-07	8 800	1 375
"	15-08-07	3 800	594
"	14-09-07	8 800	1 37
"	12-10-07	3 800	594
"	15-11-07	8 800	1 375
"	07-12-07	5 100	797
"	15-01-08	8 800	1 375
"	15-02-08	5 100	797
GBP/USD sold forward	20-03-07	9 747	5 000

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 2.6 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 Morgan Stanley 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 20.02.07	2006	2005	2004
P&I			
Advance calls, releases another gross premiums charged in:			
years to 20th February 2006	0	147 467	142 973
current accounting year	166 037	214	70
	166 037	147 681	143 043
Supplementary calls levied in:			
years to 20th February 2006	0	0	0
current accounting year	0	0	0
	0	0	0
Total calls and premiums	166 037	147 681	143 043
Reinsurance premiums	-19 945	-17 349	-20 215
	146 092	130 331	122 828
Claims incurred net of reinsurance recoveries	-129 376	-97 344	-100 057
	16 716	32 987	22 771
Net operating expenses	-25 869	-22 963	-20 399
Net investment income	32 185	20 793	9 034
Taxes	12	-229	-210
Total P&I	23 044	30 587	11 196
FD&D			
Advance calls, releases and other gross premiums charged in:			
- years to 20th February 2006	0	6 357	6 583
- current accounting year	7 423	248	13
	7 423	6 606	6 596
Supplementary calls levied in:			
- years to 20th February 2006	0	0	0
- current accounting year	0	0	0
	0	0	0
Total calls and premiums	7 423	6 606	6 596
Reinsurance premiums	0	0	0
	7 423	6 606	6 596
Claims incurred net of reinsurance recoveries	-5 160	-4 730	-3 987
	2 263	1 876	2 609
Net operating expenses	-1 306	-1 089	-1 026
Net investment income	1 469	874	425
Taxes	1	-10	-9
Total FD&D	2 426	1 652	1 999
Total P&I and FD&D	25 470	32 239	13 195

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 20.02.07 - MUTUAL AND FIXED BUSINESS

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Mutual			
Total calls and premiums	122 452	108 163	97 069
Reinsurance premiums	-12 573	-10 924	-10 959
	<u>109 878</u>	<u>97 239</u>	<u>86 110</u>
Claims incurred net of reinsurance recoveries	-104 300	-75 509	-81 309
	<u>5 578</u>	<u>21 730</u>	<u>4 802</u>
Net operating expenses	-19 578	-17 741	-14 982
Net investment income	24 143	16 002	6 419
Taxes	8	-176	-151
Total Mutual	<u>10 152</u>	<u>19 815</u>	<u>-3 912</u>
Fixed			
Total calls and premiums	51 008	46 124	52 570
Reinsurance premiums	-7 371	-6 425	-9 257
	<u>43 637</u>	<u>39 698</u>	<u>43 313</u>
Claims incurred net of reinsurance recoveries	-30 236	-26 565	-22 735
	<u>13 401</u>	<u>13 134</u>	<u>20 579</u>
Net operating expenses	-7 597	-6 311	-6 443
Net investment income	9 511	5 664	3 040
Taxes	4	-62	-68
Total Fixed	<u>15 318</u>	<u>12 425</u>	<u>17 107</u>
Total Mutual and Fixed business	<u>25 470</u>	<u>32 239</u>	<u>13 195</u>

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.

To the Annual Meeting of
Assuranceforeningen Skuld (Gjensidig)

Auditor's report for 2006/2007

We have audited the annual financial statements of Assuranceforeningen Skuld (Gjensidig) as of 20 February 2007 showing a net result of TNOK 0 after transfer to contingency reserves of TNOK 193 718 for the Association and TNOK 256 894 for the Group. We have also audited the information in the Directors' report concerning the financial statements and the going concern assumption. The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the consolidated accounts. These financial statements are the responsibility of the Association's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Association's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Association and of the Group as of 20 February 2007, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Association's management has fulfilled its duty to properly register and document the accounting information as required by law and accounting standards, principles and generally accepted bookkeeping practice in Norway
- the information in the Directors' report concerning the financial statements and the going concern assumption is consistent with the financial statements and comply with law and regulations.

Oslo, 15 May 2007
ERNST & YOUNG AS

Atle Terum (sign.)
State Authorised Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only.

www.skuld.com