

# SKULD ACCOUNTS 2007



# CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

All figures in USD 1000	Note	2007	2006
<b>TECHNICAL ACCOUNT</b>			
Premiums and calls			
Gross premiums and calls	2	192 654	174 122
- Reinsurance premium		-20 012	-19 028
<b>Earned premiums and calls for own account</b>		<b>172 642</b>	<b>155 094</b>
Claims incurred			
Gross claims paid	3	125 960	113 005
- Reinsurance recoveries	3	-2 906	-3 203
Gross change in estimated outstanding claims	3	178 096	23 512
- Reinsurers share	3	-164 096	-12 204
<b>Claims incurred for own account</b>		<b>137 054</b>	<b>121 111</b>
Operating expenses			
Acquisition costs	4	20 278	18 417
Administrative expenses	4	9 189	8 828
<b>Net operating expenses</b>		<b>29 467</b>	<b>27 245</b>
<b>Balance carried to non-technical account</b>		<b>6 122</b>	<b>6 738</b>
<b>NON-TECHNICAL ACCOUNT</b>			
<b>Balance from technical account</b>		<b>6 122</b>	<b>6 738</b>
Investment income			
Investment income		1 638	2 400
Unrealised gains / loss on investments		-11 808	22 253
Realised gains / loss on investments		19 762	9 535
<b>Total investment income</b>		<b>9 591</b>	<b>34 188</b>
Investment expenses			
<b>Investment management expenses</b>		<b>778</b>	<b>765</b>
Foreign exchange adjustments			
<b>Foreign exchange adjustments</b>		<b>-127</b>	<b>232</b>
<b>Balance before tax on ordinary activities</b>		<b>14 807</b>	<b>40 392</b>
Taxes			
<b>Taxes</b>		<b>3 266</b>	<b>-12</b>
<b>Balance carried to contingency reserve</b>		<b>11 541</b>	<b>40 405</b>

# BALANCE SHEET AS OF 20.02.08

All figures in USD 1000	Note	2007	2006
<b>ASSETS</b>			
<b>Financial assets</b>			
Real estate		248	229
Mortgages		1 693	1 868
Other loans		474	859
Commodities	6	13 872	12 037
Hedge Funds	6	24 032	11 748
Private Equity	6	2 645	630
Shares	6	144 675	132 762
Bonds	6	273 723	250 659
<b>Total financial assets</b>		<b>461 363</b>	<b>410 790</b>
<b>Debtors</b>			
Members and brokers		5 410	2 214
Reinsurers		280	2 793
Other debtors		813	285
<b>Total debtors</b>		<b>6 504</b>	<b>5 292</b>
<b>Other assets</b>			
Fixed assets	5	3 463	4 271
Pension assets		1 797	2 791
Cash at bank		28 387	42 547
<b>Total other assets</b>		<b>33 648</b>	<b>49 609</b>
<b>Prepayments and accrued income</b>			
Prepayments and accrued income	7	3 386	2 423
<b>Total assets</b>		<b>504 901</b>	<b>468 114</b>
<b>LIABILITIES</b>			
<b>Technical provisions</b>			
Provisions for outstanding claims for own account	9	280 930	260 012
Contingency reserve	8	203 518	191 366
<b>Technical provisions for own account</b>	<b>9.10</b>	<b>484 448</b>	<b>451 378</b>
<b>Provisions for other liabilities</b>			
Pension liabilities		5 210	4 697
Provision for taxation		3 584	95
<b>Total provisions for other liabilities</b>		<b>8 794</b>	<b>4 793</b>
<b>Creditors</b>			
Members and brokers		2 134	1 431
Reinsurers		3 622	4 769
Other creditors		2 481	2 397
<b>Total creditors</b>		<b>8 238</b>	<b>8 597</b>
<b>Accruals and deferred income</b>			
Accruals and deferred income		3 421	3 347
<b>Total liabilities</b>		<b>504 901</b>	<b>468 114</b>

Stockholm, 14 May 2008

 Erik Gløersen	 Klaus Kjærulf	 Sergey Popravko	 Thomas Bjørn Larsen
 Trygve Seglem	 Nils Aardal	 Peter Wilsund	 Karin Margareta Gjersøe
 John P. Tavlaris	 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 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 AS, Skuld Seminar Services AS, Skuld AB (New), Skuld Germany GmbH, Skuld Insurance Eastern Europe ZAO, Moskva, Skuld Far East Ltd., Skuld Hellas 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	24 801	12,9%
Nordic countries excl. Norway	25 838	13,4%
Germany	20 386	10,6%
Greece	10 787	5,6%
Rest of Europe	56 984	29,6%
USA	14 243	7,4%
Far East	25 415	13,2%
Other	14 199	7,4%
<b>Total gross premiums and calls</b>	<b>192 654</b>	<b>100,0%</b>

## Note 3 NET CLAIMS INCURRED

	2007	2006
<b>Gross claims paid</b>		
Members' claims	144 133	122 599
Group Pooling arrangements	-18 173	-9 593
<b>Gross claims paid</b>	<b>125 960</b>	<b>113 005</b>
<b>Reinsurers' share</b>		
Group Pooling arrangements	-943	-933
Market underwriters	-1 962	-2 269
Other P&I Associations	0	0
<b>Reinsurers' share</b>	<b>-2 906</b>	<b>-3 203</b>
<b>Net claims paid</b>	<b>123 054</b>	<b>109 803</b>
<b>Change in provision for gross claims</b>		
Provision opening balance	308 240	283 264
Provision closing balance	493 205	308 240
Change in currency valuation at year end	-6 869	-1 464
Change in provision for gross claims	178 096	23 512
<b>Less movements in provision for reinsurers' share</b>		
Provision opening balance	-48 228	-34 947
Provision closing balance	-212 275	-48 228
Change in currency valuation at year end	-50	1 077
<b>Less movements in provision for reinsurers' share</b>	<b>-164 096</b>	<b>-12 204</b>
<b>Change in provision for future claims</b>		
<b>Net change in claims provision</b>	<b>13 999</b>	<b>11 308</b>
<b>Claims incurred for own account</b>	<b>137 054</b>	<b>121 111</b>

## Note 4 NET OPERATING EXPENSES

	2007	2006
<b>Administrative expenses</b>	<b>9 189</b>	<b>8 828</b>
Salary, etc.	5 359	5 011
Commissions	10 837	9 488
Marketing	1 641	1 315
Surveys	196	310
Other acquisition costs	2 244	2 294
<b>Acquisition costs</b>	<b>20 278</b>	<b>18 417</b>
<b>Net operating expenses</b>	<b>29 467</b>	<b>27 245</b>

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 2008, a ratio of 10.4% (10.9% at 20th February 2007) 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
<b>Cost</b>	
<b>As at 20th February 2007</b>	<b>10 758</b>
Purchases in the year	559
Sales / Scrapping in the year	-2 032
<b>As at 20th February 2008</b>	<b>9 285</b>
<b>Depreciation</b>	
<b>As at 20th February 2007</b>	<b>6 487</b>
Depreciation on sold / scrapped assets	-1 761
Depreciation this year	1 096
<b>As at 20th February 2008</b>	<b>5 822</b>
<b>Net book value</b>	
<b>As at 20th February 2007</b>	<b>4 271</b>
<b>As at 20th February 2008</b>	<b>3 463</b>

## Note 6 FINANCIAL INVESTMENTS

	2007 Market value	2006 Market value
<b>Shares:</b>		
Norwegian shares	601	474
Foreign shares	144 074	132 287
<b>Total shares</b>	<b>144 675</b>	<b>132 762</b>
<b>Bonds:</b>		
Treasuries	34 949	19 877
Asset Backed Securities	29 053	54 555
Mortgage Backed Securities	8 932	10 887
Corporate Securities	127 503	109 030
Government Agency Securities	32 664	32 498
Cash and Money Market	40 623	23 811
<b>Total bonds</b>	<b>273 723</b>	<b>250 659</b>
<b>Alternative investments:</b>		
Commodity derivatives	13 872	12 037
Hedge Funds	24 032	11 748
Private Equity	2 645	630
<b>Total alternative investments</b>	<b>40 550</b>	<b>24 414</b>

## Note 7 PREPAYMENTS AND ACCRUED INCOME

	2007	2006
Accrued interest	108	101
Other prepayments	3 279	2 322
<b>Prepayments and accrued income</b>	<b>3 386</b>	<b>2 423</b>

## Note 8 CONTINGENCY RESERVE

	2007	2006
Contingency reserve opening balance	191 366	150 707
Balance carried forward to contingency reserve	11 541	40 405
Difference related to subsidiaries	610	255
<b>Contingency reserve closing balance</b>	<b>203 518</b>	<b>191 366</b>

## Note 9 PROVISIONS FOR OUTSTANDING CLAIMS BY POLICY YEAR

	2007	2006	2005	Closed years	Total
Gross estimated outstanding including IBNR	270 610	59 079	23 629	89 288	442 606
Associations' pool-claims including IBNR	14 590	16 043	2 680	17 285	50 598
<b>Gross provision for outstanding claims</b>	<b>285 200</b>	<b>75 122</b>	<b>26 309</b>	<b>106 574</b>	<b>493 205</b>
Estimated outstanding recoveries including IBNR from:					
Pooling agreements	76 655	3 771	0	6 052	86 479
Group excess loss	86 271	0	0	5 801	92 071
Other reinsurers' share	9 283	6 937	658	16 847	33 725
<b>Total estimated outstanding recoveries</b>	<b>172 209</b>	<b>10 708</b>	<b>658</b>	<b>28 700</b>	<b>212 275</b>
Provisions for outstanding claims for own account	112 991	64 414	25 651	77 873	280 930
Contingency reserve	-8 692	31 279	38 799	142 132	203 518
<b>Technical provisions for own account</b>	<b>104 300</b>	<b>95 693</b>	<b>64 450</b>	<b>220 005</b>	<b>484 448</b>

## Note 10 TECHNICAL PROVISIONS FOR OWN ACCOUNT

	2007	2006
P&I		
Gross estimated outstanding including IBNR	429 318	250 337
The Association's estimated share of other associations' pool-claims including IBNR	50 598	47 060
<b>Gross provision for outstanding claims</b>	<b>479 916</b>	<b>297 398</b>
Estimated outstanding recoveries from:		
Pooling agreements	-86 479	-17 088
Other reinsurers' share	-125 896	-31 241
<b>Total estimated outstanding recoveries</b>	<b>-212 375</b>	<b>-48 329</b>
<b>Provision for outstanding claims for own account</b>	<b>267 541</b>	<b>249 069</b>
FD&D		
Gross estimated outstanding including IBNR	13 288	10 842
The Association's estimated share of other associations' pool-claims including IBNR	0	0
<b>Gross provision for outstanding claims</b>	<b>13 288</b>	<b>10 842</b>
Estimated outstanding recoveries from:		
Pooling agreements	0	0
Other reinsurers' share	100	100
<b>Total estimated outstanding recoveries</b>	<b>100</b>	<b>100</b>
<b>Provision for outstanding claims for own account</b>	<b>13 389</b>	<b>10 942</b>
Total P&I and FD&D		
Provision for outstanding claims for own account	280 930	260 012
Contingency reserve	203 518	191 366
<b>Technical provision for own account</b>	<b>484 448</b>	<b>451 378</b>

## Note 11 OFF-BALANCE SHEET ITEMS

### Guarantees

Bank Guarantees and "Club Letter of Guarantees" amounting in total to USD 204.0 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

Contract Description	Settlement date	Currency bought forward	Currency sold forward
NOK/USD bought forward	13-03-08	24 300	4 451
"	14-04-08	4 600	843
"	14-05-08	8 900	1 630
"	12-06-08	7 300	1 337
"	14-07-08	8 100	1 484
"	14-08-08	4 900	898
"	11-09-08	6 900	1 264
"	14-10-08	5 400	989
"	13-11-08	6 800	1 246
"	05-12-08	7 800	1 429
"	14-01-09	8 200	1 502
"	12-02-09	5 400	989

## 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 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 20.02.08

	2007	2006	2005
<b>P&amp;I</b>			
Advance calls, releases and other gross premiums charged in:			
Years to 20th February 2007	0	166 039	147 682
Current accounting year	181 404	1 368	299
	181 404	167 407	147 981
Supplementary calls levied in:			
Years to 20th February 2007	0	0	0
Current accounting year	0	0	0
	0	0	0
Total calls and premiums	181 404	167 407	147 981
Reinsurance premiums	-20 890	-18 974	-17 371
	160 514	148 433	130 611
Claims incurred net of reinsurance recoveries	-147 251	-125 117	-91 003
	13 264	23 316	39 607
Net operating expenses	-27 630	-25 849	-22 978
Net investment income	8 247	32 162	20 740
Taxes	-3 103	12	-228
<b>Total P&amp;I</b>	<b>-9 223</b>	<b>29 639</b>	<b>37 140</b>
<b>FD&amp;D</b>			
Advance calls, releases and other gross premiums charged in:			
Years to 20th February 2007	0	7 421	6 604
Current accounting year	9 238	342	18
	9 238	7 763	6 622
Supplementary calls levied in:			
Years to 20th February 2007	0	0	0
Current accounting year	0	0	0
	0	0	0
Total calls and premiums	9 238	7 763	6 622
Reinsurance premiums	0	0	0
	9 238	7 763	6 622
Claims incurred net of reinsurance recoveries	-7 371	-6 269	-4 768
	1 867	1 494	1 854
Net operating expenses	-1 607	-1 350	-1 112
Net investment income	435	1 495	927
Taxes	-163	1	-10
<b>Total FD&amp;D</b>	<b>531</b>	<b>1 639</b>	<b>1 659</b>
<b>Total P&amp;I and FD&amp;D</b>	<b>-8 692</b>	<b>31 279</b>	<b>38 799</b>

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 20.02.08 - MUTUAL AND FIXED BUSINESS

	2007	2006	2005
<b>Mutual</b>			
Total calls and premiums	134 815	122 746	108 490
Reinsurance premiums	-14 779	-12 271	-10 945
	120 035	110 474	97 545
Claims incurred net of reinsurance recoveries	-116 896	-97 735	-69 901
	3 140	12 740	27 644
Net operating expenses	-20 806	-19 314	-17 651
Net investment income	6 261	24 165	15 807
Taxes	-2 343	9	-174
<b>Total Mutual</b>	<b>-13 748</b>	<b>17 599</b>	<b>25 626</b>
<b>Fixed</b>			
Total calls and premiums	55 827	52 424	46 113
Reinsurance premiums	-6 110	-6 703	-6 425
	49 717	45 722	39 688
Claims incurred net of reinsurance recoveries	-37 726	-33 652	-25 871
	11 991	12 070	13 817
Net operating expenses	-8 431	-7 886	-6 440
Net investment income	2 420	9 492	5 860
Taxes	-923	3	-65
<b>Total Fixed</b>	<b>5 056</b>	<b>13 679</b>	<b>13 173</b>
<b>Total Mutual and Fixed business</b>	<b>-8 692</b>	<b>31 279</b>	<b>38 799</b>

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 General Assembly of  
Assuranceforeningen Skuld (mutual)

## Auditor's report for 2007/2008

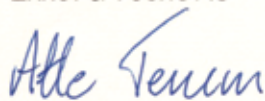
We have audited the annual financial statements of Assuranceforeningen Skuld (mutual) as of 20 February 2008, showing a profit of NOK 0 after transfer of NOK 46 957 thousand to contingency reserves for the Association and NOK 66 187 thousand for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The regulations of the Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. 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 laws, regulations 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 Company'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 laws and regulations and present fairly, in all material respects the financial position of the Company as of 20 February 2008, 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 Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and comply with law and regulations.

Oslo, 14 May 2008  
ERNST & YOUNG AS



Atle Terum  
State Authorised Public Accountant (Norway)



ASSURANCEFORENINGEN  
SKULD (GJENSIDIG)  
RUSELØKKVEIEN 26  
NO-0251 OSLO  
P.O. BOX 1376 VIKA  
NO-0114 OSLO  
NORWAY

TEL +47 22 00 22 00  
FAX +47 22 42 42 22

[SKULD.COM](http://SKULD.COM)