
ACCOUNTS

Skuld Annual Accounts 2005

<i>All figures in USD 1 000</i>	<i>Note</i>	<u>2005</u>	<u>2004</u>
TECHNICAL ACCOUNT			
PREMIUMS AND CALLS			
Gross premiums and calls	2	156 816	149 194
- Reinsurance premium		-16 880	-19 931
Earned premiums and calls for own account		<u>139 936</u>	<u>129 263</u>
CLAIMS INCURRED			
Gross claims paid	3	91 195	129 783
- Reinsurance recoveries	3	-3 703	-22 747
Gross change in estimated outstanding claims	3	2 949	-51 003
- Reinsurers share	3	4 770	29 878
Claims incurred for own account		<u>95 211</u>	<u>85 911</u>
OPERATING EXPENSES			
Acquisition costs	4	15 896	14 084
Administrative expenses	4	8 106	6 957
Net operating expenses		<u>24 002</u>	<u>21 040</u>
Balance carried to non-technical account		<u>20 722</u>	<u>22 311</u>
NON-TECHNICAL ACCOUNT			
Balance from technical account		<u>20 722</u>	<u>22 311</u>
INVESTMENT INCOME			
Investment income		4 597	9 366
Unrealised gains / loss on investments		-8 673	2 032
Realised gains / loss on investments		28 497	1 859
Gain sale real estate		0	0
Total investment income		<u>24 421</u>	<u>13 257</u>
INVESTMENT EXPENSES			
Investment management expenses		<u>957</u>	<u>962</u>
Foreign exchange adjustments		<u>-1 798</u>	<u>-2 836</u>
Balance before tax on ordinary activities		<u>42 388</u>	<u>31 770</u>
TAXES			
Taxes		<u>239</u>	<u>219</u>
Balance carried to contingency reserve		<u>42 150</u>	<u>31 551</u>

<i>All figures in USD 1 000</i>	<i>Note</i>	<u>2005</u>	<u>2004</u>
ASSETS			
FINANCIAL ASSETS			
Real estate		229	229
Mortgages		6 483	7 484
Other loans		1 450	937
Alternative investments	6	18 561	0
Shares	6	114 384	81 690
Bonds	6	230 492	235 143
Total financial assets		<u>371 599</u>	<u>325 482</u>
DEBTORS			
Members and brokers		3 428	2 909
Reinsurers		2 304	512
Other debtors		469	836
Total debtors		<u>6 200</u>	<u>4 257</u>
OTHER ASSETS			
Fixed assets	5	5 415	5 998
Pension assets		3 248	3 157
Cash at bank		30 270	34 451
Total other assets		<u>38 934</u>	<u>43 606</u>
PREPAYMENTS AND ACCRUED INCOME			
Prepayments and accrued income	7	1 869	1 338
Total assets		<u>418 602</u>	<u>374 684</u>
LIABILITIES			
TECHNICAL PROVISIONS			
Gross provision for outstanding claims	9	283 264	284 437
Reinsurer's share	9	-34 947	-39 378
Provisions for outstanding claims for own account		248 317	245 059
Contingency reserve	8	150 709	113 064
Technical provisions for own account	9.10	399 025	358 124
PROVISIONS FOR OTHER LIABILITIES			
Pension liabilities		4 008	4 168
Provision for taxation		4 659	96
Total provisions for other liabilities		<u>8 667</u>	<u>4 264</u>
CREDITORS			
Members and brokers		1 676	4 190
Reinsurers		3 299	3 661
Other creditors		3 180	2 604
Total creditors		<u>8 155</u>	<u>10 454</u>
ACCRUALS AND DEFERRED INCOME			
Accruals and deferred income		2 754	1 842
Total liabilities		<u>418 602</u>	<u>374 684</u>

Stockholm, 10 May 2006

Erik Gløersen

Chairman of the board

Arne Birkeland

Peter Wilsund

Bernt Wold

Nils Olav Aardal

Vice Chairman

Tom Erik Jølsen

John P. Tavlarios

Thomas Bjørn Larsen

Helfried Beutner

Klaus Kjærulff

Torleiv Aaslestad

Douglas Jacobsohn

President & CEO

Note 1 Accounting Policy

The accounts are prepared in USD, but in the official accounts for Skuld USD have 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 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 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

<i>Country</i>	<i>Premiums</i>	<i>%</i>
Norway	23 722	15,1%
Nordic countries excl. Norway	21 966	14,0%
Germany	16 540	10,5%
Greece	7 759	4,9%
Rest of Europe	42 611	27,2%
USA	14 058	9,0%
Far East	21 465	13,7%
Other	8 695	5,5%
Total gross premiums and calls	156 816	100,0%

Note 3 Net claims incurred

	<i>2005</i>	<i>2004</i>
GROSS CLAIM PAID		
Members' claims	101 763	143 219
Group Pooling arrangements	-10 568	-13 436
Gross claim paid	91 195	129 783
REINSURERS' SHARE		
Group Pooling arrangements	-2 688	-11 833
Market underwriters	-1 015	-10 939
Other P&I Assosiations	0	25
Reinsurers' share	-3 703	-22 747
Net claims paid	87 492	107 036
CHANGE IN PROVISION FOR GROSS CLAIMS		
Provision opening balance	284 437	335 882
Provision closing balance	283 264	284 437
Change in currency valuation at year end	4 122	442
Change in provision for gross claims	2 949	-51 003
LESS MOVEMENTS IN PROVISION FOR REINSURERS' SHARE		
Provision opening balance	-39 378	-69 965
Provision closing balance	-34 947	-39 378
Change in currency valuation at year end	340	-710
Less movements in provision for reinsurers' share	4 770	29 878
CHANGE IN PROVISION FOR FUTURE CLAIMS		
Net change in claims provision	7 719	-21 125
Claims incurred, for own account	95 211	85 911

Note 4 Net operating expenses

	<i>2005</i>	<i>2004</i>
Administrative expenses	8 106	6 957
Salary, etc.	4 839	3 905
Commissions	7 840	6 872
Marketing	1 127	1 070
Surveys	222	161
Other acquisition costs	3 218	3 307
Acquisition costs	15 896	14 084
Net operating expenses	24 002	21 040

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.

Note 4 cont.

Note 4 cont.

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 2006, a ratio of 11.1% (11.7% at 20th February 2005) 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

	<i>Fixed assets</i>
COST	
As at 20th February 2005	10 530
Purchases in the year	946
Sales / Scrapping in the year	-716
As at 20th February 2006	<u>10 760</u>
DEPRECIATION	
As at 20th February 2005	4 512
Depreciation on sold / scrapped assets	-459
Depreciation this year	1 274
As at 20th February 2006	<u>5 327</u>
NET BOOK VALUE	
As at 20th February 2005	<u>5 998</u>
As at 20th February 2006	<u>5 415</u>

Note 6 Financial investments

	<i>2005</i>	<i>2004</i>
	<i>Market</i>	<i>Market</i>
	<i>value</i>	<i>value</i>
SHARES		
Norwegian shares	381	213
Foreign shares	114 004	81 477
Total shares	<u>114 384</u>	<u>81 690</u>
BONDS		
Treasuries	19 631	47 602
Asset Backed Securities	10 821	13 116
Mortgage Backed Securities	67 784	66 235
Corporate Securities	101 858	98 302
Government Agency Securities	9 087	7 783
Cash and Money Market	21 310	2 106
Total bonds	<u>230 492</u>	<u>235 143</u>
ALTERNATIVE INVESTMENTS		
Commodity derivatives	9 271	0
Hedge Funds	9 290	0
Total shares	<u>18 561</u>	<u>0</u>

Note 7 Prepayments and accrued income

	<i>2005</i>	<i>2004</i>
Accrued interest	55	60
Other prepayments	1 815	1 278
Prepayments and accrued income	<u>1 869</u>	<u>1 338</u>

Note 8 Contingency reserve

	<u>2005</u>	<u>2004</u>
Contingency reserve opening balance	113 064	81 593
Balance carried forward to contingency reserve	42 150	31 551
Difference related to subsidiaries*)	-4 505	-79
Contingency reserve closing balance	<u>150 709</u>	<u>113 064</u>

*) Difference related to subsidiaries, is deferred tax related to Captive subsidiaries. The amount, MUSD 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

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>Closed years</u>	<u>Total</u>
Gross estimated outstanding including IBNR	60 512	56 216	24 558	110 388	251 675
The Association's estimated share of other associations' pool-claims including IBNR	<u>9 527</u>	<u>5 441</u>	<u>3 228</u>	<u>13 393</u>	<u>31 589</u>
Gross provision for outstanding claims	<u>70 040</u>	<u>61 657</u>	<u>27 785</u>	<u>123 781</u>	<u>283 264</u>
ESTIMATED OUTSTANDING RECOVERIES FROM:					
Pooling agreements	0	3 123	0	10 642	13 765
Group excess loss	0	0	0	8 246	8 246
Other reinsurers' share	0	3 686	21	9 229	12 936
Total estimated outstanding recoveries	<u>0</u>	<u>6 809</u>	<u>21</u>	<u>28 117</u>	<u>34 947</u>
Provisions for outstanding claims for own account	70 040	54 848	27 765	95 664	248 317
Contingency reserve	<u>32 167</u>	<u>4 477</u>	<u>33 697</u>	<u>80 369</u>	<u>150 709</u>
Technical provisions for own account	<u>102 206</u>	<u>59 325</u>	<u>61 462</u>	<u>176 033</u>	<u>399 025</u>

Note 10 Technical provisions for own account

	<u>2005</u>	<u>2004</u>
P&I		
Gross estimated outstanding including IBNR	241 943	236 562
The Association's estimated share of other associations' pool-claims including IBNR	<u>31 589</u>	<u>38 815</u>
Gross provision for outstanding claims	<u>273 532</u>	<u>275 377</u>
ESTIMATED OUTSTANDING RECOVERIES FROM:		
Pooling agreements	-13 765	-13 500
Other reinsurers' share	-21 039	-25 757
Total estimated outstanding recoveries	<u>-34 804</u>	<u>-39 257</u>
Provision for outstanding claims for own account	<u>238 728</u>	<u>236 121</u>
FD&D		
Gross estimated outstanding including IBNR	9 731	9 059
The Association's estimated share of other associations' pool-claims including IBNR	<u>0</u>	<u>0</u>
Gross provision for outstanding claims	<u>9 731</u>	<u>9 059</u>
ESTIMATED OUTSTANDING RECOVERIES FROM:		
Pooling agreements	0	0
Other reinsurers' share	-143	-121
Total estimated outstanding recoveries	<u>-143</u>	<u>-121</u>
Provision for outstanding claims for own account	<u>9 589</u>	<u>8 938</u>
TOTAL P&I AND FD&D		
Provision for outstanding claims for own account	248 317	245 059
Contingency reserve	<u>150 709</u>	<u>113 064</u>
Technical provision for own account	<u>399 025</u>	<u>358 124</u>

Note 11 Off-balance sheet items

GUARANTEES

Bank Guarantees and "Club Letter of Guarantees" amounting in total to USD 181.9 mill have been issued in connection with claims, of which the latter makes up by far the greater part. The face values 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

<i>Contract Description</i>	<i>Settlement date</i>	<i>Currency bought forward</i>	<i>Currency sold forward</i>
NOK/USD bought forward	15-03-06	5 200	797
"	12-04-06	6 400	981
"	12-05-06	5 200	797
"	15-06-06	11 800	1 808
"	14-07-06	5 200	797
"	15-08-06	6 400	981
"	15-09-06	5 200	797
"	13-10-06	6 400	981
"	15-11-06	5 200	797
"	08-12-06	8 300	1 272
"	12-01-07	7 000	1 073
"	15-02-07	15 400	2 360
GBP/USD sold forward	20-03-06	4 348	2 500

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 20.02.06

	<i>2005</i>	<i>2004</i>	<i>2003</i>
P&I			
Advance calls, releases and other gross premiums charged in:			
years to 20th February 2005	0	142 972	128 814
years to 20th February 2006	147 467	0	0
	<u>147 467</u>	<u>142 972</u>	<u>128 814</u>
SUPPLEMENTARY CALLS LEVIED IN:			
years to 20th February 2005	0	0	0
years to 20th February 2006	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Total calls and premiums	147 467	142 972	128 814
Reinsurance premiums	-18 450	-20 185	-21 855
	<u>129 017</u>	<u>122 787</u>	<u>106 958</u>
Claims incurred net of reinsurance recoveries	-96 422	-108 896	-83 286
	<u>32 594</u>	<u>13 891</u>	<u>23 672</u>
Net operating expenses	-22 849	-20 394	-19 451
Net investment income	20 785	9 052	27 261
Taxes	-229	-210	-208
	<u>30 302</u>	<u>2 340</u>	<u>31 274</u>
	<u>30 302</u>	<u>2 340</u>	<u>31 274</u>
	<i>2005</i>	<i>2004</i>	<i>2003</i>
FD&D			
ADVANCE CALLS, RELEASES AND OTHER GROSS PREMIUMS CHARGED IN:			
years to 20th February 2005	0	6 584	5 771
years to 20th February 2006	6 357	0	0
	<u>6 357</u>	<u>6 584</u>	<u>5 771</u>
SUPPLEMENTARY CALLS LEVIED IN:			
years to 20th February 2005	0	0	0
years to 20th February 2006	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Total calls and premiums	6 357	6 584	5 771
Reinsurance premiums	0	0	0
	<u>6 357</u>	<u>6 584</u>	<u>5 771</u>
Claims incurred net of reinsurance recoveries	-4 289	-3 820	-3 456
	<u>2 068</u>	<u>2 764</u>	<u>2 315</u>
Net operating expenses	-1 074	-1 024	-1 003
Net investment income	881	407	1 119
Taxes	-10	-9	-9
	<u>1 865</u>	<u>2 137</u>	<u>2 422</u>
Total P&I and FD&D	<u>32 167</u>	<u>4 477</u>	<u>33 697</u>

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 20.02.05 – Mutual and Fixed business

	<i>2005</i>	<i>2004</i>	<i>2003</i>
MUTUAL			
Total calls and premiums	107 794	97 030	91 277
Reinsurance premiums	-11 192	-11 007	-12 431
	<u>96 602</u>	<u>86 024</u>	<u>78 846</u>
Claims incurred net of reinsurance recoveries	-78 749	-84 592	-63 096
	<u>17 853</u>	<u>1 432</u>	<u>15 750</u>
Net operating expenses	-17 699	-15 005	-14 966
Net investment income	15 954	6 504	20 892
Taxes	-176	-151	-160
	<u>15 932</u>	<u>-7 220</u>	<u>21 516</u>
FIXED			
Total calls and premiums	46 031	52 526	43 307
Reinsurance premiums	-7 258	-9 179	-9 424
	<u>38 772</u>	<u>43 347</u>	<u>33 883</u>
Claims incurred net of reinsurance recoveries	-21 963	-28 124	-23 646
	<u>16 809</u>	<u>15 223</u>	<u>10 237</u>
Net operating expenses	-6 224	-6 413	-5 488
Net investment income	5 712	2 955	7 489
Taxes	-62	-68	-57
	<u>16 235</u>	<u>11 697</u>	<u>12 181</u>
Total Mutual and Fixed business	<u>32 167</u>	<u>4 477</u>	<u>33 697</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.

Operating expenses and investment income have been allocated to the policy year corresponding to the accounting year.



■ **Statsautoriserte revisorer**

Ernst & Young AS
Nedre Stengt. 42
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NO-3002 Drammen

Medlemmer av Den norske Revisorforening

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To the Annual Meeting of
Assuranceforeningen Skuld (Gjensidig)

Auditor's report for 2005/2006

We have audited the annual financial statements of Assuranceforeningen Skuld (Gjensidig) as of 20 February 2006, showing a net result of TNOK 0 after transfer to contingency reserves of TNOK 302 928 for the Association and TNOK 273 813 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 2006, 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, 10 May 2006
ERNST & YOUNG AS

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

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

■ Arendal, Bergen, Bu, Drammen, Fosnavåg, Fredrikstad, Holmestrand, Horten, Hønefoss, Kongsberg, Kragerø, Kristiansand, Larvik, Levanger, Lillehammer, Moss, Mållay, Notodden, Oslo, Otta, Porsgrunn/Skien, Sandefjord, Sortland, Stavanger, Steinkjer, Trondheim, Trondheim, Tvedestrand, Vikersund, Ålesund

