

# ANNUAL ACCOUNTS

SKULD 2010

CONSOLIDATED  
INCOME AND  
EXPENDITURE  
ACCOUNT

All figures in USD 1000	Note	2010	2009
<b>TECHNICAL ACCOUNT</b>			
<b>Premiums and calls</b>			
Gross premiums and calls	2	272 429	255 386
- Reinsurance premium		-32 312	-26 507
<b>Earned premiums and calls for own account</b>		<b>240 117</b>	<b>228 879</b>
<b>Claims incurred</b>			
Gross claims paid	3	204 348	194 414
- Reinsurance recoveries	3	-54 618	-66 838
Gross change in estimated outstanding claims	3	-16 064	94 909
- Reinsurers share	3	31 407	-43 450
<b>Claims incurred for own account</b>		<b>165 073</b>	<b>179 035</b>
<b>Operating expenses</b>			
Acquisition costs	4	33 535	30 194
Administrative expenses	4	10 901	9 023
<b>Net operating expenses</b>		<b>44 436</b>	<b>39 217</b>
<b>Balance carried to non-technical account</b>		<b>30 609</b>	<b>10 626</b>
<b>NON-TECHNICAL ACCOUNT</b>			
<b>Balance from technical account</b>		<b>30 609</b>	<b>10 626</b>
<b>Investment income</b>			
Investment income		10 533	11 488
Unrealised gains / losses on investments		-449	44 587
Realised gains / losses on investments		19 876	-304
<b>Total investment income</b>		<b>29 960</b>	<b>55 770</b>
<b>Investment expenses</b>			
<b>Investment management expenses</b>		<b>1 850</b>	<b>857</b>
<b>Foreign exchange adjustments</b>			
<b>Foreign exchange adjustments</b>		<b>8 932</b>	<b>-2 847</b>
<b>Balance before tax on ordinary activities</b>		<b>67 651</b>	<b>62 693</b>
<b>Taxes</b>			
<b>Taxes</b>		<b>3 029</b>	<b>5 685</b>
<b>Balance carried to contingency reserve</b>		<b>64 622</b>	<b>57 008</b>

BALANCE  
SHEET AS  
OF 20.02.11

All figures in USD 1000	Note	2010	2009
<b>ASSETS</b>			
<b>Intangible assets</b>			
Net deferred tax assets		4 750	0
<b>Total intangible assets</b>		<b>4 750</b>	<b>0</b>
<b>Financial assets</b>			
Real estate		251	251
Mortgages		1 599	1 647
Other loans		550	428
Commodities	6	6 595	4 533
Hedge Funds	6	196	9 126
Private Equity	6	13 643	8 005
Shares	6	96 845	53 075
Bonds	6	478 147	436 983
<b>Total financial assets</b>		<b>597 826</b>	<b>514 048</b>
<b>Debtors</b>			
Members and brokers		3 692	605
Reinsurers		296	7 385
Other debtors		660	1 284
<b>Total debtors</b>		<b>4 649</b>	<b>9 273</b>
<b>Other assets</b>			
Fixed assets	5	2 525	2 575
Pension assets		2 984	1 962
Cash at bank		48 251	32 771
<b>Total other assets</b>		<b>53 759</b>	<b>37 308</b>
<b>Prepayments and accrued income</b>			
Prepayments and accrued income	7	10 164	6 705
<b>Total assets</b>		<b>671 148</b>	<b>567 334</b>
<b>LIABILITIES</b>			
Provisions for outstanding claims for own account	9	367 504	333 202
Contingency reserve	8	266 436	201 505
<b>Technical provisions for own account</b>	9.10	<b>633 940</b>	<b>534 707</b>
<b>Provisions for other liabilities</b>			
Pension liabilities		9 561	6 909
Provision for taxation		0	7 853
<b>Total provisions for other liabilities</b>		<b>9 561</b>	<b>14 762</b>
<b>Creditors</b>			
Members and brokers		4 972	2 358
Reinsurers		7 058	3 310
Other creditors		9 004	6 227
<b>Total creditors</b>		<b>21 035</b>	<b>11 895</b>
<b>Accruals and deferred income</b>			
<b>Accruals and deferred income</b>		<b>6 613</b>	<b>5 970</b>
<b>Total liabilities</b>		<b>671 148</b>	<b>567 334</b>

  
 Erik Gellman  
 Chairman of the Board  
  
 Thomas Skjold  
  
 Peter Willard

  
 Kjetil Kvern  
 Vice Chairman  
  
 Nils Olav Aarås  
  
 Marianne Lohre  
  
 Ulf G. Ruge

  
 John P. Tavelius  
  
 Claus Spangberg  
  
 Simon A. Tronha  
  
 Ole Gunnar Jacobsen  
 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., Skuld Offshore Ltd and APS Generalagenturet for Skuld, Copenhagen. Hydra Insurance Company Ltd, Skuld I Ltd and Skuld II Ltd, Skuld Holding 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 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.

## 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. The Association 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 investments (long-term liabilities) in the balance sheet.

## Note 2 PREMIUMS DISTRIBUTED BY COUNTRY

Country	Premiums	%
Norway	28 883	10.6%
Nordic countries excl. Norway	34 470	12.7%
Germany	33 595	12.3%
Greece	18 396	6.8%
Rest of Europe	74 546	27.4%
USA	23 436	8.6%
Far East	39 590	14.5%
Other	19 513	7.2%
<b>Total gross premiums and calls</b>	<b>272 429</b>	<b>100.0%</b>

## Note 3 NET CLAIMS INCURRED

	2010	2009
<b>Gross claims paid</b>		
Members' claims	199 516	179 168
Group Pooling arrangements	4 832	15 245
<b>Gross claims paid</b>	<b>204 348</b>	<b>194 414</b>
<b>Reinsurers' share</b>		
Group Pooling arrangements	-10 726	-28 477
Market underwriters	-43 891	-38 361
Other P&I Associations	0	0
<b>Reinsurers' share</b>	<b>-54 618</b>	<b>-66 838</b>
<b>Net claims paid</b>	<b>149 730</b>	<b>127 576</b>
<b>Change in provision for gross claims</b>		
Provision opening balance	494 963	424 337
Provision closing balance	501 481	494 963
Change in currency valuation at year end	-22 582	24 283
<b>Change in provision for gross claims</b>	<b>-16 064</b>	<b>94 909</b>
<b>Less movements in provision for reinsurers' share</b>		
Provision opening balance	-161 761	-151 158
Provision closing balance	-133 977	-161 761
Change in currency valuation at year end	3 623	-32 847
<b>Less movements in provision for reinsurers' share</b>	<b>31 407</b>	<b>-43 450</b>
<b>Change in provision for future claims</b>		
<b>Net change in claims provision</b>	<b>15 343</b>	<b>51 460</b>
<b>Claims incurred for own account</b>	<b>165 073</b>	<b>179 035</b>

Note 4 NET OPERATING EXPENSES

	2010	2009
<b>Administrative expenses</b>	<b>10 901</b>	<b>9 023</b>
Salary, etc.	11 067	10 701
Commissions	16 063	13 909
Marketing	1 890	2 001
Surveys	266	310
Other acquisition costs	4 249	3 273
<b>Acquisition costs</b>	<b>33 535</b>	<b>30 194</b>
<b>Net operating expenses</b>	<b>44 436</b>	<b>39 217</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 2011, a ratio of 12.1% (12.2% at 20th February 2010) 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 2010</b>	<b>10 093</b>
Purchases in the year	1 160
Sales / Scrapping in the year	-95
<b>As at 20th February 2011</b>	<b>11 158</b>
<b>As at 20th February 2010</b>	
<b>As at 20th February 2010</b>	<b>7 519</b>
Depreciation on sold / scrapped assets	2
Depreciation this year	1 095
<b>As at 20th February 2011</b>	<b>8 616</b>
<b>Net book value</b>	
<b>As at 20th February 2010</b>	<b>2 575</b>
<b>As at 20th February 2011</b>	<b>2 543</b>

Note 6 FINANCIAL INVESTMENTS

	2010	2009
	Market value	Market value
<b>Shares</b>		
Norwegian shares	2 663	1 490
Foreign shares	94 182	51 585
<b>Total shares</b>	<b>96 845</b>	<b>53 075</b>
<b>Bonds</b>		
Treasuries	332 112	181 743
Asset Backed Securities	0	35 057
Mortgage Backed Securities	0	10 218
Corporate Securities	118 219	121 681
Government Agency Securities	0	36 883
Cash and Money Market	27 816	51 401
<b>Total bonds</b>	<b>478 147</b>	<b>436 983</b>
<b>Alternative investments</b>		
Commodity derivatives	6 595	4 533
Hedge Funds	196	9 126
Private Equity	13 643	8 005
<b>Total alternative investments</b>	<b>20 434</b>	<b>21 664</b>

Note 7 PREPAYMENTS AND ACCRUED INCOME

	2010	2009
Accrued interest	14	13
Other prepayments	10 151	6 692
<b>Prepayments and accrued income</b>	<b>10 164</b>	<b>6 705</b>

Note 8 CONTINGENCY RESERVE

	2010	2009
Contingency reserve opening balance	201 505	143 967
Balance carried forward to contingency reserve	64 622	57 008
Difference related to subsidiaries	310	530
<b>Contingency reserve closing balance</b>	<b>266 436</b>	<b>201 505</b>

Note 9 PROVISIONS FOR OUTSTANDING CLAIMS BY POLICY YEAR

	2010	2009	2008	Closed years	Total
Gross estimated outstanding including IBNR	148 620	48 741	45 929	244 765	488 055
The Association's estimated share of other associations' pool-claims including IBNR	9 115	2 307	619	1 385	13 425
<b>Gross provision for outstanding claims</b>	<b>157 735</b>	<b>51 048</b>	<b>46 548</b>	<b>246 150</b>	<b>501 481</b>
<b>Estimated outstanding recoveries including IBNR from:</b>					
Pooling agreements	4 152	0	-2 471	52 810	54 491
Group excess loss	0	0	3 378	95 854	99 231
Other reinsurers' share	3 119	-46 824	89	23 871	-19 745
<b>Total estimated outstanding recoveries</b>	<b>7 271</b>	<b>-46 824</b>	<b>995</b>	<b>172 535</b>	<b>133 977</b>
Provisions for outstanding claims for own account	150 465	97 872	45 553	73 615	367 504
Contingency reserve	38 846	92 716	-75 377	210 251	266 436
<b>Technical provisions for own account</b>	<b>189 311</b>	<b>190 588</b>	<b>-29 824</b>	<b>283 866</b>	<b>633 940</b>

## Note 10 TECHNICAL PROVISIONS FOR OWN ACCOUNT

	2010	2009
<b>P&amp;I</b>		
Gross estimated outstanding including IBNR	462 098	460 268
The Association's estimated share of other associations' pool-claims including IBNR	13 425	14 838
<b>Gross provision for outstanding claims</b>	<b>475 524</b>	<b>475 106</b>
Estimated outstanding recoveries from:		
Pooling agreements	-54 491	-56 361
Other reinsurers' share	-79 586	-105 592
<b>Total estimated outstanding recoveries</b>	<b>-134 077</b>	<b>-161 953</b>
<b>Provision for outstanding claims for own account</b>	<b>341 446</b>	<b>313 153</b>
<b>FD&amp;D</b>		
Gross estimated outstanding including IBNR	25 957	19 857
The Association's estimated share of other associations' pool-claims including IBNR	0	0
<b>Gross provision for outstanding claims</b>	<b>25 957</b>	<b>19 857</b>
Estimated outstanding recoveries from:		
Pooling agreements	0	0
Other reinsurers' share	100	192
<b>Total estimated outstanding recoveries</b>	<b>100</b>	<b>192</b>
<b>Provision for outstanding claims for own account</b>	<b>26 057</b>	<b>20 049</b>
<b>Total P&amp;I and FD&amp;D</b>		
Provision for outstanding claims for own account	367 504	333 202
Contingency reserve	266 436	201 505
<b>Technical provision for own account</b>	<b>633 940</b>	<b>534 707</b>

## Note 11 OFF-BALANCE SHEET ITEMS

### Guarantees

Bank Guarantees and "Club Letter of Guarantees" amounting in total to USD 663.6 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

Investment risk is managed in accordance with the internal Enterprise Risk Management policy.

Interest and currency risk on claims liabilities are immunized by Asset-Liability management. Changes to the value of the Association's fixed income securities are accompanied by a corresponding revaluation of the claim liabilities present value. Interest risk is immunized by holding the duration of the portfolio equal to the duration of the claims liabilities. Currency risk is minimized by letting the portfolio's currency composition mirror that of the claims liabilities. The part of the investment portfolio not utilized for Asset-Liability management is divided between a liquidity portfolio, providing liquid assets for cash management, and diversified risk portfolio, aiming for maximum return within a defined risk level. The majority of the risk portfolio is invested in passively managed fund vehicles.



## Note 13 POLICY YEAR STATEMENT BY CLASS AS AT 20.02.11

	2010	2009	2008
<b>P&amp;I</b>			
Advance calls, releases and other gross premiums charged in:			
years to 20th February 2010	0	241 595	203 383
current accounting year	256 420	380	515
	256 420	241 975	203 898
Supplementary calls levied in:			
years to 20th February 2010	0	0	0
current accounting year	0	0	0
	0	0	0
Total calls and premiums	256 420	241 975	203 898
Reinsurance premiums	-32 451	-27 942	-22 190
	223 969	214 032	181 708
Claims incurred net of reinsurance recoveries	-182 842	-133 095	-149 819
	41 127	80 937	31 889
Net operating expenses	-41 058	-37 736	-30 813
Net investment income	35 133	49 702	-69 438
Taxes	-2 868	-5 422	830
<b>Total P&amp;I</b>	<b>32 334</b>	<b>87 482</b>	<b>-67 531</b>
<b>FD&amp;D</b>			
Advance calls, releases and other gross premiums charged in:			
years to 20th February 2010	0	11 241	10 710
current accounting year	14 402	538	102
	14 402	11 779	10 812
Supplementary calls levied in:			
years to 20th February 2010	0	0	0
current accounting year	0	0	0
	0	0	0
Total calls and premiums	14 402	11 779	10 812
Reinsurance premiums	0	0	0
	14 402	11 779	10 812
Claims incurred net of reinsurance recoveries	-7 100	-6 600	-13 196
	7 302	5 179	-2 384
Net operating expenses	-2 541	-2 043	-1 810
Net investment income	1 912	2 362	-3 695
Taxes	-161	-263	44
<b>Total FD&amp;D</b>	<b>6 512</b>	<b>5 234</b>	<b>-7 845</b>
<b>Total P&amp;I and FD&amp;D</b>	<b>38 846</b>	<b>92 716</b>	<b>-75 377</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 20.02.11 – MUTUAL AND FIXED BUSINESS

	2010	2009	2008
<b>Mutual</b>			
Total calls and premiums	205 477	195 073	155 710
Reinsurance premiums	-23 703	-21 939	-13 462
	181 774	173 135	142 248
Claims incurred net of reinsurance recoveries	-162 009	-114 871	-130 101
	19 764	58 263	12 147
Net operating expenses	-33 239	-30 576	-23 794
Net investment income	28 535	40 542	-54 206
Taxes	-2 298	-4 394	648
<b>Total Mutual</b>	<b>12 762</b>	<b>63 835</b>	<b>-65 204</b>
<b>Fixed</b>			
Total calls and premiums	65 346	58 681	56 998
Reinsurance premiums	-8 748	-6 004	-8 728
	56 598	52 677	48 270
Claims incurred net of reinsurance recoveries	-27 934	-24 824	-32 914
	28 664	27 853	15 356
Net operating expenses	-10 359	-9 203	-8 829
Net investment income	8 510	11 522	-18 927
Taxes	-731	-1 291	226
<b>Total Fixed</b>	<b>26 084</b>	<b>28 881</b>	<b>-12 174</b>
<b>Total Mutual and Fixed business</b>	<b>38 846</b>	<b>92 716</b>	<b>-77 379</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.



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