
ANNUAL ACCOUNTS

2011



CONSOLIDATED
INCOME AND
EXPENDITURE
ACCOUNT

All figures in USD 1000	Note	2011	2010
TECHNICAL ACCOUNT			
Premiums and calls			
Gross premiums and calls	2	299 971	272 429
- Reinsurance premium		-38 482	-32 312
Earned premiums and calls for own account		261 489	240 117
Claims incurred			
Gross claims paid	3	233 115	204 329
- Reinsurance recoveries	3	-63 924	-54 618
Gross change in estimated outstanding claims	3	20 128	-16 064
- Reinsurers share	3	4 403	31 407
Claims incurred for own account		193 722	165 054
Operating expenses			
Acquisition costs	4	42 952	33 562
Administrative expenses	4	13 157	10 893
Net operating expenses		56 109	44 455
Balance carried to non-technical account		11 657	30 608
NON-TECHNICAL ACCOUNT			
Balance from technical account		11 657	30 608
Investment income			
Investment income		10 621	10 533
Unrealised gains / losses on investments		1 769	-449
Realised gains / losses on investments		5 664	19 876
Total investment income		18 055	29 960
Investment expenses			
Investment management expenses		1 659	1 849
Foreign exchange adjustments			
Foreign exchange adjustments		-1 684	8 932
Balance before tax on ordinary activities		26 368	67 651
Taxes			
Taxes		2 016	3 029
Balance carried to contingency reserve		24 353	64 622

BALANCE
SHEET AS
OF 20.02.12

All figures in USD 1000	Note	2011	2010
ASSETS			
Financial assets			
Mortgages		1 057	1 599
Other loans		526	557
Strategic investments		11 088	302
Commodities	6	6 515	6 595
Hedge Funds	6	147	196
Private Equity	6	16 831	13 643
Shares	6	103 143	96 845
Bonds	6	489 543	478 147
Total financial assets		628 850	597 883
Debtors			
Members and brokers		4 194	3 692
Reinsurers		5 467	1 175
Other debtors		375	654
Total debtors		10 036	5 520
Other assets			
Net deferred tax assets		3 007	4 750
Fixed assets	5	2 571	2 776
Pension assets		3 520	2 984
Cash at bank		63 750	48 251
Total other assets		72 847	58 760
Prepayments and accrued income			
Prepayments and accrued income	7	10 977	9 863
Total assets		722 709	672 027
LIABILITIES			
Technical provisions			
Provisions for outstanding claims for own account	9	402 244	368 382
Contingency reserve	8	291 429	266 436
Technical provisions for own account	9.10	693 673	634 818
Provisions for other liabilities			
Pension liabilities		10 925	9 561
Total provisions for other liabilities		10 925	9 561
Creditors			
Members and brokers		-1 420	4 972
Reinsurers		3 327	7 058
Other creditors		9 176	9 004
Total creditors		11 084	21 035
Accruals and deferred income			
Accruals and deferred income		7 027	6 613
Total liabilities		722 709	672 027

sign. Klaus Kjærulff Chairman of the board	sign. Bernt O. Bodal	sign. Sergey Popravko	sign. Frank G. Jensen
sign. Trygve Seglem	sign. Manfredi Lefebvre D'Ovidio	sign. Peter Wilsund	sign. Ulf G. Ryder
sign. John P. Tavlarios	sign. Simone A. Trondal	sign. Claus Spinding	sign. Douglas Jacobsohn CEO

Note 1 ACCOUNTING POLICY

The accounts are prepared in USD. 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 AB (New), Skuld Germany GmbH, Skuld Insurance Eastern Europe ZAO, Moskva, Skuld Far East Ltd., Skuld Hellas Ltd., Skuld North America Inc., Skuld Services Ltd. and APS Generalagenturet for Skuld, Copenhagen., Skuld Investments Ltd., Skuld I Ltd. and Skuld II Ltd. Hydra Insurance Company Ltd, Skuld Holding Ltd. and Skuld 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. 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	30 858	10,3%
Nordic countries excl. Norway	36 066	12,0%
Germany	37 971	12,7%
Greece	19 677	6,6%
Rest of Europe	78 796	26,3%
USA	26 475	8,8%
Far East	46 951	15,7%
Other	23 176	7,7%
Total gross premiums and calls	299 971	100,0%

Note 3 NET CLAIMS INCURRED

	2011	2010
Gross claims paid		
Members' claims	221 224	199 497
Group Pooling arrangements	11 891	4 832
Gross claims paid	233 115	204 329
Reinsurers' share		
Group Pooling arrangements	-17 268	-10 726
Market underwriters	-46 656	-43 891
Other P&I Associations	0	0
Reinsurers' share	-63 924	-54 618
Net claims paid	169 191	149 712
Change in provision for gross claims		
Provision opening balance	502 359	495 131
Provision closing balance	531 434	502 359
Change in currency valuation at year end	-8 946	-23 292
Change in provision for gross claims	20 128	-16 064

	2011	2010
Less movements in provision for reinsurers' share		
Provision opening balance	-133 977	-161 761
Provision closing balance	-129 191	-133 977
Change in currency valuation at year end	-384	3 623
Less movements in provision for reinsurers' share	4 403	31 407
Change in provision for future claims		
Net change in claims provision	24 531	15 343
Claims incurred for own account	193 722	165 054

Note 4 NET OPERATING EXPENSES

	2011	2010
Administrative expenses	13 157	10 893
Salary, etc.	13 962	11 067
Commissions	19 022	16 063
Marketing	2 683	1 928
Surveys	333	266
Other acquisition costs	6 953	4 238
Acquisition costs	42 952	33 562
Net operating expenses	56 109	44 455

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.

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 2012, a ratio of 12.4% (12.1% at 20th February 2011) 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 2011	11 416
Purchases in the year	1 045
Sales / Scrapping in the year	-311
As at 20th February 2012	12 150
As at 20th February 2011	8 616
Depreciation on sold / scrapped assets	-207
Depreciation this year	1 171
As at 20th February 2012	9 579
As at 20th February 2011	2 776
As at 20th February 2012	2 571

Note 6 FINANCIAL INVESTMENTS

	2011	2010
	Market value	Market value
Shares		
Norwegian shares	5 308	2 663
Foreign shares	97 835	94 182
Total shares	103 143	96 845
Bonds		
Treasuries	356 990	332 112
Corporate Securities	132 347	118 219
Cash and Money Market	208	27 816
Total bonds	489 543	478 147
Alternative investments		
Commodity derivatives	6 515	6 595
Hedge Funds	147	196
Private Equity	16 831	13 643
Total alternative investments	23 493	20 434

Note 7 PREPAYMENTS AND ACCRUED INCOME

	2011	2010
Accrued interest	15	14
Other prepayments	10 962	9 849
Prepayments and accrued income	10 977	9 863

Note 8 CONTINGENCY RESERVE

	2011	2010
Contingency reserve opening balance	266 436	201 505
Balance carried forward to contingency reserve	24 353	64 622
Difference related to subsidiaries	640	310
Contingency reserve closing balance	291 429	266 436

Note 9 PROVISIONS FOR OUTSTANDING CLAIMS BY POLICY YEAR

	2011	2010	2009	Closed years	Total
Gross estimated outstanding including IBNR	183 615	83 448	46 278	200 670	514 011
The Association's estimated share of other associations' pool-claims including IBNR	11 460	2 737	1 418	1 808	17 423
Gross provision for outstanding claims	195 075	86 185	47 696	202 478	531 434
Estimated outstanding recoveries including IBNR from					
Pooling agreements	44 745	3 084	0	19 310	67 138
Group excess loss	0	0	0	39 543	39 543
Other reinsurers' share	3 547	-49	0	19 012	22 510
Total estimated outstanding recoveries	48 292	3 034	0	77 864	129 191
Provisions for outstanding claims for own account	146 783	83 151	47 696	124 614	402 244
Contingency reserve	-1 030	60 575	100 476	131 408	291 429
Technical provisions for own account	145 754	143 725	148 172	256 022	693 673

Note 10 TECHNICAL PROVISIONS FOR OWN ACCOUNT

	2011	2010
P&I		
Gross estimated outstanding including IBNR	439 475	460 481
The Association's estimated share of other associations' pool-claims including IBNR	36 536	32 631
Gross provision for outstanding claims	476 011	493 112
Estimated outstanding recoveries from		
Pooling agreements	-67 138	-54 491
Other reinsurers' share	-56 871	-134 070
Total estimated outstanding recoveries	-124 009	-188 562
Provision for outstanding claims for own account	352 002	304 550
Other		
Gross estimated outstanding including IBNR	74 536	28 453
The Association's estimated share of other associations' pool-claims including IBNR	-19 113	-19 205
Gross provision for outstanding claims	55 423	9 248
Estimated outstanding recoveries from		
Pooling agreements	0	0
Other reinsurers' share	-5 182	54 584
Total estimated outstanding recoveries	-5 182	54 584
Provision for outstanding claims for own account	50 241	63 832
Total P&I and Other		
Provision for outstanding claims for own account	402 244	368 382
Contingency reserve	291 429	266 436
Technical provision for own account	693 673	634 818

Note 11 OFF-BALANCE SHEET ITEMS

Guarantees

Bank Guarantees and "Club Letter of Guarantees" amounting in total to USD 674.7 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 new Oslo office building starting 15.06.2012.

Note 12 FINANCIAL RISK

Investment risk is managed in accordance with the Enterprise Risk Management policy. The risk level is controlled by holding it within a specified percentage range of free reserves. At year end 2011 the investment risk was within the permitted range.

Interest and currency risk of claims liabilities are immunized by the hedge portfolio. The portfolio contains government bonds and bills issued by low risk states. Changes to the value of the Association's hedge portfolio 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 claims liabilities, while currency risk is minimised by letting the currency composition of the hedge portfolio mirror that of claims liabilities.

The remaining part of the investment portfolio is divided between a liquidity portfolio, providing liquid assets for cash management, and a risk portfolio, aimed at maximising expected return. The majority of the risk portfolio is invested in passively managed fund vehicles. Exposure limitations are applied to the internally actively managed portfolio, "Tactical Overlay Portfolio".

Note 13 POLICY YEAR STATEMENT BY CLASS AS AT 20.02.12

	2011	2010	2009
P&I			
Advance calls, releases and other gross premiums charged in:			
years to 20th February 2011	0	255 342	240 800
current accounting year	261 104	1 497	733
	<u>261 104</u>	<u>256 839</u>	<u>241 534</u>
Supplementary calls levied in:			
years to 20th February 2011	0	0	0
current accounting year	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Total calls and premiums	261 104	256 839	241 534
Reinsurance premiums	-35 002	-29 184	-25 983
	<u>226 101</u>	<u>227 656</u>	<u>215 550</u>
Claims incurred net of reinsurance recoveries	-187 276	-169 651	-129 359
	<u>38 826</u>	<u>58 004</u>	<u>86 191</u>
Net operating expenses	-45 609	-41 228	-37 065
Net investment income	13 776	35 011	49 119
Taxes	-1 868	-2 855	-5 363
Total P&I	5 125	48 931	92 882

	2011	2010	2009
Other			
Advance calls, releases and other gross premiums charged in:			
years to 20th February 2011	0	15 478	14 185
current accounting year	36 237	626	-50
	<u>36 237</u>	<u>16 105</u>	<u>14 134</u>
Supplementary calls levied in:			
years to 20th February 2011	0	0	0
current accounting year	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
Total calls and premiums	36 237	16 105	14 134
Reinsurance premiums	-8 118	-519	-582
	<u>28 119</u>	<u>15 586</u>	<u>13 553</u>
Claims incurred net of reinsurance recoveries	-25 081	-2 991	-5 806
	<u>3 038</u>	<u>12 595</u>	<u>7 746</u>
Net operating expenses	-9 980	-2 812	-2 775
Net investment income	936	2 034	2 944
Taxes	-148	-174	-322
	<u>-6 154</u>	<u>11 643</u>	<u>7 594</u>
Total Other	-6 154	11 643	7 594
Total P&I and Other	-1 030	60 575	100 476

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 20.02.12 - MUTUAL AND FIXED BUSINESS

	2011	2010	2009
Mutual			
Total calls and premiums	204 452	198 070	189 611
Reinsurance premiums	-21 930	-22 358	-20 561
	182 521	175 712	169 049
Claims incurred net of reinsurance recoveries	-166 581	-148 865	-109 376
	15 940	26 848	59 673
Net operating expenses	-36 452	-32 817	-30 213
Net investment income	11 224	28 498	40 542
Taxes	-1 540	-2 293	-4 394
Total Mutual	-10 827	20 235	65 608
Fixed			
Total calls and premiums	92 889	74 874	64 826
Reinsurance premiums	-21 190	-7 345	-6 004
	71 699	67 529	58 823
Claims incurred net of reinsurance recoveries	-45 776	-23 778	-25 789
	25 923	43 751	33 034
Net operating expenses	-19 137	-11 223	-9 627
Net investment income	3 488	8 547	11 522
Taxes	-476	-736	-1 291
Total Fixed	9 798	40 339	33 637
Total Mutual and Fixed business	-1 030	60 575	99 245

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.