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# NEW PERSPECTIVES

STEADY COURSE

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# NEW PERSPECTIVES

## STEADY COURSE

INNOVATIVE SOLUTIONS ARE OUR NEW PERSPECTIVE:  
A PERSPECTIVE DRIVEN BY THE INCREASING DEMAND  
FOR PROFESSIONAL INSURANCE SERVICES.

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For Skuld's complete set of  
financial accounts, please see

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

# KEY FIGURES 2011

## STRONG PERFORMANCE IN CHALLENGING TIMES

Skuld ended 2011 with a positive result of USD 24 million. In light of the 2011 claims activity and turbulent financial markets, the result is impressive and not directly comparable with 2010 where Skuld had an unusual low frequency of large claims and gained from the significant rebound in the global financial markets.

The capitalisation of the club is stronger than ever with a record high contingency reserve of USD 291 million. Skuld is continuing to grow its premium income with a 10% increase compared to last year. In order to maintain a strong solvency ratio, we will continue the controlled growth, with a clear focus on increasing the contingency reserves at the same pace as premium income.

In spite of three Skuld International Group pool claims, and further increased pool claim costs from other P&I clubs' claims (i.a. the Costa Concordia and Rena incidents) the club achieved a positive underwriting result for the ninth consecutive year. This year's result is USD 12 million with a corresponding combined ratio of 96%. Positive adjustments on claims from earlier policy years have also had a positive impact on the underwriting result this year.

Skuld's syndicate 1897 at Lloyd's has had its first year of operation and, as expected, we have a negative result in its startup year. Skuld group's share of the loss equals

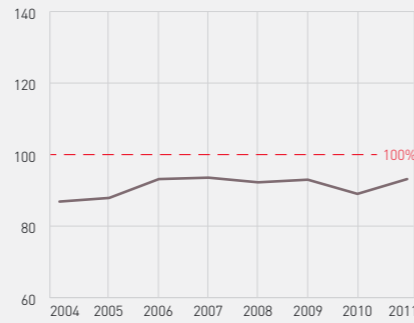
USD 7 million which has been taken into account in the 2011 figures presented in this report. Skuld 1897's premium volume is gradually growing and we expect the syndicate to be an important and positive contributor to the Skuld group's bottom line result in the future.

Skuld continues its moderate risk profile on the investment portfolio and achieved a 2.6% investment return in 2011. The moderate risk profile protects the club from unhealthy volatility and supports the strategy of further growth and diversification on the core insurance business.

Skuld group has continued to develop its Enterprise Risk Management model during 2011 and uses it actively in strategic decisions on risk appetite and risk allocation. This ensures that Skuld will be well capitalised when the new Solvency II capital requirements are implemented.

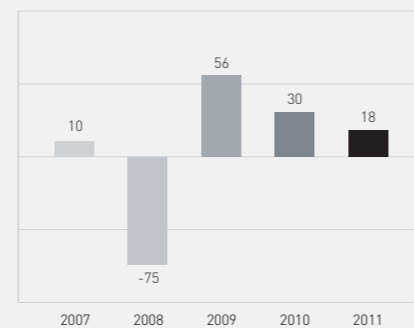
Skuld group is performing very well and is ready for further growth on P&I, Offshore and Skuld 1897.

**COMBINED RATIO**  
In percent

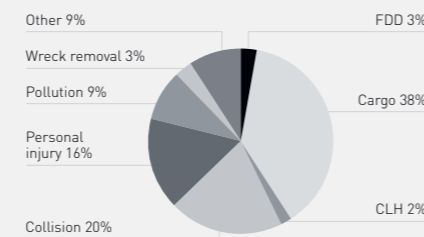


The combined ratio is a measure of underwriting performance calculated by the sum of claims and operation expenses as a percentage of premium income. A ratio below 100% indicates a positive underwriting result, while a ratio above 100% means that more money is paid out in claims than what is received in premiums.

**GROSS INVESTMENT RETURN**  
USD mill



**WHAT DO WE SPEND OUR MONEY ON**  
In percent



PREMIUM INCOME

# +10%

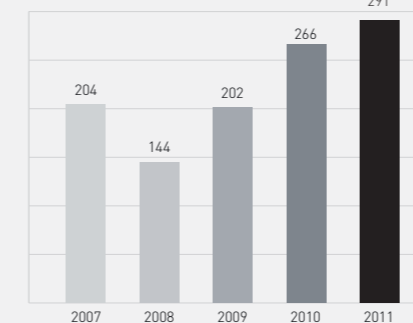
Premium income increased by 10%. In order to maintain a strong solvency ratio, we will focus on controlled growth and increasing contingency reserves at the same pace as premium income.

COMBINED RATIO

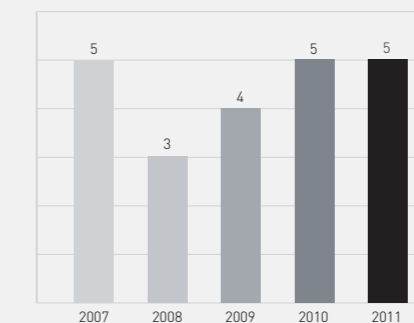
# 96%

A combined ratio of 96% with an underwriting surplus of USD 12 million gives Skuld nine consecutive years of positive underwriting results – the strongest in the International Group.

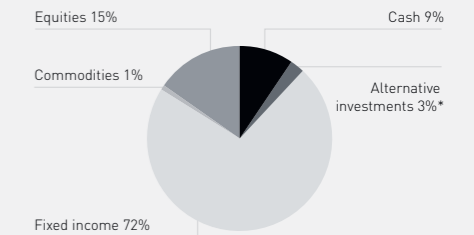
**CONTINGENCY RESERVE**  
USD mill



**RESERVES PER GT**  
USD

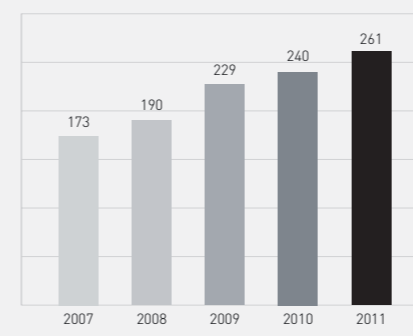


**BREAKDOWN OF INVESTMENTS BY TYPE**  
In percent

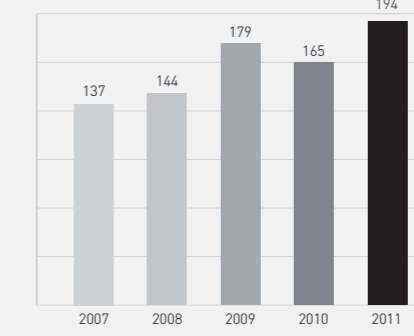


\* Consists of: hedge funds. Private equity

**PREMIUMS AND CALLS FOR OWN ACCOUNT**  
USD mill

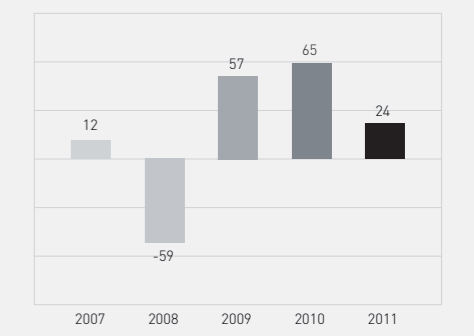


**CLAIMS INCURRED FOR OWN ACCOUNT\***  
USD mill

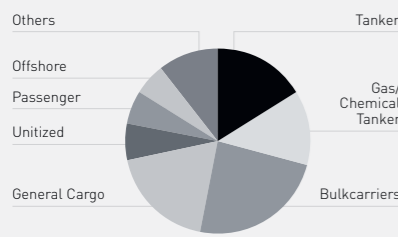


\* A proportion of overhead related to claims handlers has been allocated to claims since 2003.

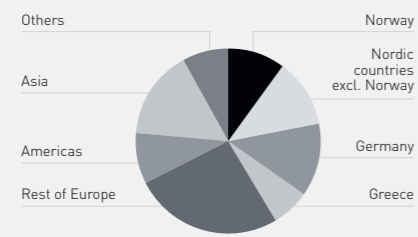
**BALANCE CARRIED TO CONTINGENCY RESERVE**  
USD mill



**PREMIUMS DISTRIBUTED\***  
By vessel type



**PREMIUMS DISTRIBUTED\***  
By region



\* Total gross premium all products: USD 300 million

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

AS OF 20/02/2012

MUSD	2011	2010
<b>TECHNICAL ACCOUNT</b>		
Premiums and calls	300.0	272.4
Reinsurance premiums	-38.5	-32.3
<b>Premiums for own account</b>	<b>261.5</b>	<b>240.1</b>
<b>Claims incurred for own account</b>	<b>-193.7</b>	<b>-165.1</b>
Acquisition costs	-43.0	-33.5
Administrative expenses	-13.2	-10.9
<b>Net operating expenses</b>	<b>-56.1</b>	<b>-44.4</b>
<b>Balance carried to non-technical account</b>	<b>11.7</b>	<b>30.6</b>
<b>NON TECHNICAL ACCOUNT</b>		
Balance from technical account	11.7	30.6
Net investment income	14.7	37.0
Taxes	-2.0	-3.0
<b>Balance carried to contingency reserve</b>	<b>24.4</b>	<b>64.6</b>

## BALANCE SHEET

AS OF 20/02/2012

MUSD	2011	2010
<b>ASSETS</b>		
Financial investments	628.8	597.8
Debtors	10.0	5.5
Other assets	72.8	58.8
Prepayment and accrued income	11.0	9.9
<b>Total assets</b>	<b>722.7</b>	<b>672.0</b>
<b>LIABILITIES</b>		
Provision for outstanding claims for own account	402.2	368.4
Contingency reserve	291.4	266.4
<b>Technical provisions for own account</b>	<b>693.7</b>	<b>634.8</b>
Provisions for other liabilities	10.9	9.6
Creditors	11.1	21.0
Accruals and deferred income	7.0	6.6
<b>Total liabilities</b>	<b>722.7</b>	<b>672.0</b>

In the P&L, a relevant portion of overhead expenses are allocated to claims-, acquisition- and investment expenses respectively.

## LATEST

Standard & Poor's has upgraded Skuld to a clean A rating with stable outlook, stating i.a. "Skuld has met our expectations in terms of underwriting performance, capitalization, and investment risk appetite [...] In addition, the club has diversified its product offering and platforms, which we view as a strong differentiating factor relative to the club's peers [...]". June 2012

**“SKULD’S MUTUAL MEMBERSHIP IS BEING CHALLENGED BY CHANGING REGULATORY DEMANDS.”**

DOUGLAS JACOBSON  
PRESIDENT & CEO

# INNOVATIVE SOLUTIONS. STRONG PERFORMANCE. SERVICE GUARANTEED.

## DOUGLAS JACOBSON, PRESIDENT & CEO

Nine consecutive years of underwriting surpluses, record high contingency reserves and gross tonnage climbing to 66.7 million – Skuld’s strategic and sustainable long-term approach is backed by a solid 2011.

Throughout 2011, Skuld continued its robust performance and commercial diversification despite serious macroeconomic challenges facing the industry and our members. We are a game-changing marine insurance provider. Few competitors can match our service approach to shipowners’ most challenging issues; none can match the commercial direction we have taken in 2011.

### NEW PERSPECTIVE

Innovative solutions are our new perspective: A perspective driven by increasing demand for professional insurance services. The club’s growth requires a sophisticated Enterprise Risk Management approach to allocate risk capital optimally, and simply be the best for our members and clients.

Skuld’s mutual membership is being challenged by changing regulatory demands where regulators require more control and increased capital adequacy for coverage of the club’s liabilities through the new Solvency II regime. To meet these increasing demands and deliver first class mutual services and cutting edge insurance products, Skuld’s asset portfolio must comprise more revenue sources than just premium income.

### COMMERCIAL DIVERSIFICATION

While the scale of our business and the diversity of our portfolio provide the platform for future growth and earnings stability, our new commercial approach will establish the framework for financial strength. We are well on our way to achieving a top line of USD 500 million by 2015.

**Skuld Offshore** Re-establishing our offshore division in 2008 was, simply, the right thing to do. We have experienced three consecutive years of remarkable growth covering specialist liability and physical damage. Skuld Offshore is an emerging force, raising the bar in sophisticated technical insurance solutions for the subsea and offshore

**“OUR CORE BUSINESS IS P&I, BUT TO DELIVER FIRST CLASS MUTUAL SERVICES [...] WE MUST EMBRACE DIVERSIFICATION.”**

industry. Our exposure to new global shipowners and new clients has increased immensely through our diversification into the offshore business.

**Skuld 1897** Established in 2010, the marine and energy insurance provider, Skuld 1897 is a success. Eighty per cent of 2011 business came from club members, who achieved between three to five per cent savings through direct placement. The development and operation of Skuld 1897 received rave reviews by the Lloyd's Franchise Board and CEO and is rapidly positioning itself as a strong insurance syndicate. As Skuld 1897 volumes grow, so will our profits.

**Asta (previously known as Whittington insurance market)** In line with our diversification ambitions, acquiring a one-third stake in Whittington, which has now changed its name to Asta, is the quickest and most economically viable way to manage our own syndicate. Asta exemplifies fast, personalised, professional and hands-on solutions. It is globally recognised as a top managing agent in Lloyd's.

Owning a full turnkey managing agency in Lloyd's, provides us with a wider platform to expand our range of services and grow. It creates tremendous synergies with other Lloyd's syndicates and lifts our standing as a first class service provider. Asta grants new revenue channels and future earnings to support and expand our core P&I business.

**Transmarine** Skuld's partnership with Transmarine is a clear example of broadening our product range and enhancing our service for the benefit of our members and clients worldwide.

This venture, representing premium business, gives Skuld access to the market's most comprehensive loss of hire cover; a product vaster and broader than any traditional hull and machinery provider offers.

Accessing a specialist and non-clashing book of business is a significant opportunity for Skuld 1897, now able to bring profitable business into Lloyd's both from Transmarine and additional business from our P&I network.

**CONTROLLED GROWTH**

Our core business is P&I, but to deliver first class mutual services and offer members and clients predictability, sustainability and the financial protection they need, we must embrace diversification. The secret to accelerating Skuld's business is through vertical growth, that is, by controlling larger portions of the insurance supply and service chain.

Skuld's financial performance is outstanding, but we will avoid any temptation to let our cash pool remain dormant. We will make sure that

**“TODAY'S CHANGING SHIPPING AND OFFSHORE CLIMATES REQUIRE NIMBLE, PRACTICAL SOLUTIONS.”**

our excess funds work efficiently to the benefit of our members. We must be stewards of our strong financial position and restructure Skuld to be better than it has ever been.

We intend to double our business by 2020. We have started with a new innovative framework and a platform that outlines our ambitions.

**Geographical expansion** Skuld P&I is growing in volume by 11% annually and with major growth areas in East Asia, followed by Europe including the Middle East. Since our re-opening of the offshore business four years ago, we have seen a growth rate of 59% per annum for Skuld Offshore. The outlook for 2012 is further offshore expansion worldwide and continued high expansion in East Asia. Skuld 1897 has completed its first year and follows its business plan, attracting a substantial part of its business from the Skuld P&I network and members, i.e. from markets where Skuld has a strong presence.

No new offices were opened in 2011, but we grew our staff in several global locations to meet demand. We are also excited about moving our Oslo headquarters into new premises adjacent to the Norwegian Shipowners' Association.

**LONG-TERM DESTINATION**

Today's changing shipping and offshore climates require nimble, practical solutions. The rapid pace of change and ambiguity means that Skuld must be equipped with razor-sharp skills, competence and abilities to meet new challenges and to implement cutting-edge insurance covers and claims handling.

Throughout 2011, Skuld people contributed at their full potential, delivering unmatched value to our members and clients. We make it easy for members and clients to do business with us and we listen and understand their needs. We employ our resources effectively. We assign our people where they can make the biggest contribution and allocate our financial resources to leverage the best opportunities for our mutual membership.

Innovative solutions, strong performance and service guaranteed. That's Skuld. This perspective accesses the right insurance expert, the right cover and the right communication to maximise the value of every member's assets.

At Skuld, we are taking a new perspective and getting ready for tomorrow. Our vision creates a long-term destination for our business and provides us with a roadmap for working together with the best in the industries that we serve.



**DOUGLAS JACOBSON**  
PRESIDENT & CEO



“I ASSUMED THIS  
ROLE KNOWING THAT  
I HAVE A DEEP, DEEP  
RESPONSIBILITY TO  
OUR MEMBERS.”

KLAUS KJÆRULFF  
CHAIRMAN OF THE BOARD

# SUSTAINABLE AND RESILIENT DEVELOPMENT

## KLAUS KJÆRULFF, CHAIRMAN

The determined execution of our growth strategy in 2011 enabled us to achieve strong results and generate significant value for our members, while positioning us to drive P&I performance, industry differentiation, and commercial expansion.

I firmly believe that this company will continue to make great strides towards our goals in the years ahead. With the unflagging efforts of our staff and unwavering support of Skuld's committee, management and board of directors, we will continue to develop and improve. Undoubtedly, we are succeeding in becoming the shipping industry's P&I benchmark.

### SAME VISION – NEW PERSPECTIVE

From landing my first position as a trainee with the East Asiatic Company (EAC) in 1969 at the age of 17, to becoming chief executive of the world's largest product tanker pool with more than 150 vessels, I understand and love working in shipping.

During my career as a shipping executive, I developed a keen appreciation and interest in P&I. I cannot recall how many times I telephoned a Skuld representative for support. Operating worldwide and encountering global challenges, I could always call Skuld and get help.

Elected chairman of Skuld's board in June 2011, I assumed this role knowing that I have a deep, deep responsibility to our members.

Yes, I am a Skuld executive and committed to expanding the commercial interests of the club; but first and foremost, I am dedicated to sustaining and sharpening what I have experienced for the past four decades; that is, an overriding trust in Skuld's ability to provide unmatched P&I insurance solutions and service.

Skuld's vision, to be a world leading marine insurance provider through innovation, financial strength and the talents of our people, is still the same, but the game plan is changing considerably.

### REVENUE DIVERSIFICATION

Skuld's changing market calls for a different business approach and a stronger balance sheet. Our mutual members are our owners and P&I owners' business is still the core business in our organisation.

**“WE MITIGATE THE RISKS INHERENT IN OPERATING IN A SINGLE MARKET BY DIVERSIFYING OUR BUSINESS INTERESTS.”**

Skuld's commitment and driving force is P&I, while defence insurance and the roll out of new products and ancillary covers help meet even narrower risks and more specialised requirements for cover. Having said this, it is becoming extremely challenging to achieve a balanced underwriting result and reach our growth targets based on standalone P&I income.

Non-mutual product lines have been an important factor to Skuld's nine-year track record of underwriting surpluses and a significant contributor to increased contingency reserves.

Skuld's commercial expansion is necessary for many reasons. We need sufficient capital to support our growth strategy, to increase the volume of risk exposure and to attract larger corporations with multiple business lines to our membership base.

Further, Skuld must hedge itself against the capital requirements of Solvency II and create a greater level of independence in light of the EU's focus on the International Group's pooling system. We feel strongly that P&I clubs focusing solely on their core activity will not survive. Non-mutual business will play a significant role in Skuld's future volume. We mitigate the risks inherent in operating in a single market by diversifying our business interests.

#### A CORPORATE BUSINESS STYLE

Skuld is establishing a corporate business style. With more than 3.000 vessels on the P&I side and 3.000 vessels on charterers' liability, we have to run a tight ship. And we do. We are continuously making changes to strengthen governance and effectiveness and, though not listed, we mirror the demanding requirements of a public company.

Though Skuld consistently outperforms all clubs in terms of underwriting profitability and combined loss ratio (with the lowest in the industry), business diversification is absolutely necessary to sustain future growth and build an even stronger corporate identity.

#### POSITIVE SUPPORT

Skuld's board strongly supports the management team's strategy to develop a long-range plan for multiple revenue streams, while not forgetting our century-old P&I traditions. Further development is imperative, but this must be embedded in quality, trust and controlled growth.

Skuld's past and more-recent commercial business decisions have been good decisions. Re-launching the offshore business, creating a new Lloyd's syndicate Skuld 1897 and acquiring a one-third stake in Whittington (now Asta), one of Lloyd's most respected managing agencies, are decisive building blocks and incremental contributors to bottom-line results. These and future commercial investments

**“STANDARD & POOR'S RECENT UPGRADE OF SKULD TO A CLEAN A RATING, STABLE OUTLOOK IS A STRONG MOTIVATING FACTOR AND FULFILLS ONE OF SKULD'S STRATEGIC GOALS.”**

necessitate a strong company culture and a well-co-ordinated management team, as well as good leaders with efficient structures, processes and routines at all levels of the organisation.

#### THE ROAD AHEAD

Standard & Poor's recent upgrade of Skuld to a clean A rating, stable outlook is a strong motivating factor and fulfills one of Skuld's strategic goals. It also makes me even more confident that continued focus on fresh new business lines and improved management structures will usher in an exciting new era in Skuld's history.

The club's operational management is considered to be far above the average level in the industry, something that was clearly recognised in Standard & Poor's upgrade.

Skuld 1897 and Asta give us greater access to new business and reinsurance markets and further independence from the International Group. I am impressed with Asta's performance and anticipate increased synergies through Skuld 1897 and doubling of volume in 2012 and 2013. Though demanding considerable investment, the cost of entry is minimal compared with future revenue.

#### THE SKULD GROUP

Our future corporate structure will introduce the Skuld group, the name used to describe all of Skuld's business areas. Head office functions will remain in Oslo and the new group management team will have responsibility for all Skuld group operations.

The combination of further organic P&I growth and commercial development will increase Skuld's bottom line results, thus adding more value to our members.

I am convinced that the overall strategic direction set by the management team will continue to capture growth from our global shipping and offshore business and provide a long-term sustainable and resilient future development for the group overall. What we have achieved in 2011 would not be possible without the hard work, discipline and dedication of Skuld's united team of professionals. Through focused execution of our growth strategy and high-performance P&I services, we are well positioned for continued success.

I, and the Skuld board, look forward to pursuing value-accretive business decisions on behalf of our mutual owners. We are extremely honoured to serve Skuld and to do our part in shaping a better future through accountability, business direction and experience.

I thank all our stakeholders around the world for your continued support and interest in Skuld.



**KLAUS KJÆRULFF**  
CHAIRMAN OF THE BOARD



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# ANNUAL GENERAL MEETING

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The Annual General Meeting will be held Thursday,  
30 August 2012 in Oslo, Norway.