



ANNUAL
REVIEW
2012



ACCOUNTS

2012

CONSOLIDATED
INCOME AND
EXPENDITURE
ACCOUNT

All figures in USD 1000	Note	2012	2011
TECHNICAL ACCOUNT			
Premiums and calls			
Gross premiums and calls	2	317 936	299 971
- Reinsurance premium		-40 244	-38 482
Earned premiums and calls for own account		277 692	261 489
Claims incurred			
Gross claims paid	3	276 329	233 115
- Reinsurance recoveries	3	-65 098	-63 924
Gross change in estimated outstanding claims	3	-51 129	20 128
- Reinsurers share	3	52 065	4 403
Claims incurred for own account		212 167	193 722
Operating expenses			
Acquisition costs	4	50 486	42 952
Administrative expenses	4	14 070	13 157
Net operating expenses		64 556	56 109
Balance carried to non-technical account		969	11 657
NON-TECHNICAL ACCOUNT			
Balance from technical account		969	11 657
Investment income			
Investment income		5 542	10 621
Unrealised gains / losses on investments		7 128	1 769
Realised gains / losses on investments		8 137	5 649
Total investment income		20 808	18 055
Investment expenses			
Investment management expenses		1 613	1 659
Foreign exchange adjustments			
Foreign exchange adjustments		-456	-1 684
Balance before tax on ordinary activities		19 707	26 368
Taxes			
Taxes		2 189	2 016
Balance carried to contingency reserve		17 518	24 353

**BALANCE
SHEET AS
OF 20.02.13**

All figures in USD 1000	Note	2012	2011
ASSETS			
Financial assets			
Mortgages		1 065	1 057
Other loans		862	526
Strategic investments	6	9 917	11 088
Commodities	6	7 461	6 515
Hedge Funds	6	4 835	147
Private Equity	6	20 081	16 831
Shares	6	124 553	103 143
Bonds	6	473 072	489 543
Total financial assets		641 845	628 850
Debtors			
Members and brokers		353	4 194
Reinsurers		5 796	5 467
Other debtors		1 715	375
Total debtors		7 863	10 036
Other assets			
Net deferred tax assets		1 227	3 007
Fixed assets	5	6 937	2 571
Pension assets		3 957	3 520
Cash at bank		80 669	63 750
Total other assets		92 790	72 847
Prepayments and accrued income			
Prepayments and accrued income	7	15 441	10 977
Total assets		757 939	722 709
LIABILITIES			
Technical provisions			
Provisions for outstanding claims for own account	9	412 123	402 244
Contingency reserve	8	308 425	291 429
Technical provisions for own account	9.10	720 548	693 673
Provisions for other liabilities			
Pension liabilities		8 256	10 925
Total provisions for other liabilities		8 256	10 925
Creditors			
Members and brokers		2 809	-1 420
Reinsurers		4 741	3 327
Other creditors		6 055	9 176
Total creditors		13 605	11 084
Accruals and deferred income			
Accruals and deferred income		15 529	7 027
Total liabilities		757 939	722 709
sign.	sign.	sign.	sign.
Klaus Kjærulff	Bernt O. Bodal	Sergey Popravko	Frank G. Jensen
Chairman of the Board			
sign.	sign.	sign.	sign.
Trygve Seglem	Manfredi Lefebvre D'Ovidio	Peter Wilsund	Ulf G. Ryder
sign.	sign.	sign.	sign.
John P. Tavlarios	Simone A. Trondal	Claus Spinding	Douglas Jacobsohn
			President & 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.

These sets of USD accounts are based on the official Norwegian 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 Germany GmbH, 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. (capital provider for Syndicate 1897 at Lloyds) and Skuld II Ltd. (capital provider for Syndicate 1897 at Lloyds). 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 and unearned premium for future 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 administration 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	30 704	9,7%
Nordic countries excl. Norway	34 663	10,9%
Germany	36 491	11,5%
Greece	19 321	6,1%
Rest of Europe	87 023	27,4%
USA	30 096	9,5%
Far East	53 608	16,9%
Other	26 030	8,2%
Total gross premiums and calls	317 936	100,0%

Note 3 NET CLAIMS INCURRED

	2012	2011
Gross claims paid		
Members' claims	245 984	221 224
Group Pooling arrangements	30 345	11 891
Gross claims paid	276 329	233 115
Reinsurers' share		
Group Pooling arrangements	-38 708	-17 268
Market underwriters	-26 390	-46 656
Other P&I Associations	0	0
Reinsurers' share	-65 098	-63 924
Net claims paid	211 231	169 191
Change in provision for gross claims		
Provision opening balance	531 434	502 359
Provision closing balance	490 326	531 434
Change in currency valuation at year end	-10 021	-8 946
Change in provision for gross claims	-51 129	20 128
Less movements in provision for reinsurers' share		
Provision opening balance	-128 587	-133 044
Provision closing balance	-78 203	-128 587
Change in currency valuation at year end	1 681	-54
Less movements in provision for reinsurers' share	52 065	4 403
Change in provision for future claims		
Net change in claims provision	936	24 531
Claims incurred for own account	212 167	193 722

Note 4 NET OPERATING EXPENSES

	Group		Association	
	2012	2011	2012	2011
Administrative expenses	14 070	13 157	7 033	8 844
Salary, etc.	14 305	13 962	14 305	13 962
Commissions	24 412	19 022	17 133	16 570
Marketing	3 327	2 683	2 336	2 017
Surveys	381	333	381	333
Other acquisition costs	8 061	6 953	8 236	6 645
Acquisition costs	50 486	42 952	42 391	39 526
Net operating expenses	64 556	56 109	49 424	48 371

In the P&L, direct claims cost and a relevant portion of overhead expenses are allocated to claims-, acquisition- and investment expenses respectively. The consolidated figures include Skuld groups share of Syndicate 1897 at Lloyds' operating expenses.

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 2013, a ratio of 12.3% (12.4% at 20th February 2012) 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 2012	12 150
Purchases in the year	5 430
Sales / Scrapping in the year	-8 665
As at 20th February 2013	8 915
As at 20th February 2012	9 579
Depreciation on sold / scrapped assets	-8 491
Depreciation this year	890
As at 20th February 2013	1 978
As at 20th February 2012	2 571
As at 20th February 2013	6 937

Note 6 FINANCIAL INVESTMENTS

	2012	2011
	Market value	Market value
Shares		
Norwegian shares	3 106	5 308
Foreign shares	121 446	97 835
Total shares	124 553	103 143
Bonds		
Treasuries	334 605	356 990
Corporate Securities	138 761	132 347
Cash and Money Market	-294	208
Total bonds	473 072	489 543
Alternative investments		
Commodity derivatives	7 461	6 515
Hedge Funds	4 835	147
Private Equity	20 081	16 831
Total alternative investments	32 377	23 493

Note 7 PREPAYMENTS AND ACCRUED INCOME

	2012	2011
Accrued interest	14	15
Other prepayments	15 426	10 962
Prepayments and accrued income	15 441	10 977

Note 8 CONTINGENCY RESERVE

	2012	2011
Contingency reserve opening balance	291 429	266 436
Balance carried forward to contingency reserve	17 518	24 353
Difference related to subsidiaries	-521	640
Contingency reserve closing balance	308 425	291 429

Note 9 PROVISIONS FOR OUTSTANDING CLAIMS BY POLICY YEAR

	2012	2011	2010	Closed years	Total
Gross estimated outstanding including IBNR	144 210	105 173	59 205	163 022	471 609
The Association's estimated share of other associations' pool-claims including IBNR	14 336	3 269	1 433	-322	18 717
Gross provision for outstanding claims	158 546	108 442	60 638	162 700	490 326
Estimated outstanding recoveries including IBNR from					
Pooling agreements	0	22 414	2 219	12 232	36 865
Group excess loss	0	0	0	24 085	24 085
Other reinsurers' share	481	660	4	16 108	17 252
Total estimated outstanding recoveries	481	23 073	2 224	52 425	78 203
Provisions for outstanding claims for own account					
	158 065	85 368	58 414	110 275	412 123
Contingency reserve	-4 894	10 281	58 653	244 385	308 425
Technical provisions for own account	153 172	95 649	117 068	354 660	720 548

Note 10 TECHNICAL PROVISIONS FOR OWN ACCOUNT

	2012	2011
P&I		
Gross estimated outstanding including IBNR	382 218	439 475
The Association's estimated share of other associations' pool-claims including IBNR	37 830	36 536
Gross provision for outstanding claims	420 048	476 011
Estimated outstanding recoveries from		
Pooling agreements	-36 865	-67 138
Other reinsurers' share	-36 335	-56 871
Total estimated outstanding recoveries	-73 201	-124 009
Provision for outstanding claims for own account	346 847	352 002
Other		
Gross estimated outstanding including IBNR	89 391	74 536
The Association's estimated share of other associations' pool-claims including IBNR	-19 113	-19 113
Gross provision for outstanding claims	70 278	55 423
Estimated outstanding recoveries from		
Pooling agreements	0	0
Other reinsurers' share	-5 002	-5 182
Total estimated outstanding recoveries	-5 002	-5 182
Provision for outstanding claims for own account	65 276	50 241
Total P&I and Other		
Provision for outstanding claims for own account	412 123	402 244
Contingency reserve	308 425	291 429
Technical provision for own account	720 548	693 673

Note 11 OFF-BALANCE SHEET ITEMS

Guarantees

Bank Guarantees and "Club Letter of Guarantees" amounting in total to USD 646.2 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 01.06.2012.

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 contingency reserves. During 2012 the investment risk was within the permitted range at all times.

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 the claims liabilities, while currency risk are minimized by letting the currency composition of the hedge portfolio mirror that of the 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 maximizing the 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 20.02.13

	2012	2011	2010
P&I			
Advance calls, releases and other gross premiums charged in:			
years to 20th February 2011	0	0	255 342
years to 20th February 2012	0	261 104	1 497
current accounting year	263 012	1 801	-345
	263 012	262 904	256 494
Supplementary calls levied in:			
years to 20th February 2012	0	0	0
current accounting year	0	0	0
	0	0	0
Total calls and premiums	263 012	262 904	256 494
Reinsurance premiums	-34 956	-36 719	-29 187
	228 056	226 185	227 306
Claims incurred net of reinsurance recoveries	-190 805	-182 327	-172 074
	37 250	43 858	55 232
Net operating expenses	-49 003	-46 029	-41 107
Net investment income	16 762	13 764	35 011
Taxes	-2 036	-1 868	-2 855
Total P&I	2 973	9 725	46 280
	2012	2011	2010
Other			
Advance calls, releases and other gross premiums charged in:			
years to 20th February 2012	0	35 019	16 105
current accounting year	46 683	7 761	-2
	46 683	42 780	16 103
Supplementary calls levied in:			
years to 20th February 2012	0	0	0
current accounting year	0	0	0
	0	0	0
Total calls and premiums	46 683	42 780	16 103
Reinsurance premiums	-6 491	-5 203	-513
	40 191	37 578	15 589
Claims incurred net of reinsurance recoveries	-35 348	-26 923	-2 273
	4 843	10 655	13 316
Net operating expenses	-14 515	-10 917	-2 804
Net investment income	1 959	966	2 034
Taxes	-153	-148	-174
Total Other	-7 867	556	12 373
Total P&I and Other	-4 894	10 281	58 653

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 20.02.13 - MUTUAL AND FIXED BUSINESS

	2012	2011	2010
Mutual			
Total calls and premiums	216 571	214 332	205 001
Reinsurance premiums	-23 372	-24 434	-22 361
	193 199	189 898	182 640
Claims incurred net of reinsurance recoveries	-169 115	-170 252	-153 675
	24 084	19 646	28 965
Net operating expenses	-40 375	-37 024	-33 158
Net investment income	13 752	11 157	28 498
Taxes	-1 706	-1 538	-2 293
Total Mutual	-4 245	-7 759	22 012
Fixed			
Total calls and premiums	93 124	91 353	67 595
Reinsurance premiums	-18 075	-17 488	-7 339
	75 048	73 864	60 256
Claims incurred net of reinsurance recoveries	-57 039	-38 997	-20 672
	18 010	34 867	39 583
Net operating expenses	-23 143	-19 922	-10 753
Net investment income	4 968	3 573	8 547
Taxes	-483	-478	-736
Total Fixed	-649	18 040	36 642
Total Mutual and Fixed business	-4 894	10 281	58 653

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.