SFCR

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THE SOLVENCY AND FINANCIAL CONDITION REPORT (SFCR)

For the period 21 February 2016 – 20 February 2017

Executive Summary

This is the first Solvency and Financial Condition Report prepared by the Skuld group. The Skuld group includes Assuranceforeningen Skuld (Gjensidig) and Skuld Mutual P&I Association (Bermuda Ltd). Please note that the Skuld group in Solvency II terms does not include all the subsidiaries which are included in the consolidated financial accounts. Throughout this report, the term *Skuld group* refers to the Solvency II definition of the group, and hence, all group figures are stated accordingly. In this document, the "Norwegian Association" refers to Assuranceforeningen Skuld (Gjensidig), and the "Bermuda Association" refers to Skuld Mutual P&I Association (Bermuda Ltd). Unless otherwise stated, all amounts in this report are in USD million.

The Regulatory solvency requirements are calculated with the Solvency II Standard Formula.

The financial year of 2016 was a year of consolidation for the Skuld group. The premium income was slightly down in a year where Skuld group prepared for future growth by starting up its own Hull & Machinery operation. The Skuld 1897 Lloyds's syndicate also had a year with no substantial change in underwriting exposure. The 2016 Skuld group combined ratio was 98%, which is an increase compared to the 2015 combined ratio of 95%. However, the 2016 combined ratio at 98% is equal to the average combined ratio for the 2011 – 2015 period. The return on Skuld group's investment portfolio was 3.4%, which is considerably higher than expected due to favourable development in the financial markets.

At year end 2016, the Skuld group's solvency ratio was 133%, while the Norwegian Association's solvency ratio was 134%. The partial internal model which is still under assessment for approval by the Norwegian FSA, shows a group solvency ratio of 157%. During the year, the Skuld group's underwriting risk exposure showed no major changes, in line with the description of the business development above. Correspondingly, there were no major changes to the Skuld group's investment strategy and consequently only minor changes to the Skuld group's investment risk profile.

The Skuld group's risk capital, however, increased due to the strong financial result, to a large extent caused by the strong investment performance.

During the year, there has been no principal changes to the valuation of assets and liabilities for Solvency II purposes.

The Solvency II regulatory regime was implemented 1 January 2016 and Skuld group's Governance and Risk Management system was developed to comply with the new requirements from that date. During the last year, there has been no material principal changes to the Governance and Risk Management system. However, Skuld group has a strategy for continuous improvement of this system, and consequently, the system has been slightly trimmed and streamlined during the year.

Contents

A. Business and performance

A.1 Business

The structure of the Solvency and Financial Condition Report (SFCR) has been prepared as described in Annex XX of the European Union Commission Delegated Regulation (EU) 2015/35. This report covers both Assuranceforeningen Skuld (Gjensidig) and The Skuld group, in line with Article 256(2) of the Solvency II Directive. The contact information is found below:

Assuranceforeningen Skuld (Gjensidig):
Visitor address to the registered office: Rådhusgaten 27, N-0158 Oslo
Phone: +47 22 00 22 00
Postal adress to the registered office: Postboks 1376 Vika, N-0114 Oslo

Skuld Mutual P&I Association (Bermuda Ltd):
Visitor address: 4 Burnaby Street, Thistle House, Hamilton, 11, Bermuda

Details of supervisory and external auditors:

Name	Function	Entity
Norwegain Financial Supervisory Authority (Finanstilsynet) Revierstredet 3, 0151 Oslo Phone: + 47 22 93 98 00 Postal Address: Postboks 1187 Sentrum, 0107 Oslo	Regulator	Assuranceforeningen Skuld (Gjensidige)
Bermuda Monetary Authority BMA House, 43 Vicoria Street, Hamilton Phone: +441 295 5278	Regulator	Skuld Mutual P&I Association (Bermuda Ltd)
Monetary Autohority of Singapore (MAS) 10 Shenton Way MAS Building, Singapore 079117 Phone: (65) 6225-5577	Regulator	Singapore Branch
Insurance Authority 21st Floor, Queensway Government Offices, 66 Queensway, Hong Kong Phone: (852) 2867 2565	Regulator	Hong Kong Branch
Ernst & Young AS Dronning Eufemias gate 6, 0191 Oslo Phone: +47 24 00 24 00 Postal Address: Postboks 1156 Sentrum, 0107 Oslo	External Auditor	Assuranceforeningen Skuld (Gjensidige)
KPMG AS Sørkedalsveien 6, 0369 Oslo Phone: +47 04063 / +47 45 40 40 63 Postal Address: Postboks 7000 Majorstua, 0306 Oslo	External Auditor	Skuld Marine Agency (SMA) AS Skuld Marine Claims Office (SMCO) AS
Ernst & Young AS Level 18 North Tower, One Raffles Quay, 048583 Singapore Phone: +65 6535 7777	External Auditor	Singapore Branch
PricewaterhouseCoopers Ltd 22/F, Prince's Building, Central, Hong Kong Phone: (852) 2289 8888 Postal Address: GPO Box 690, Hong Kong	External Auditor	Hong Kong Branch

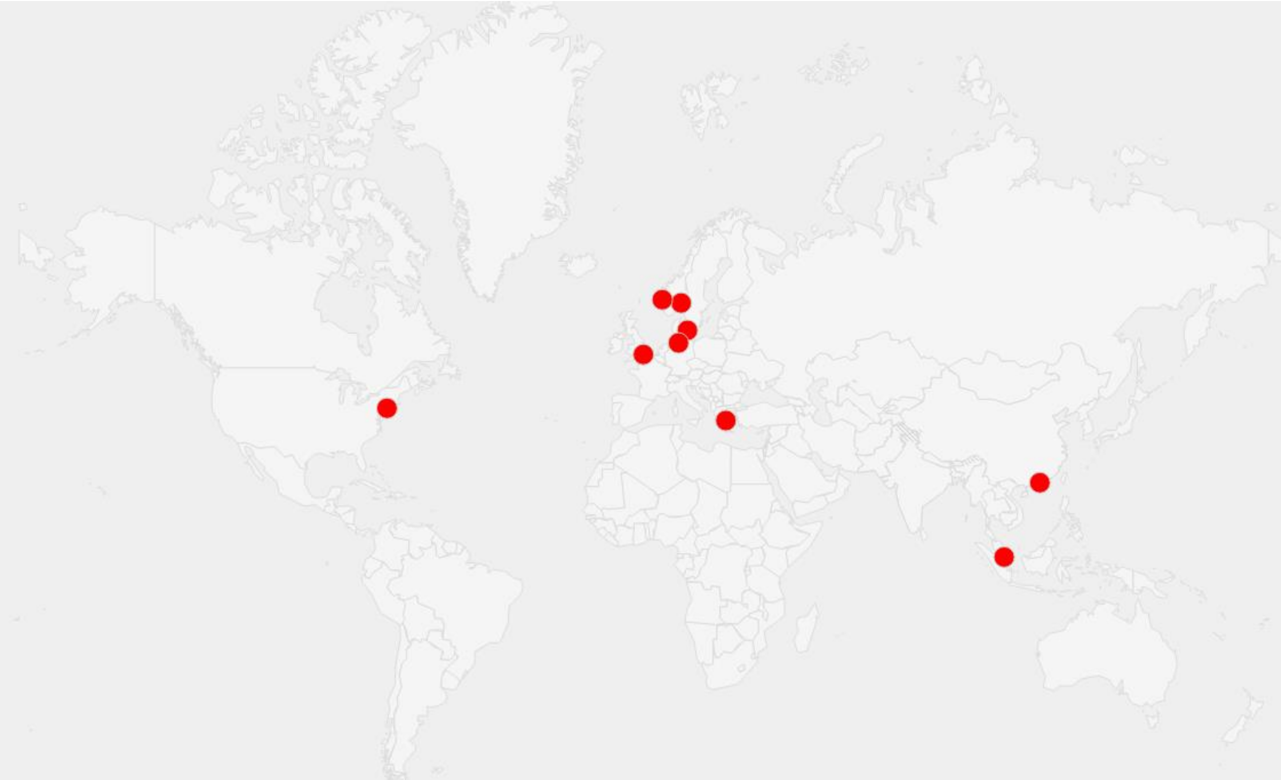
The Norwegian Association is a mutual insurance association, where the members of the association are also the owners through their membership as insured shipowners. There are no shareholders in the undertaking. No member holds more than a 10% vote in the General Meeting or exercises a significant influence over the management of the undertaking. The Norwegian Association is a participating undertaking with dominant influence in the Bermuda Association, which according to Solvency II makes the Norwegian Association and its subsidiaries an insurance group.

The Skuld group consists of:

- Assuranceforeningen Skuld (Gjensidig) and its subsidiaries - Vika Management AS, Skuld Marine Agency (SMA) AS, Skuld Marine Claims Office (SMCO) AS, Skuld Far East Ltd, Skuld Germany GmbH, Skuld Hellas Ltd, Skuld North America Inc., Skuld Services Ltd, Skuld I Ltd, Skuld II Ltd, and Skuld Investments Ltd.
- Skuld Mutual P&I Association (Bermuda) Ltd and its subsidiaries – Skuld Holding Ltd, Skuld II Reinsurance (Bermuda) Ltd, and Skuld Re Ltd.

The Skuld group's insurance classes are all classified under the Solvency II line of business Marine Aviation and Transport insurance (MAT).

The Skuld group has offices in Oslo (headquarter), Bergen, Copenhagen, Hamburg, Hong Kong, London, New York, Piraeus, Singapore and Bermuda, as illustrated in the figure below.



At the end of the year 2016 Skuld group announced the acquisition of HDI Gerling's H&M portfolio underwritten by Gerling/SMA Norway including the service company. The company has been renamed Skuld Marine Agency (SMA) AS following the company's acquisition by Skuld, and the portfolio started to renew on Skuld paper from 1 January 2017. Intangible assets and goodwill in the Financial Statements are related to the acquisition of Skuld Marine Agency (SMA) AS.

A.2 Underwriting performance

Skuld group writes only one Solvency II line of business, Marine Aviation and Transport insurance (MAT).

Underwriting is carried out from the main office in Oslo and branch offices in Singapore and Hong Kong. There has not been written any policies with a duration of more than 12 months in the 2016/17 policy year. Premium income through the different geographical areas is as per the table below:

	Geographical Area				Total
	Oslo	Hong Kong	Singapore	Bermuda	
The Norwegian Association	240.4	44.9	18.0		303.3
Skuld group	240.4	44.9	18.0	2.4	305.8

Skuld group has several reinsurance arrangements in place, including the International Group/Pooling agreement, that help protect the technical result in case of very large claims and/or casualties.

For the year ended 20 February 2017 Skuld group reported a positive technical result of USD 26.9 million on group level, compared to USD 19.6 million the prior year. The table below shows a summary of the technical account on an IFRS basis for both Skuld group and for the Norwegian Association:

	Skuld group		The Norwegian Association	
	2016/17	2015/16	2016/17	2015/16
Earned premium	305.8	314.9	303.3	312.5
Reinsurance premium	-68.9	-63.1	-90.0	-62.6
Net claims incurred	-154.1	-177.6	-131.8	-176.1
Net operating expenses	-55.9	-54.7	-54.0	-53.1
Technical result	**26.9**	**19.6**	**27.5**	**20.7**

A.3 Investment performance

The investment portfolio is primarily constructed to:

- hedge claims liabilities regarding exchange rate, interest rate and inflation risk
- provide liquid assets for cash management
- maximise expected return within established risk constraints

Skuld Group
Skuld group's gross Investment income contribution, by asset class, including foreign exchange adjustments but before deducting investment expenses, were as follows:

- Equity shares 30.2 (-16.4)
- Bonds -4.1 (6.4)
- Other investments 2.7 (-2.0)
- Other assets 1.3 (0.5)

A large part of Skuld group's investment expenses are not recognised within specific asset classes but across. The pro-rata shares of Investment expenses not directly deducted from market values were as follows:

- Equity shares 0.30 (0.32)
- Bonds 1.10 (1.13)
- Other investments 0.07 (0.08)

The Skuld group's gains and losses recognised directly in equity, gross of pro-rated share of fx-adjustment and investment expenses, amounted to USD 1.6 million (2.3). The Skuld group had no direct investments in securitised products in 2016, nor in 2015.

Norwegian Association
The Norwegian Association's gross Investment income contribution, by asset class, including foreign exchange adjustments but before deducting investment expenses, were as follows:

- Equity shares 29.9 (-17.2)
- Bonds -5.2 (3.1)
- Other investments 2.6 (-2.2)
- Other assets 1.3 (0.5)

A large part of the Norwegian Association's investment expenses is not recognised within specific asset classes but across. The pro-rata shares of Investment expenses not directly deducted from market values were as follows:

- Equity shares 0.08 (0.11)
- Bonds 0.29 (0.38)
- Other investments 0.02 (0.03)

Other comprehensive income/loss in the Norwegian Association's financial statements consist mainly of exchange differences on subsidiaries when converting from reporting currency to USD in the consolidation process.

The Norwegian Association had no direct investments in securitised products in 2016, nor in 2015.

A.4 Performance on other activities

Through subsidiaries Skuld I and Skuld II, the Norwegian Association is a member of the Society of Lloyd's syndicates 1867 and 6126. The results from the syndicates for the reporting period were USD -18.3 million, compared to USD -3.4 million for the previous period. Income attributed to the syndicate memberships is applicable to both the Norwegian Association and Skuld group.

A.5 Any other information

There are no other material matters in respect to the business or performance of the Skuld group or the Norwegian Association.

B. System of governance

B.1 General information on the system of governance

Skuld group has a tradition of high governing standards. Skuld's Statutes set out the structure and roles of the governing bodies, how they are elected and their mandates.

The Skuld group's more detailed "Corporate Guidelines" cover the responsibilities of the Board of Directors, its Chairman and the President and CEO. The purpose is independence and control in governing Skuld group, while at the same time ensuring equal terms for equal members.

The General Meeting
The General Meeting is Skuld group's highest authority. All members have a right to attend, the votes of members entitled to vote are calculated on the basis of the member's total gross tonnage entered and Estimated Total Call.

The Committee
The Committee, composed of member representatives, supervises Skuld group's business and elects the Board of Directors.

The Board of Directors
The Board of Directors, elected mainly among Skuld group members, deals with Skuld group's strategy plan, budget and premiums, changes to statutes or rules, International Group Association (IGA) issues, reinsurance contracts, internal control procedures and more.

The Guidelines for the Board of Directors focus on the responsibility for information related to board matters. Skuld group aims at open and transparent communication with members, employees and other stakeholders. An example is the publishing of six-month and nine-month reports.

The President and CEO
The President and CEO is responsible for the day-to-day management of the Skuld group and communicates with the Board of Directors on matters of importance to Skuld group. The President & CEO shall ensure the Skuld group's compliance with all applicable legislation and adherence to the code of conduct of the company, i.e. "Ethical Guidelines".

No material changes in the governance system have taken place over the reporting period.

B.2 Fit and proper requirements

A) List of the persons in the undertaking that are responsible for key functions
The following persons should be evaluated and approved as “fit & proper” in accordance with the current Fit & Proper Policy:

a. Members of the Board of Directors;
b. President and CEO;
c. Members of the Executive Management;
d. Heads of Branches abroad, and
e. Persons responsible for the following key functions: internal audit, risk management (CRO), actuary and compliance.

B) Information on policies and processes established to ensure that key functions are fit and proper

Policies established to ensure key functions are fit and proper
In order to ensure the level of competence, technical expertise and experience required for the proper management of the Skuld group, and in order to comply with local and international legislation requirements established for the management and key functions of the Skuld group, the persons identified in the key functions described in paragraph A) will be evaluated in accordance with the Skuld group’s Fit & Proper Policy.

Description of the evaluation process to ensure key functions are fit and proper
When performing the function set out in paragraph A) above, the Election Committee, Board of Directors, President and CEO and the Executive Management shall, prior to proposing the candidate for the respective position, obtain and evaluate information in order to satisfy themselves that criteria listed in paragraph A) are met. A Fit & Proper Assessment Form shall be used for this purpose. Any findings in writing shall be kept as documented proof of the evaluation.

Recommendations of the Election Committee and the decision to hire persons to fill key functions shall be considered as documentation confirming that the respective person satisfies the “fit & proper” criteria.
If a person is changing directly from one of the above-mentioned functions to another, no new assessment is required.

All persons listed in paragraph A) above shall be compliant with fit & proper criteria for the whole term of their appointment/employment with the Skuld group in these positions. If the Election Committee, Board of Directors, President & CEO or Executive Management have any grounds to believe that the “fit & proper criteria" listed in paragraph A) above are not met in full by any of the persons to whom they apply, they shall initiate a process of re-assessment. The re-assessment process will – inter alia – include requesting information from the person concerned and collecting other available information. For the key functions referred to in paragraph A) point d-e above, the Executive Management may consider the need for additional training. If the Election Committee or Executive Management conclude as a result of the re-assessment process that all the applicable criteria are not met, the recommendation for replacement shall be made to the Board of Directors or General Meeting, President and CEO or to the Executive Management.

The Skuld group shall timely advise the Norwegian Financial Supervisory Authority ("NFSA") of any new appointments/changes in the persons named in paragraph A) point a-e of the Fit & Proper Policy and provide documentation confirming that the required criteria have been met. The Skuld group shall also advise NFSA if any of the persons named in paragraph A) point a-e above are no longer considered fit & proper under this Policy. The NFSA may require a copy of the "self-assessment" form filled in and signed by the respective person.

B.3 Risk management system including own risk and solvency assessment

The objective of the Risk Management System is to effectively identify, measure, monitor, manage and report risks which the Skuld group and the Norwegian Association are exposed to today, or could be exposed to going forward. The organisational roles, strategies, processes and reporting procedures are set out in the Risk Management Policy, which is reviewed and approved by the Board of Directors on an annual basis. The Risk Management System shall be effective and transparent for all stakeholders in this system.

The Board of Directors is ultimately responsible for the Risk Management System, and it also assesses and approves risk appetite and risk tolerance limits on an annual basis.

The Risk Management function is an independent function, headed by the Chief Risk Officer (CRO), established to provide objective risk management capacity which is free from influence from other functions. The CRO is responsible for carrying out the processes necessary to identify new and emerging risks and update the Risk Register.

The Risk Management function is further responsible for the measurement and the monitoring of the risk exposure of the Skuld group and the Norwegian Association. All risks which the Skuld group and the Norwegian Association are exposed to are assigned to a risk owner. All risk owners at the Executive Management level together with the CEO and CRO are members of the Internal Risk Committee. The Risk Management function reports the risk profile against the set risk limits to the CEO, the risk owners and the Board of Directors on a monthly basis. The risk owners management, including any risk mitigation measures, of their risks are challenged and discussed in the Internal Risk Committee. The Internal Risk Committee discusses risk appetite and risk tolerance, risk strategy and the ORSA process before submissions to the Board of Directors. These processes are integrated into the overall strategic planning process to ensure that the risk aspect of all strategic business issues are assessed before decisions are made.

The Board of Directors has appointed a sub-committee of the Board, the Board's Risk Committee, with a mandate to review and follow up Skuld's Risk Management System. This implies considering and recommending resolutions to the Board in all risk management related issues.

The risk management system includes procedures for making sure that the risk management function can exercise its role in the organisation. This includes assessing risk and solvency aspects of every strategic decision process and further to support and challenge the risk owners in terms of risk management.

Own Risk and Solvency Assessment (ORSA) process
The Own Risk & Solvency Assessment (ORSA) is an important part of the risk management system. The ORSA is a set of processes and procedures that measures the strategy of the Skuld group against the risk profile to determine overall solvency needs and adequacy of the system of governance. The ORSA shall be integrated to the business strategy and shall be carried out through the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks faced now and in the future to

determine the own funds necessary to ensure that the undertaking’s overall solvency needs are met at all times.

The purpose of the process is to ensure that the Board of Directors has sufficient information to assess if the Skuld group's risk profile is within the approved risk appetite given the current and forward looking strategic decisions. The ORSA-process shall document that the Skuld group has enough capital to cover the business risk exposure in the strategy period.

Results from the ORSA-process shall be summed up in an ORSA report. In addition, complementary documentation of the process shall be documented so that it may be reviewed and verified.

A large part of ORSA is the risk identification process that shall capture all risks, including those not being a part of the SCR calculation, and enable the understanding of all risks the Skuld group is exposed to at any point in time. Risks shall be measured by understanding their impact on economic capital. Where risks cannot be quantified, the overall impact on the risk profile shall be assessed qualitatively.

The ORSA process is according to Skuld’s ORCA policy reviewed and approved by the Board of Directors at least annually. If the development in capital requirements or eligible capital indicate that the last ORSA report is no longer valid, then an “out of cycle” ORSA process is triggered.

Skuld group determines solvency needs based on the Risk Appetite statement. The Risk Appetite statement states how much risk the Skuld group is willing to take on relative to its capital. Based on the Risk Appetite statement, the Risk Tolerance is expressed quantitatively in terms of a target for the Solvency Ratio (145%) together with a minimum (120%) and maximum (170%) limit.

In terms of risk management, the strategy and framework with Risk Tolerance Limits are set in an iterative process with capital management process. Solvency depends on both capital and risk and it is therefore necessary that there is an iterative process where risk strategy is assessed based on available capital according to the capital plan. Correspondingly, the capital plan from the capital management process is assessed based on the risk strategy and Risk Appetite statement.

B.4 Internal control system

The risk management and internal control system in Skuld group is organised as a Three Lines of Defence Model. Managers and staff in business units and departments are responsible for an adequate internal control and are main responsible for ensuring compliance with external and internal requirements. They constitute the first line of defence.

Risk Management, Actuarial and Compliance are independent control functions in the second line of defence and their responsibility are described in separate policies and instructions and they constitute the second line of defence.

Internal Audit is the Board of Directors and President & CEO's independent control function, supporting the business with evaluations and recommendations for improvement. They constitute the third line of defence. Their responsibility is also further described in a separate policy.

B.5 Internal audit function

The Internal Audit Function`s responsibility is to evaluate the adequacy and effectiveness of the internal control system and all other elements of the systems of governance. The Function is the Board of Directors' independent control function and forms the third line of defence and evaluates the efficiency of the first and second line of defence.

The Internal Audit Function prepare an annual audit plan which is based upon the risk assessment process in Skuld. The planning process also include discussions with Executive Management to identify specific concerns they may have and the Internal Audit Function will form its own opinion concerning the risks relating to Skuld.

Skuld group has outsourced the Internal Audit Function, and the function reports directly to the Board of Directors.

B.6 Actuarial function

The requirements for the Actuarial function are set out in the Solvency II Directive. Skuld's Actuarial function is organised in accordance with the requirements for independence from operational functions in order to be objective and free from influence from other functions when forming its own actuarial view and providing opinions.

The Actuarial function is responsible for coordinating the calculation of the technical provision, implying that the function will:

- Apply methodologies and procedures to assess the sufficiency of technical provisions and ensure that their calculation is consistent with the underlying principles.
- Assess the uncertainty in the estimates.
- Apply judgement as appropriate, using any relevant information and the knowledge and expertise of the individuals involved.
- Ensure that problems related to data quality are dealt with appropriately and that, where there are deficiencies in data quality, appropriate alternative methods are applied, subject to proportionality.
- Ensure that risks are appropriately categorised into homogeneous risk groups.
- Track against previous estimates and justify any material differences.
- Ensure that methodologies and models used to calculate the technical provisions are appropriate, both in themselves and with regard to the specific lines of business they are applied to, taking into account the way the business is managed and the available data.
- Ensure that assumptions used in the calculations are realistic and appropriate for the business.
- Ensure that management actions included in the calculation of technical provisions are objective, reasonable and verifiable.

- Assess whether the IT systems used in the actuarial reserving procedures are adequate for that purpose.
- Review revised best estimates against past best estimates and use the insights gleaned to improve the quality of current best estimates.
- Compare observed values against the assumptions used in the calculation of technical provisions, in order to evaluate the appropriateness of the data used and the methods applied in their estimation.
- Inform the Board of Directors on the reliability and adequacy of the calculation of technical provisions, on the degree of uncertainty in the ultimate outcome and the circumstances that might lead to a significant deviation from the best estimate. It must clearly set out how it arrived at its opinion and explain any concerns it may have as to the sufficiency of technical provisions.
- Determine when data is of insufficient quality to apply a standard actuarial method and a case-by-case approach should be followed instead. It must apply judgment to establish assumptions and safeguard the accuracy of the results.

The Actuarial function shall also express an opinion on the underwriting policy with regard to the sufficiency of premiums to cover futures losses. Furthermore, the Actuarial function shall also assess the adequacy of the reinsurance program.

B.7 Outsourcing

"Outsourcing" refers to an arrangement under which a service provider undertakes to perform a service (including a business activity, function or process) which would otherwise be undertaken by Skuld group itself. The purpose of the outsourcing policy ("Policy") is to help identify and mitigate the risks associated with outsourcing, without hindering the efficiency and effectiveness of Skuld group's operations. An outsourcing agreement should be put in place between Skuld group and the service provider in the form of a legally binding written agreement which sets out the terms and conditions governing the outsourcing arrangement. Every such outsourcing agreement should address the risks and risk mitigation strategies associated with the outsourcing arrangement. The outsourcing agreement should be sufficiently flexible to allow Skuld group to retain an appropriate level of control over the outsourcing arrangement and the right to intervene with appropriate measures to meet its Regulatory Requirements. The outsourcing agreement should also bring out the nature of legal relationship between the parties i.e. whether agent, principal or otherwise.

The Board of Directors are responsible for approving a framework to evaluate the risks and materiality of all existing and prospective outsourcing and this Policy that applies to such arrangements. In addition, the Board of Directors has overall responsibility for all outsourcing arrangements and shall review this Policy at least annually to ensure it remains fit for purpose, compliant with relevant Regulatory Requirements and appropriate in the context of market developments.

The criteria for approving an outsourcing arrangement are for the Management to be satisfied that:

- the benefits of the outsourcing arrangement to Skuld group in terms of access to specialist services and/or reduced costs outweigh the risks associated with the reduced control and increased risk profile of using a service provider to provide such outsourced functions; and
- this Policy has been complied with.

It is imperative to emphasise that fundamental responsibilities such as the setting of strategies and policies, the oversight of the operation of the company’s core processes such as but not limited to underwriting and claims handling, shall not be outsourced.

B.8 Any other information

There are no other material matters in respect to the system of governance.

C. Risk profile

The risk landscape is constantly being monitored, and this allows management, the Risk Committee and the Board of Directors to assess the risk appetite for all quantifiable risks and have a thorough understanding of Skuld group's risk profile. The Solvency II standard formula is applied for measuring regulatory capital requirements. Under the standard formula, the following risks are relevant for the Skuld group and the Norwegian Association:

- Underwriting risk
- Market risk
- Counterparty default risk
- Liquidity risk
- Operational risk

Through the ORSA, which is performed annually, Skuld group ensure that all material risks are covered. High concentrations introduce risks that are hard to monitor and might not be captured sufficiently by the standard formula. The risk of concentrations exists within underwriting risk, market risk and counterparty risk. In the market risk module, there is a risk estimate related to large concentrations, while in the counterparty risk module, risk related to counterparty default is estimated for each counterparty. The underwriting risk module consider different geographical areas, but does not distinguish between the concentration on an individual level within or between each area. Within underwriting risk, a large amount of different policyholders ensures that undesired risk from concentrations are avoided.

C.1 Underwriting risk

The Skuld group and the Norwegian Association takes on underwriting risk from members and commercial clients. Underwriting risk is the largest risk contributor for the Skuld group and the Norwegian Association. This risk can be split into three main categories:

- Reserve risk is the risk associated with the risk periods that have already expired, but for which the losses are still uncertain due to claims still being run-off.
- Premium risk is the risk associated with the covers provided to policyholders that have not yet expired, but are entered into by the Skuld group and the Norwegian Association.
- Catastrophe risk is the risk associated with specific catastrophic events for covers provided to policyholders that have not yet expired, but are entered into by the Skuld group and the Norwegian Association.

In order to mitigate this risk, the Skuld group and the Norwegian Association, alongside the 12 other P&I clubs, participates in the International Group of P&I clubs' (IG) pooling arrangement, where currently, claims above a certain retention level are pooled (club retention level 2015: USD 9 million; 2016 USD 10 million). The pooling agreement provides a solid market reinsurance program, and sets out how the losses in the pooling layers are distributed between the participating clubs. This enables solvency after events with extreme losses, but also in years with a high frequency of low severity claims. Thus, reinsurance is applied to ensure that underwriting risk is kept within the accepted risk appetite.

The clubs in the pooling arrangement retains part of the exposure, but purchases reinsurance in the market to reduce the total exposure. The P&I clubs have through IG established Hydra, a segregated account company, where each of the clubs have their own segregated cell, reinsuring part of the exposure in the Pool.

The Skuld group and the Norwegian Association also writes other covers with very high vertical limits of cover (e.g. Charterer P&I and CLH and Offshore covers). These covers are reinsured in the market based on a risk assessment of the desired risk level.

The SCR for underwriting risk is USD 222.3 million and USD 209.3 million at year-end 2016 for the Skuld group and the Norwegian Association, respectively.

	Skuld group	The Norwegian Association
Premium and reserve risk	214.7	201.6
Catastrophe risk	25.1	25.1
Diversification	-17.5	-17.4
Total underwriting risk	**222.3**	**209.3**

C.2 Market risk

Market risk measures the risk of losses due to factors that affect the performance in financial markets, creating adverse changes to volatility of prices for assets and liabilities held by investors.

The Skuld group and the Norwegian Association is exposed to market risk through the nature of the current investments. The Skuld group and the Norwegian Association has an underlying strategy of matching insurance liabilities in terms of currency and duration with fixed interest government securities of a high quality (rating). Furthermore, the Skuld group and the Norwegian Association hold diversified portfolios of investment types, and aim to maximise the return at the agreed level of risk. The aim is to ensure that they are able to cover for future payments of claims, and risk taking is therefore only accepted on top of the risk mitigating techniques applied. As such, assets are held in a manner that is in the best interest of the policy holders.

	Skuld group	The Norwegian Association
Interest rate risk	3.9	4.6
Equity risk	81.9	90.4
Spread risk	7.6	7.6
Currency risk	45.2	44.9
Property risk	2.3	1.9
Concentration risk	12.0	13.2
Diversification	-41.7	-43.9
Total market risk	**111.2**	**118.7**

The *Investment and Liquidity Policy* gives the overall objective and constraints of the operational management of the investment portfolios and has in scope all business processes dealing with risk factors included in the market risk module under Solvency II. This policy is reviewed and approved by the Board of Directors, which have the ultimate responsibility for the investments made. Skuld group has an Investment Committee which follow-up the Head of Investments, ensuring that prudent investments are made and that these correspond with the risk appetite of the Skuld group and the Norwegian Association. Furthermore, there are procedures and criteria outlined to monitor and evaluate the performance results achieved by investment managers on a regular basis, and reports on the performance go to the Board of Directors in addition to the Investment Committee. As such, the Skuld group and the Norwegian Association meet the prudent person principle as set out in Article 132 of Directive 2009/138/EC.

Changes in interest yield curves affect future payments to be made in respect of claims and other liabilities and the return on investments with exposures being sensitive to changes in interest yield curves. The assets that are exposed to interest rate risk are primarily those found in the hedging-portfolio, which is a portfolio constructed to minimise interest and currency risk by matching assets with liabilities.

The interest yield curves in Europe have decreased in the reporting period, which is a reflection of decreasing base rates offered by the central banks. In the US, the interest yield curves have been on the rise after the election of a new President. The yield closest to the Skuld group and the Norwegian Association weighted average in terms of duration and currency, USD 2.5 year tenor, went from about 0.85% to 1.35% during the year. Interest rate risk is relatively low for both the Skuld group and the Norwegian Association.

Equity risk is the risk arising from holding equities in particular investments. This is the largest contributor to market risk for both the Skuld group and the Norwegian Association. This risk is considerably higher for the Norwegian Association as it holds equity in subsidiaries in the group, and these are also included in the equity risk module, in addition to equities in the investment portfolio.

Property risk is insignificant for the Skuld group and the Norwegian Association, as there are no large investments in properties.

Spread risk reflects the sensitivity of the values of investments with respect to changes in credit spreads. Thus, spread risk is primarily taking into account bonds and secured loans. Credit spreads will in general be smaller for well rated securities than for those who are poorly rated. In addition, credit spreads will vary with the duration of the securities (high spreads for lower durations, and low spreads for longer durations).

Both the Skuld group and the Norwegian Association are exposed to several different currencies, and thus currency risk is present, as exchange rates will affect the value of transactions and balances. The accounting currency is USD, and this is the currency of which most assets and liabilities are denominated in. Currency forwards are the only derivatives the Skuld group and the Norwegian Association has entered into directly, and these are used to buy NOK to hedge administration costs in NOK. This exposure is kept off-balance, but it is included in the currency risk calculation.

The three largest currency exposures are USD, EUR and JPY for the Skuld group and the Norwegian Association.

	Skuld group	The Norwegian Association
Currency	Net position	Net position
USD	176.8	167.6
EUR	53.1	56.1
JPY	37.1	37.2

Concentration risk is the exposure to increased losses associated with inadequately diversified portfolios of assets and/or liabilities. This is somewhat lower for the Skuld group than for the Norwegian Association.

C.3 Counterparty risk

Counterparty risk is the risk of financial loss if a counterparty to a transaction defaults before final settlement. The Skuld group and the Norwegian Association are exposed to counterparty risk through transactions with reinsurance companies, banks, derivative counterparties, members and clients. This risk cover changes in value of assets and liabilities stemming from weakened credit rating and unexpected default of different counterparties. Exposures are separated into two types, where the capital charge is estimated differently based on the nature of the counterparties in the two type of categories. Type 2 exposures does not rely on the credit rating of the counterparty, as there is implicitly assumed a rating. The main contribution to counterparty risk comes from reinsurance contracts entered into, and this risk is mitigated by mainly engaging in reinsurance schemes with reinsurers that have a rating A or higher, thus lowering the probability of a default. Reinsurance is furthermore divided over many different reinsurers.

The SCR for counterparty risk was USD 82.4 million at year-end 2016 for the Skuld group, and USD 82.0 million for the Norwegian Association.

C.4 Liquidity risk

The Skuld group and the Norwegian Association are exposed to liquidity risk through future incoming and outgoing cash flows. The liquidity risk is mitigated through liquid securities and cash that can cover future negative cash flows. More than 30 % of the financial instruments held by the Skuld group and the Norwegian Association can be liquidated within two days, and more than 75 % can be liquidated within five days.

As a result of high liquidity, neither the Skuld group nor the Norwegian Association hold any capital against liquidity risk.

Expected profits included in future premiums (EPIFP) are profits, which result from the inclusion in technical provisions of premiums on existing business that will be received in the future, but that have not yet been received. Thus, EPIFP is closely related to liquidity. This is calculated in accordance with in Delegated regulation (EU) 2015/35, Article 260(2).

Future cash flows not meeting these criteria are not a part of the cash flows included in the determination of technical provisions under solvency II, and they are thus not part of excess assets over liabilities. As such, the underlying assumptions are consistent with those in premium provision, as part of technical provisions.

EPIFP is USD 24.8 million and USD 18.1 million for the Skuld group and the Norwegian Association, respectively.

C.5 Operational risk

Operational risk is the risk of economic loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes compliance risk.

Skuld group shall have a low appetite and tolerance for material operational risks it is exposed to and appropriate measures are done to achieve a high level of operational risk awareness. Risk owners perform operational risk monitoring activities regularly, to promptly detect deficiencies in operating procedures.

Risk owners conducts self-assessment exercises of the specific operational risks inherent in their activities, including their identification and assessment regarding frequency of incidents and materiality, and reports identified incidents to Head of Compliance.

The SCR for operational risk is USD 13.3 million at year-end 2016 for the Skuld Group, and USD 14.1 million for the Norwegian Association.

C.6 Other material risks

Some risks cannot be quantified, and are therefore not included in the quantitative capital assessments. Such risks are part of the reason why the Skuld group and the Norwegian Association hold capital in excess of the solvency capital requirement. These are mitigated through the way different functions are organised, including areas such as legal, HR, investments and tax, recognising their role in managing the institution’s control framework in their respective areas of risk expertise. The Skuld group and the Norwegian Association have adopted a sound corporate governance structure with practices that align with good market practices. Furthermore, continuous improvement of risk monitoring and compliance with regulatory obligations are aspired to. Ongoing monitoring and periodic regulatory review of different jurisdictions are paramount to reduce non-quantifiable risks.

Strategic risk
Strategic risk is the risk of losses though failed strategic decisions, including unsuccessful business plans, failure to respond to changes in the market and inadequate resource allocation.

Reputational risk
Reputational risk is a risk of losses, directly or indirectly, resulting from damages to the reputation of a business. Losses can come through lost revenue and/or an increase in the cost base. Directly it can occur because of actions the Skuld group and the Norwegian Association take, and indirectly through actions of employees, accidents such as oil spills where the Skuld group and the Norwegian Association are the insurer and negative situations involving business partners (e.g. the International Group of P&I Clubs). Reputational risk is closely connected to strategic risk, as failed strategic decisions can adversely impact the reputation of the Skuld group and the Norwegian Association. This risk is mitigated through solid governance practices and emphasis on professional claim handling.

Regulatory and legal risk
Regulatory risk is the risk of a change in regulations and laws that can affect the daily business of the Skuld group and the Norwegian Association. These kinds of changes can significantly change the operating framework and the cost-structure of companies in the industry. This was for instance the case when the Solvency II regulations came into force 1 January 2016 in Norway, impacting all P&I insurers registered in Norway. The regulator can also withdraw the license to operate, or having conditions applied, which will adversely impact the Skuld group and the Norwegian Association. The Skuld group and the Norwegian Association conduct business in several jurisdictions, and are therefore exposed to regulatory and legal risk across different regimes.

Risk related to the Skuld group and the Norwegian Association rating
The Norwegian Association currently holds an A-rating, and a downgrading would impact the financial credit conditions negatively, as borrowing money will be costlier. A solid financial standing is thus important for the Skuld group and the Norwegian Association.

C.7 Any other information

The Skuld group and the Norwegian Association has carried out sensitivity testing to see the impact on the solvency capital requirement and the solvency position arising from unexpected results within the different risk modules. Several different scenarios that are subject to stress testing have been defined.

These scenarios include the following:
- Premium rates decrease, which results in a worsening of the combined ratio
- Claim payables increases significantly the next years
- Negative market returns for several consecutive years

The Board of Directors is also involved in setting scenarios that are of relevance for the ORSA. Any threats or potential major changes to the daily business will typically be of interest.

Stress testing takes into account the volatility of within the marine insurance industry. The Skuld group and the Norwegian Association also perform reverse stress testing, where it is assessed what it would take to come in a state with significant shortcomings with respect to the solvency capital requirement, and where it would be challenging to raise more capital. There are many actions that can be taken to improve the solvency in a relatively short amount of time if such losses occur. In lack of other options, supplementary calls from members would in all cases raise capital back to a satisfactory level. Obviously, if large amounts are called upon this could have a negative impact on the market standing. Other options could thus be to reduce the market risk (e.g. sell equities), change the reinsurance arrangements or managing the underwriting exposure differently.

D. Valuation for solvency purposes

D.1 Assets

Group				The Norwegian Association		
Financial Statements	Adjustments	Solvency II		Financial Statements	Adjustments	Solvency II
-8.344	0	-8.344	Debtors	-10.788	0	-10.788
624.730	0	624.730	Financial investments	624.730	0	624.730
0.032	31.430	31.462	Strategic investments	0	0	0
-0.239	-4.110	-4.349	Shares in subsidiaries	47.023	19.161	66.183
3.909	0	3.909	Fixed assets	2.434	0	2.434
8.579	-8.579	0	Intangible assets	6.311	-6.311	0
3.734	-3.734	0	Software	3.637	-3.637	0
192.258	0	192.258	Other assets	137.622	0	137.622
90.856	46.191	137.047	Reinsurers' share	107.881	64.024	171.904
915.517	**61.197**	**976.714**	**Total assets**	**918.849**	**73.237**	**992.086**

Debtors, financial investments and other assets

There are no differences between the valuation in the financial statements and the valuation for Solvency II purposes.

Shares in subsidiaries

The shares in subsidiaries in the Norwegian Association are carried at historical cost less any impairment losses in the financial statement of the Norwegian Association. For Solvency II purposes the adjusted equity method is applied to calculate the fair value of the subsidiaries. Shares in subsidiaries are eliminated for consolidation purposes in the Skuld group financial statements, and are valued at zero. For Solvency II purposes the adjusted equity method is used to calculate the fair value of subsidiaries not consolidated into the group balance sheet.

Skuld II Re is a special purpose vehicle set up at Bermuda to assume risk originating from CCVs Skuld I and Skuld II. As claims to debt and equity in Skuld II Re is subordinated to the reinsurance obligations related to risk transferred from the CCVs, the entity is valued at zero and excluded from Skuld group's consolidated balance sheet both in the financial statements and for Solvency purposes.

Strategic investments

In the Norwegian Association’s financial statements, an intercompany between the Norwegian Association and the Bermuda Association is recognised. For solvency purposes this intercompany is reclassified to investment.

Skuld Mutual P&I (Bermuda) Ltd is a member of the segregated account captive Hydra Insurance Company Ltd. And, as such, holds shares linked to Skuld's segregated account ("Skuld Hydra Cell"). The value of this investment is not included in the intercompany present in the Norwegian Association’s financial statements. However, as the intercompany between the Norwegian Association and Skuld Mutual P&I (Bermuda) Ltd for solvency purposes is seen as an investment and to be valued using the adjusted equity method, the value of the shares in Hydra is included in the investment in Skuld Mutual P&I (Bermuda) Ltd in the Norwegian Association's solvency balance sheet. The adjusted equity method is also used to calculate the fair value of the shares in Skuld's Hydra Cell, based on the market value of assets and liabilities in the cell, and are classified together with Skuld Mutual P&I (Bermuda) Ltd under strategic investments. The shares in Skuld's Hydra Cell are included in the Skuld group financial statements, and valued at cost. For Solvency II purposes the adjusted equity method is used to calculate the fair value of the shares in Hydra, as the shares are considered to be a strategic investment and treated as preferential equity.

Fixed assets

Fixed assets are measured on initial recognition at cost in the financial statement. Following initial recognition, the assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. For Solvency II purposes, fixed assets are treated the same way, except for software, which is valued at zero.

Intangible assets
In the financial statement goodwill are measured on initial recognition at the amount recognised at the acquisition date less any accumulated impairment losses. Goodwill is tested for impairment annually. Other intangible assets are measured on initial recognition at cost. Following initial recognition, other intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. For Solvency II purpose the intangible assets are adjusted to zero.

Reinsurer's share
The reinsurance recoverable has, for Solvency II purposes, been discounted with the risk free rate term.

D.2 Technical provisions

Technical provisions for the Skuld group and the Norwegian Association as of 20 February 2017 is presented below:

Skuld group	Solvency II value	IFRS value
Technical provisions	418.3	397.2
- Best estimate	397.5	
- Risk Margin	20.8	

The Norwegian association	Solvency II value	IFRS value
Technical provisions	408.1	381.2
- Best estimate	387.3	
- Risk Margin	20.8	

The best estimate is here net of reinsurance. The gross best estimate was USD 534.5 million and USD 559.2 million for the Skuld group and the Norwegian Association, respectively.

The IFRS value does not include any risk margin or premium provisions, and does not include the discounting effect. This is the reason for the difference between technical provisions under Solvency II and IFRS.

The Skuld group and the Norwegian Association values technical provisions using the methodology prescribed under Solvency II. The technical provisions are equal to the sum of the best estimate and a risk margin, and shall correspond to the current amount the Skuld group or the Norwegian Association would have to pay if they were to transfer their insurance obligations immediately to another undertaking.

The best estimate is a probability-weighted average of future cash flows, taking the time value of money into account using the relevant risk-free interest rate term structure given by EIOPA. The risk margin is computed by calculating the discounted solvency capital for all future run-off years multiplied with the cost of capital rate set by EIOPA.

Claims provisions and premium provisions are split when estimating the best estimate. Claims provision relates to claims having occurred before or at the valuation date (including IBNR). Cash flow components with respect to claims provisions include claim payments and unallocated loss adjustment expenses (ULAE) Premium provisions relates to claims occurring after the valuation date and during the coverage period of existing policies. Cash flow components with respect to premium provision include premiums to be paid in the future, claim payments, ULAE, commissions and expenses for on-going administration of the in-force policies.

There is uncertainty in the estimated technical provisions for various reasons. Technical provisions are based on historical claim developments, but historical events do not necessarily reflect future claim developments.

The Skuld group or the Norwegian Association have not performed any matching or volatility adjustment to the risk-free interest rate term structure, nor any transition measure on the risk-free interest rate or on technical provisions.

The Skuld group and the Norwegian Association has changed the calculation of technical provisions compared to the previous reporting period with respect to claim provisions. In the last years, we have observed a more rapid claim development. As a result, the claim development factors are now estimated based on 32 quarters. Approximately 50 quarters were used previously, depending on the Line of Business.

D.3 Other liabilities

Group				The Norwegian Association		
Financial Statements	Adjustments	Solvency II		Financial Statements	Adjustments	Solvency II
3,914	-	3,914	Accruals and deferred income	7,108	-	7,108
22,827	-	22,827	Creditors	16,032	-	16,032
78,034	-	78,034	Tax	79,431	-	79,431
16,074	-	16,074	Pension liabilities	13,131	-	13,131
120,849	**-**	**120,849**	**Other liabilities**	**115,702**	**-**	**115,702**

The liabilities in the table above are all valued using the same valuation bases, methods and main assumptions for solvency purposes as in the financial statements.

Tax
As part of the implementation of Solvency II, the technical provision named Contingency Reserve has been discontinued in the Norwegian regulatory framework and accounting standards. For accounting purposes, the Contingency Reserve is no longer recognised as a liability or an element of the technical provisions in the Financial Statement, and must be reclassified to Equity in the balance sheet. The new regulation is not harmonised with the ruling tax regulation, where Contingency reserve still is recognised as a liability, and contributions to the Contingency Reserve is still fully deductible. As per the Norwegian Accounting Standards a deferred tax item is deemed to be calculated on this difference. The Financial Statement for 2016 has been prepared in accordance with the description above, with the effect that 75% of the Contingency Reserve have been reclassified to Equity, while the remaining balance of 25% is recognised as Deferred Cessation Tax.

The recognition of Deferred Cessation Tax is only required in the Financial Statements and does not represent payable tax nor will have any consequences for the tax position for the Norwegian Association or the tax reporting. Furthermore, there will be no implications for the Solvency ratio of the Norwegian Association, and the term Contingency Reserve is still the best measurement for the risk-carrying ability of the Norwegian Association and Skuld group.

The purpose of the Norwegian Association is to cover claims incurred by the members, and as all claims will be deductible, the Norwegian Association has Equity and the Deferred Cessation Tax amount available to cover claims from the members as of 20 February 2017, equal to USD 394 million. Another perspective is from a point of view if the Norwegian Association in the unlikely event was decided to be liquidated, then the surplus would, after all claims are settled, be returned to the members and this amount is estimated to be the amount presented as Equity, equal to USD 313 million.

The matter described above can be presented in an alternative financial statement in accordance with Norwegian Tax legislation, “Tax Accounts”, to show how the statutory Financial Statement is affected by the change in accounting principle (illustrated in the table below). The position “Tax Accounts” will be the correct presentation of the Norwegian Association’s capacity to bear risk, and be equivalent to the presentation method for Contingency Reserve used previous years. The table below is an extract from the balance sheet at group level showing the lines affected:

Tax Accounts	Reconciliation Income Statement:	Financial Statutory Accounts
47,557	Result before tax and change in Members Capital	47,557
0	Deferred cessation tax	-2,888
47,557	Change in Members Capital	44,669

Tax Accounts	Reconciliation Financial Position:	Financial Statutory Accounts
	Equity	
	Members Capital	316,469
-	Total Equity	313,909
	Technical provisions	
	Contingency Reserve	
394,075	Contingency Reserve	
1,112,552	Total technical provisions	721,117
	Provisions for liabilities	
	Tax	
	Deferred cessation tax	77,526
16,582	Total provisions for liabilities	94,108
62,559	***Accruals and deferred income***	62,559
1,191,693	**Total liabilities**	1,191,693

The table above identifies the items affected by the change in accounting priciples

D.4 Alternative methods for valuation

The company does not use alternative methods for valuation as set out in Article 263.

D.5 Any other information

No other material information is applicable.

E. Capital management

E.1 Own funds

The overall objective for with respect to capital management is to ensure that the Skuld group and the Norwegian Association have enough capital to fund business activities and to be able to sustain an adverse outcome without ending up in a financially distressed situation. The Norwegian Association's Capital Management policy sets out the requirements for the capital management process. This include requirements for assessing and planning access to capital in the strategic planning period, which is four years.

The Board of Directors reviews and approves annually the Risk Appetite and Risk Tolerance Limits. Based on the Risk Appetite and Risk Tolerance, a four-year business plan is prepared every year and adopted by the Board of Directors. The business plan includes a forecast for risk exposure/capital requirements, a capital plan and solvency projections.

The Skuld group has a targeted solvency ratio of 145%, which is to be compared to the Skuld group's solvency ratio at year end 2016 at 133%. The Norwegian Association's solvency ratio was 134%. In addition to targeting a solvency ratio, Skuld group's risk and capital strategy shall target an 'A' rating from S&P. An 'A' rating of the Skuld group was reaffirmed by S&P in August 2016.

During the 2016 financial year, the Skuld group and the Norwegian Association's regulatory eligible capital has increased due to a strong financial result.

Available Tier 1 capital

Basic own funds are calculated as follows:

Calculation of Basic own funds	**Skuld group**	**The Norwegian Association**
Contingency reserve	**391.5**	**392.4**
- Deferred tax liability	77.6	78.4
- Minority interest	-2.6	0.0
= Total equity from statutory accounts	**313.9**	**314.0**
- Technical provisions - reinsurance recovery adjustment	1.2	1.2
- Technical provisions - risk margin	20.8	20.8
+ Technical provisions - discounting effect, claims reserves	16.9	16.2
- Intangible assets	12.3	9.9
- Net premium provision, discounted	16.0	21.1
+ Adjustment for value of subsidiaries	20.0	19.1
= Assets in excess of liabilities	**300.5**	**296.3**
- Less pledged assets in excess of notional SCR in Ring Fenced Funds	64.7	64.7
= Basic own Funds	**235.8**	**231.7**

The most significant adjustment to the equity from the statutory accounts is due to ring-fenced funds within the Norwegian Association (and thus also in the group). Restrictions affecting assets and own funds may give rise to ring-fenced funds, as they in some instances affect how these can be used. To be considered as ring-fenced, own funds items must have a reduced capacity to fully absorb losses on a going concern basis due to their lack of transferability. This applies to some assets the Norwegian Association holds. When assets are ring fenced, this affect the SCR calculation as the SCR will be calculated for each ring fenced fund and the remaining part of business separately, before these are added together. This has led to a lower diversification credit than what would be the case if no assets were pledged.

Available Tier 2 capital

According to the permission granted by the Norwegian FSA, the available Ancillary own funds are calculated as 50% of Estimated Total Premium for the three open policy years for policies entered into on mutual basis.

	Skuld group	The Norwegian Association
Ancillary own funds	327.0	327.0

Eligible capital to cover the Solvency Capital Requirement (SCR)

	Skuld group	The Norwegian Association
Tier 1	235.8	231.7
Tier 2	142.3	137.4
Eligible capital to cover SCR	378.1	369.1

Eligible capital to cover the Minimum Capital Requirement (MCR)

	Skuld group	The Norwegian Association
Tier 1	235.8	231.7
Tier 2	15.3	15.1
Eligible capital to cover MCR	251.1	246.7

E.2 Solvency capital requirements and minimum capital requirement

The following table gives an overview of the SCR split by risk modules at year-end 2016 for the Skuld group and the Norwegian Association.

USD in millions	Skuld group	The Norwegian Association
Underwriting risk (non-life)	222.3	209.3
Market risk	111.2	118.7
Counterparty risk	82.4	82.0
Undiversified Basic SCR	**415.9**	**410.0**
Diversification credit	-93.7	-95.2
Basic SCR	**322.3**	**314.8**
Operational risk	13.3	14.1
Loss-absorbing capacity of deferred taxes	-78.9	-79.4
Diversification effect due to RFF nSCR	27.8	25.4
SCR	**284.5**	**274.8**

This is the first period in which the Solvency Capital Requirement and Minimum Capital Requirement have been publicly disclosed, and therefore 2015 is not disclosed. Major changes to the SCR is mainly a result of the following:

- Increased market value of assets
- Acquisition of a new insurance portfolio, which increases the estimate of future premiums
- SCR effect from the loss-absorbing capacity of deferred taxes
- Ring-fenced funds reducing the diversification credit, and thus increasing SCR

As described in chapter E.1, when assets are ring fenced, this affect the SCR calculation in form of a lower diversification credit than what would be the case if no assets were pledged. This can be deducted by applying the standard formula aggregation to the figures of the sub-modules given in this report.

The Skuld group and the Norwegian Association have a deferred tax liability in the statutory and solvency II accounts. In case of a significant stress, which the SCR represents, it is assessed that this tax liability will be able to absorb losses up to the amount of the deferred tax liability.

The minimum capital requirement (MCR) represents the lowest level of acceptable capital for Skuld. The calculation is based on the net value of technical provisions and net written premiums over the previous 12 months. The result of the calculation is then subject to a floor and a cap of 25% and 45% of the SCR, respectively.

For the Skuld group, MCR was equal to USD 74.4 million at year-end 2016. Net written premiums amounted to USD 238.7 million and net technical provisions USD 397.5 million.

For the Norwegian Association, the corresponding figures were USD 70.0 million, USD 214.9 million and USD 387.3 million.

There have been no periods of non-compliance with the MCR or SCR during the year.

The Skuld group and the Norwegian Association have not been using undertaking-specific parameters pursuant to Article 104(7) of Directive 2009/138/EC. In addition, no simplifications of the standard formula are applied.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Not applicable to the Skuld group or the Norwegian Association.

E.4 Differences between the standard formula and any internal model used

Not applicable to the Skuld group or the Norwegian Association.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with Solvency Capital Requirement

Not applicable to the Skuld group or the Norwegian Association.

E.6 Any other information

There is no other material information regarding the capital management of the Skuld group or the Norwegian Association.