

REPORT FROM THE BOARD OF DIRECTORS FOR 2005

Assuranceforeningen Skuld (Gjensidige) is a leading maritime insurance association providing Protection & Indemnity (P&I) insurance (third party liability cover) and Defence cover to shipowners and charterers. The Association's purpose is to provide mutual insurance against risks and losses incurred by members in direct connection with the operation of the insured vessels.

The Association had a very good year in 2005, making a profit of NOK 273.6 million and thus continuing its positive trend of good results for each quarter of the past three years. The positive results led to credit information company Standard & Poor's upgrading Skuld to BBB+ with a positive outlook in November 2005. With these results, Skuld has strengthened its position as a leading provider of P&I insurance to its members and the maritime environment. The Board notes with satisfaction that the Association is once again one of the few clubs to produce a positive technical result.

RESULTS AND BALANCE SHEET

The annual accounts show a profit of NOK 273.6 million, compared with a profit of NOK 210.3 million in 2004. This profit will be transferred to the contingency reserve, which will thus be at a record high NOK 1,023.7 million.

These good figures were achieved as a net effect of successful results in several areas, including a good return on invested funds and the fact that some claims from previous policy years were settled with a better result than expected.

Despite the tendency towards a weaker market at the end of the renewal period which expired on 20 February 2006, the Board is pleased to note that the result was a general increase of 4.9% for owners' entries and 4.3% for charterers. A tonnage increase of around 11.5% for owners and a controlled reduction of 4.5% for charterers led to considerable improvement in the product line's average loss ratio.

The Board believes that the annual accounts provide a true picture of the business and of the Group's assets, liabilities, financial position and results.

GOING CONCERN

In accordance with section 3-3 of the Norwegian Accounting Act, we confirm that the annual accounts have been prepared on the assumption that the Association is a going concern. This assumption is based on the income projections for 2006 and 2007 and the Association's long-term strategic projections. The Association is in a healthy economic and financial position.

RETURN ON INVESTMENTS

The Association achieved a return on investments of 6.6%. The bond portfolio achieved a yield of 2.0%, while shares produced a strong return of 20.2%. During the year, the Association has expanded its portfolio to include investments in raw materials derivatives and hedge funds. These produced a return of 2.8% and 3.2% respectively, but are for periods of less than one year.

FINANCIAL RISK

Market risk

The Association has incomes and costs in a number of currencies, and thus runs a considerable currency risk. Attempts have been made to neutralise this risk by booking assets in the same currency as assumed liabilities. This hedging method functions well for most currencies. However, Skuld has large operating costs in Norwegian krone (NOK) which are not matched by corresponding assets. These are hedged by USD amounts equivalent to the budgeted Norwegian operating costs being sold annually on forward exchange contracts.

The Association runs a considerable interest rate risk due to the time delay from loss date until settlement date, which is an average of three years. When there are changes in the general interest rate level (and thus the discount rate), the present value of the losses and thus the Association's financial situation are changed. This risk is to a large extent neutralised by Skuld's assets being matched such that they fluctuate in opposite directions (duration matching). In real economy terms, therefore, Skuld is well hedged against interest-rate changes. However, interest rate changes will quickly have a major effect on accounts since claims provisions are booked at their nominal value and not adjusted to take account of their present value. This means, among other things, that a rise in interest rates may result in a fall in the value of the Association's assets, while liabilities appear to remain the same. In real economy terms, however, the present value of outstanding claims will also fall, so the overall effect for Skuld will be slight.

Through its other investments, Skuld also runs a considerable risk relating to the finance markets. The Association has approximately 27% of its assets in the stock market and 2-3% exposed to the raw materials markets. These markets are volatile and a wide-ranging, long-lasting fall may lead to considerable losses for the Association.

Credit risk

Skuld's credit risk primarily relates to its members and reinsurers. Previously bad debts relating to members were substantial. However, the Association now has good routines in place to follow these up. In 2005, bad debts amounted to approximately 0.1% of premiums, a figure which must be regarded as being very good.

The Association has awarded its reinsurance contracts to companies that have a minimum of an A- rating with Standard & Poor's. General provisions have been made for possible losses. In addition, Skuld has outstanding claims on the other P&I clubs in the International Group. The credit risk here is very limited, since all the clubs provide a bank guarantee for their obligations.

Liquidity risk

Skuld considers its liquidity to be very good and has not considered introducing measures to change the liquidity risk apart from minimum requirements regarding a constant liquidity reserve.

REINSURANCE

The Association is continuing to focus on its reinsurance needs and has therefore further restructured the composition of its various contracts. A comprehensive risk analysis programme, including the use of stochastic models, has also this year been used as a tool in the evaluation process and assessment of new covers and structures. This approach has proven to be very useful. The Board notes with satisfaction that the Association has further developed its reinsurance programme, which is placed in the Lloyd's market and with other leading reinsurers on favourable terms.

PERSONNEL AND ENVIRONMENT

At the end of 2005, the Association had three employees, equal to three man years.

- The overall sickness absence rate was 1,3% in 2005.
- No work-related incidents leading to significant personal injury or damage to property were reported during the year.
- While the working environment is considered to be good, efforts are continuously being made to improve it.
- The Association is unaware that any of its activities affect the external environment. However, the Club does insure vessels which may potentially contribute to environmental pollution.
- Assuranceforeningen Skuld (Gjensidige) wants there to be full equality between female and male employees. There must be no discrimination on the basis of gender in relation to, for example, salaries, promotion, recruitment or any other area.

The Board of Directors herewith presents the Association's Annual Report and Accounts for 2005, which is the Association's 109th year of business. The consolidated accounts include the Association's subsidiaries APS Generalagenturet for Skuld, Copenhagen, Skuld AB (New), Stockholm, Skuld (Far East) Ltd., Hong Kong, Skuld Germany GmbH, Skuld Hellas Ltd., Piraeus and the wholly owned reinsurance companies Skuld Re II SA and Alvemar SA, Luxembourg.

The consolidated accounts also include the Association's affiliated club in Bermuda, Skuld Mutual P&I Association (Bermuda) Ltd., Hamilton. In accordance with these two associations' bylaws, their members enjoy joint membership in both associations, which act as co-insurers on a joint basis with equal insurance conditions and bylaws. The Association participates on a joint basis in the International Group of P&I Associations' pooling arrangements and excess loss reinsurance contracts entered into via the pool. The accounts are consolidated and the Bermuda Association is subject to Bermuda supervision and reporting.

Stockholm, 10 May 2005



Erik Gløersen
Chairman of the board



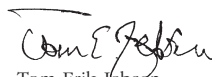
Nils Olav Aardal
Vice Chairman



Helfried Beutner



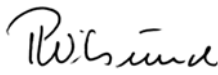
Arne Birkeland



Tom Erik Jebsen



Klaus Kjærulff



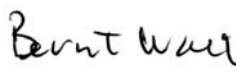
Peter Wilsund



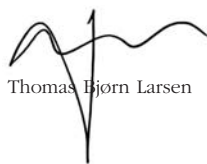
John P. Tavlarios



Torleiv Aaslestad



Bernt Wold



Thomas Bjørn Larsen



Douglas Jacobsohn
President & CEO