



Annual Report
2018
FOR YEAR ENDED 31 DECEMBER



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THE SWEDISH CLUB ANNUAL REPORT 2018

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Year in brief

Financial highlights

As a mutual, The Swedish Club has been run for shipowners by shipowners since 1872. Working together, we are stronger, providing top class support and leadership to our quality members around the world.

USD millions	2018	2017	2016	Average
Calls and premiums	146.1	153.3	167.3	155.6
Reinsurance premiums	-34.9	-35.8	-36.7	-35.8
Net claims incurred	-86.6	-98.1	-103.0	-95.9
Investment result	-5.9	27.7	9.7	10.5
Operating result*	-5.2	22.2	11.8	9.6
Loss ratio	78%	83%	79%	80%
Expense ratio	21%	21%	19%	21%
Combined ratio	99%	104%	98%	100%
Free reserves at year end	203.8	213.5	194.9	204.1

* Before decided P&I discount.



Insurance facts and call history

Insurance facts

	2019	2018	2017	2016	2015
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P&I insurance, 20 February

Number of vessels (owners' P&I)	1,234	1,257	1,115	1,117	1,076
Gross tonnage (million)	47.5	51.1	46.8	43.6	41.5

FD&D insurance, 20 February

Number of vessels	1,198	1,140	841	895	868
Gross tonnage (million)	44.1	42.1	32.7	35.5	36.5

Marine H&M insurance incl. OSVs, 1 January

Number of vessels	2,779	2,606	2,996	3,034	2,653
Gross tonnage (million)	108.9	105.5	119.3	113.2	92.6
Insurance value (USD million)	77,175	76,460	92,960	97,575	82,183
of which the Club has insured (USD million)	8,451	8,227	10,495	11,094	10,350

Call history, policy year

	2019/20	2018/19	2017/18	2016/17	2015/16
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P&I insurance

General increase	0%	0%	0%	0%	2.5%
Additional call/Estimated additional call	0%	0%	0%	0%	0%
Open/closed	Open	Open	Open	Closed	Closed

FD&D insurance

General increase	0%	0%	0%	0%	5%
Additional call/Estimated additional call	0%	0%	0%	0%	0%
Open/closed	Open	Open	Open	Closed	Closed

2,125
Number of vessels
(P&I insurance incl. Charterers' Liability)



82
Gross tonnage million
(P&I insurance incl. Charterers' Liability)

1,198
Number of vessels
(FD&D insurance)



0%
General increase
(P&I insurance)

2,779
Number of vessels
(Marine H&M insurance)



Preparing for the future

In a rapidly changing world The Swedish Club strives to keep ahead, anticipating future challenges and upcoming trends, and meeting the new demands of today's business environment.

2018

- The Swedish Club earns S&P upgrade to A-
- Charterers Online Declarations available

2017

- Emergency Response Training is formalised and available
- First online Annual Report

2014

- AM Best awards The Swedish Club credit rating of A- excellent

2000

- The Club runs the first full Marine Insurance Course

1990

- The Swedish Club is first club to develop Maritime Resource Management



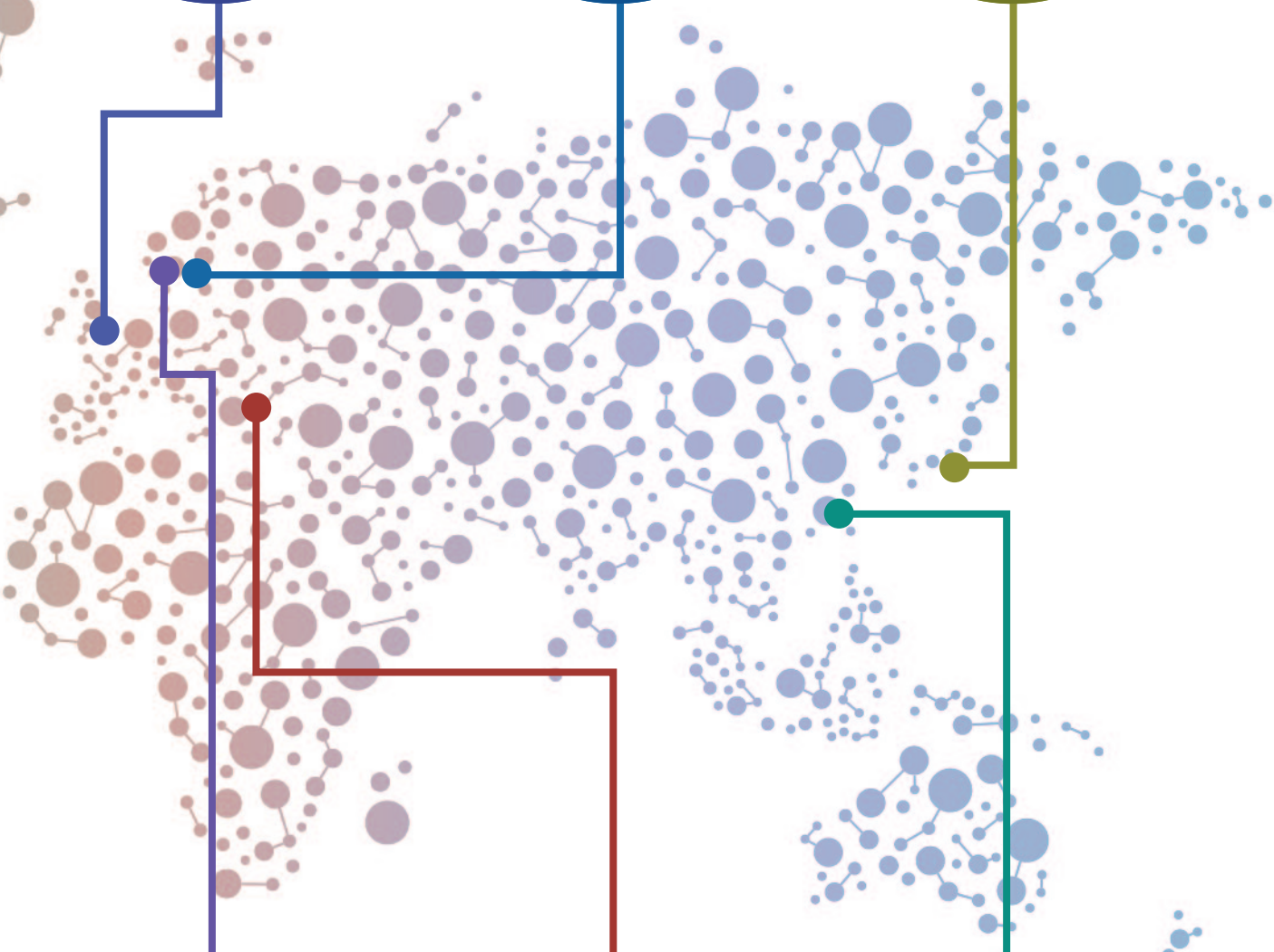
London
2015
Office set up in the influential City of London



Gothenburg
1872
The Swedish Club established



Tokyo
1998
Second Asian office opened in Tokyo



Norway
2010
Norway office opened to focus on offshore opportunities



Greece
1980
First overseas office set up in Greece



Hong Kong
1982
Asian office established in Hong Kong



“Mutuality is a two-way street”

What mutuality means to our people



“Working together with the same aims of improving safety and reducing casualties”






“Taking the longer-term view”

“We see beyond our own corporate borders”



“We need all colours of the character wheel to make a team”

A blue-tinted photograph of a modern office interior. In the foreground, two ergonomic office chairs are positioned at a desk. The background shows a large window with a view of a building. The overall scene is clean and professional.

“The quality of the organisation and its network around the world, the financial standing of the Club and the mutuality of the Club – together they all stand for very controlled stability.”



1



The Board

Working together

Chairman's report:

Interview with **Lennart Simonsson**,
Chairman of The Swedish Club Board

Quality pays off. It is that shared belief that drives the success of The Swedish Club, believes Chairman Lennart Simonsson.

"And I am pleased to say that our members share that view," he says.

The cooperation between members and the Club plays a very important role in ensuring safer and controlled shipping. "This approach has made a difference for shipowners as well as the insurance industry; and I believe we will continue to gain on this," he says.

'A' rated performance

"It is really because of our members' performance that we have been able to deliver a zero rate increase for four years in a row and still maintain our net combined ratios close to 100%."

And this policy works. Simonsson has nothing but pride following the decision in January 2019 by S&P Global Ratings to upgrade The Swedish Club to A- with stable outlook. However, he also emphasises: "My personal view is that we have been performing as A rated for quite some time – and we are happy that others now see us in the same way. The quality of the organisation and its network around the world, the financial standing of the Club and the mutuality of the Club – together they all stand for very controlled stability."

The S&P upgrade, the decision to implement a zero percent general increase for the fourth year running and the Club's strong financial position have all been achieved against the background of tough years in the shipping world – and a mixed shipping year in 2018.



"Our members' performance has been key to achieving this result, as has our capability as an organisation to respond to accidents, and to pay attention to every detail when encouraging new members. The quality of our members has enabled us to achieve the A- rating. So I would like to say thank you to all our members."

A mixed year

Every shipowner will have their own view of how the market was in 2018, says Simonsson. "In a mixed year the bulk cargo sector saw a healthy market while tankers had a very tough start to the year with a slight improvement at the end. Offshore was also mixed, with some small day rate improvements, while the question remains – what will happen to oil prices?"

"The trade and tariff wars have raised question marks over the future. Personally, I don't think this will have made too much impact in 2018 – on a full-year basis, container ship earnings made progress compared to the previous year."

"Overall, I would describe 2018 as a challenging year for most owners but perhaps this is a normal year for shipping – those who have been in shipping for a long time might agree with me on that."

New regulations

Another 'normal' scenario for shipowners is that of new regulations entering in force and on the horizon. Minds are truly focused in relation to the IMO's global sulphur cap, which comes into force at the start of 2020.

Simonsson is optimistic: "From our point of view, it seems that our members are well prepared for the new changes in this arena. I am sure the industry will adopt the changes in a good manner – that is the way it normally works."

Maintaining stable premiums

Members have naturally responded positively to the zero percentage rate increase announced by The Swedish Club for the fourth year running. However he warns: "Long-term across the insurance industry, companies need to be covered for at least inflation. On the other hand, the safer shipping becomes, the fewer accidents we will see – and that will keep premiums lower. If we all work together in this direction, we might see stable premiums."

Organic growth

The Swedish Club has a very good record for business growth within its membership base, and this continued through 2018. Simonsson is clear on the foundations for this success. "The focus at The Swedish Club remains on offering good protection at a good price, being able to respond and assist members if accidents occur, and giving feedback that helps prevent accidents," he says. "This Loss Prevention focus has paid off well for our members – and we have seen a number able to expand their business in some pretty tough times. Growth by our members has really paid off for the Club too – and I hope that will be the case in the future."

Knowledge sharing

Allied to this, the mutual model only works if there is real cooperation between members and Club, he says. "Sharing of knowledge to avoid accidents taking place – for us, this is the cornerstone for a successful club. By sharing, you create knowledge and you avoid mistakes. Being mutual isn't only about sharing the financial burden – it is about sharing information and increasing efficiency and safety together."

The Board

The composition of the Club's Board is crucial, he adds. "Board members are representative of the industries that we serve, which enables members' views to be quickly shared in the Board and with management, and this provides a good basis when we take decisions. The priority for the Board is very simple – to give members the best protection should accidents occur."



"The quality of our members has enabled us to achieve the A- rating. So I would like to say thank you to all our members."

Board of Directors



Lennart Simonsson
Chairman
Gothenburg, Sweden



Lars Rhodin
Managing Director
Gothenburg, Sweden



John Coustas
Deputy Chairman
Danos Shipping Co. Ltd.
Piraeus, Greece



Khalid Hashim
Deputy Chairman
Precious Shipping Public Co. Ltd.
Bangkok, Thailand



Idil Baran Sualp
CerBa Group of Companies
Istanbul, Turkey



Thanasis Beis
Costamare
Athens, Greece



Michael Bodouroglou
Allseas Marine S.A.
Voula, Greece



Peter Claesson
Stena AB
Gothenburg, Sweden



Jude Correa
Seaspan Ship Management
Vancouver, Canada



Demetri Dragazis
Latsco (London) Ltd.
London, United Kingdom



Rob Groot
The Netherlands



Gustaf Grönberg
Genting Cruise Lines
Kuala Lumpur, Malaysia



Gu Zhongdong

*Cosco Shipping Co S.A.
Shanghai
The People's Republic of China*



Lars Höglund

*Furetank Rederi AB
Donsö, Sweden*



Anders Källsson

*Erik Thun AB
Lidköping, Sweden*



Andonis Lemos

*Enesel S.A.
Athens, Greece*



Mikael Livijn

*Wallenius Marine AB
Stockholm, Sweden*



Lu Jian

*Winning Shipping
Singapore*



Twinchok Tanthuanit

*Regional Container Lines
Company
Bangkok, Thailand*



Michael Vinnen

*F.A. Vinnen & Co
Bremen, Germany*



Weng Yi

*China Cosco Shipping Company
Shanghai
The People's Republic of China*



Zou Yingying

*China Merchants Energy
Hong Kong*



Jakob Osvald

Elected by the employees



Elisabeth Rydén

Elected by the employees

Board member



Khalid Hashim

Bangkok-based Precious Shipping specialises in dry bulk cargo. Running a mainly tramp business without any fixed routes or cargoes, is, according to Khalid Hashim, CEO of Precious Shipping, "both interesting and challenging at the same time."

The business had a reasonably good 2018 with profitability in all four quarters. However since November the market has once again been difficult as a result of the various factors contributing to a slowdown in GDP. "In our market, bulk shipping demand is a derivative of world GDP. A weakening global GDP means weakening demand and freight rates."

There is hope that China and the US will come to an agreement on trade and this could lead to China buying much more grain and coal from the

US. "This could change sentiment and will increase volumes of cargo. If this doesn't happen, owners will need to take action and scrap some ships."

Precious Shipping has had its vessels entered with The Swedish Club since 1992 – as a longstanding member, it is delighted that the Club has gained its A- with stable outlook rating from S&P.

"In a word, we are proud. It is a great accomplishment. But frankly, I believe this higher rating is something that should have taken place more than five years ago," says Mr Hashim. "The Club has been running an internal capital model for several years in which we could stand a one-in-one-thousand years type of occurrence without a problem; nothing has changed in that time."

How do you spend your free time?

"Every morning I try to exercise by jogging or walking. I also act as an advisor to students and I am a guest lecturer on shipping in various universities in Singapore and Bangkok."



Rob Grool

Ship manager Rob Grool has served on The Swedish Club Board for 14 years, first as CEO of Wallem in Hong Kong, then while working for Seaspan Shipmanagement, and following that with Vroon. "It is a real pleasure to serve on the Board," he says. "To be on the Board when the Club is given the deserved A- rating is, of course a great feeling – but it is the prudent and professional management of the Club who have achieved this accolade in the first place."

He adds: "We know that shipowners opt to bring more or new ships into The Swedish Club because their staff tell them that this is the Club they want to work with. The Club is simply the highest quality club in the International Group – and management and staff worked hard to achieve this upgrade."

Having left Vroon in January 2019, and as he embarks on a new stage in his career, Grool says the market is facing a mix of challenges in 2019.

Shipowners face very heavy financial burdens through the low-sulphur fuel regulations, overcapacity in many markets and ballast water treatment installation, but also the increasing pressure on ships' crews and operators 'to deliver perfection in all aspects'.

He sees a big opportunity in digitalisation but says this will only bear fruit when the transport chain is included from beginning to end. "If seaborne transport continues to be seen as a standalone nuisance with delayed and breaking-down ships and cumbersome port calls, then it will not work."

How do you spend your free time?

"For the first time in many years I have had some spare time on my hands in recent weeks! In better weather, I love to ride my Moto Guzzi motorbike."

focus



Mikael Livijn

Stockholm-based Wallenius Marine offers ship management, newbuilding and vessel performance services and consultancy on related issues. Business has been stable in the past year, although the company is looking to increase the number of vessels under management, says Mikael Livijn, Head of Insurance & Legal at the company.

"We have a lot of things in the pipeline for the future. We are stable and looking at better times ahead," he says.

He is positive about the prospects for 2019: "We see a lot of business opportunities. We are talking to potential customers in both the ship management and newbuilding sides and also looking at new investments."

He welcomes the news of The Swedish Club's upgrade by S&P to A- with stable

outlook, saying: "Of course I am proud to be part of the Board but as I have only been on the Board for less than a year, I can't take any credit for this. This is the result of long, hard, purposeful work."

He believes that the Club deserved a lifting of its rating earlier. "The Club's figures have been brilliant for a long time. I would say that for at least three years the Club has been a candidate to have this rating."

Having said that, an A- rating was never the primary goal of the Club, he says. "The primary focus is to keep the Club sound financially – the rating was something that came naturally as a result. It happened this year but it could have happened earlier."

How do you spend your free time?

"I try to exercise – jogging, mostly, and skiing. I also enjoy spending quality time with my family and friends."



Lu Jian

Based in Singapore, Winning International Group owns a total of 35 vessels – 32 Capesize (including 6 Newcastlemax), one Kamsarmax and two Supramax. In addition it charters in vessels from the market to carry more than half of its own and controlled cargoes.

Starting out as a shipping company, Winning Group expanded into mining, port operation and marine logistics (including floating cranes, tugs and barges) and other logistic related activities. In 2018 the company shipped 42 million tonnes of bauxite from Guinea, in West Africa, to China, and this is forecast to increase.

Unsurprisingly, the group is working on a fleet expansion plan – one which will feature bigger ships to deliver more cost-effectiveness. "We are focusing on tonnage of more than 200,000 DWT and are building another two Newcastlemax," says Mr Lu. "We are also looking at a new design – even larger ships of over 300,000 DWT."

He is proud of The Swedish Club's achievement in its A- rating from S&P: "I think this boosts our reputation and is a very good result," he says. "It is due to the effort of the management teams, with the support of the Board members and our shipowners – and I think it was long overdue."

How do you spend your free time?

"Singapore provides very good opportunities for all kinds of exercise. Every day here is sunny! It is easy to jog anywhere – the air quality is good and you can enjoy jogging and swimming all year round."

A blue-tinted background image of a microscope, showing the eyepiece, objective lenses, and the main body of the instrument. The text is overlaid on the left side of the image.

“The Swedish Club has emphatically demonstrated its capability through its strong capital position, disciplined underwriting, strong selection process for quality, and robust operating performance.”



2

Interview

with the Managing Director

Developing a firm foundation for the future

Business overview:

Interview with **Lars Rhodin**, *Managing Director*

Despite a market dominated by soft pricing and tough investment conditions, The Swedish Club emerged from 2018 with healthy results, a combined ratio below 100% and the capacity to deliver a 5% discount to P&I members on top of its fourth consecutive zero percent general increase.

All of these added up to a satisfactory 2018 – topped off at the start of 2019 with the decision by S&P Global Ratings to raise its insurer financial strength and issuer credit ratings to A- with stable outlook. Of course the upgrade was welcomed by all at the Club – but in reality, says Lars Rhodin, nothing has changed.

Credit rating upgrade

“The S&P ratings upgrade was a recognition of what we believe we already had in place – quality members, dedication and a commitment to excellent service from the whole organisation, and a consistent performance by the Club for the last ten years,” explains Lars Rhodin.

This A- with stable outlook rating is an important step for the Club. It confirms its position as a member of the front rank of marine insurers and will enable it to develop further, he says.

“The Swedish Club has emphatically demonstrated its capability through its strong capital position, disciplined underwriting, strong selection process for quality and robust operating performance,” he says. S&P in particular gave credit for the Club’s strong ERM (enterprise risk management) capabilities. “They noted our holistic approach and the way we manage the whole risk – not only in underwriting but also investment, counterparty and operational risks,” says Rhodin.

“S&P also recognised the Club’s commitment to deliver robust underwriting performance and preserve strong capital adequacy in the future. During difficult operating conditions, the management team has worked to keep a steady hand on the tiller, and we were delighted to see that dedication rewarded.”

The S&P news followed on from A.M. Best once again awarding The Swedish Club a financial strength rating of A- (Excellent) and the long-term issuer credit rating of ‘a-’ with a stable outlook.

Mutuality

This quality of membership is a testimony to the mutuality of the Club. “Mutuality is a two-way street,” says Rhodin. “It is less adversarial. If we work together and feed back information to our members we can reduce the number of



“The S&P ratings upgrade was a recognition of what we believe we already had in place – quality members, dedication and a commitment to excellent service from the whole organisation, and a consistent performance by the Club for the last ten years.”

incidents or casualties, have fewer claims and make fewer payments. That in turn will feed through to the premium. Members of The Swedish Club take a long term view – this enables stable pricing because members know they will reap the benefits in the long term.”

Understanding the market

Looking back at 2018, Rhodin describes the year as ‘more evolution and small improvements everywhere rather than revolution’.

It is important that the Club continues to perform well in underwriting, says Rhodin. “Despite the challenging market conditions, we delivered a combined ratio below 100%.”

Our investment portfolio showed resilience in tough investment circumstances, he adds. “In line with benchmark our investment portfolio ended with a negative return of 1.6%, with the result that the year concluded with a modest overall deficit of USD 5.2 million before the P&I discount. Ironically, following an equity market freefall in December, what we lost we regained in January 2019.”

Performance

Breaking down the performance of individual sectors, he says: "It was a good year for P&I, and a good year for Energy and FD&D. It was not, however, a good year for Marine – let's say it was 'challenging'. We had predicted that 2018 would be the year where we saw significant improvements in pricing in Marine – but it didn't happen until towards the end of the year, when prices started to move more in line with exposures," he says.

"Meanwhile, in P&I, the Club's strong capital position enabled us to deliver another zero-increase coupled with the fact that we have had a benign claims year."

It is crucial to keep business strong for the long term, however, he emphasises. "We have had a zero-increase for four years – but this means that there has been no cover for inflation at the very least.



"We are not operational technical experts. But we can provide guidelines, facilitate the exchange of experience, expertise and information, and give as much advice as we can."

Tonnage

"The retention rate of members and vessels was high in 2018," he says, "although the overall volumes were adversely affected by the re-imposition of sanctions against Iran, and we spent a great deal of time in 2018 addressing this issue."

Marrying Loss Prevention with technology

The Swedish Club's Loss Prevention programme continues to lead. Key elements include the unique Emergency Response Training (ERT) programme, in which the Club organises and runs in-depth exercises with members, as well as offering this service selectively to non-members as a way of showing what the Club can offer.

In 2018 the Club has been undertaking trials and refinements before the launch, in 2019, of its new 'Trade Enabling Loss Prevention' initiative, which will represent a step change in Loss Prevention, using the automatic

identification system (AIS) and a far more personalised approach.

"This is about the synergy of combining our extensive claims experience with data on the ship movements of our members," says Rhodin. "If a vessel is bound for a particular port, we can send information direct to the member about any issues we have recently experienced in that port. This system will be unique – we will be able to track vessel movements and using our experience with similar vessels in those areas over the past few years we will be able to give proactive advice across a range of issues."

This is a real step change for the whole ethos of Loss Prevention. The first stage is to use our statistics as a base line, identifying and diagnosing issues. The next step is to look at addressing these issues by changing behaviour, through our Maritime Resource Management (MRM) programme. Perhaps the third level is the ability to use this directed, personalised Loss Prevention instrument to give advice before things happen."

Transformation through technology

There is another side to this powerful tool, outside the Loss Prevention remit. The analysis of the data in the trials threw up several anomalies in terms of where people anecdotally believed there were incidents and what the actual analysed data demonstrated was true. This data could also eventually be fed into the Club's underwriting.

Technology is supporting the Club's advance elsewhere, too. The Club is working to make internal processes more efficient and is looking at initiatives to enhance SCOL interactivity for members; i.e. to link the Swedish Club Online platform with a new Charterer's Online Declarations module.

Recruitment

"In 2018 we worked to advance competence within the organisation, expanding staff levels in key areas," he says. "We increased our team in Hong Kong, and, recruited staff in FD&D and P&I."

Looking ahead

As we look ahead to 2019 and 2020, shipowners are facing a series of legislation, from the IMO's global sulphur cap entering into force at the start of next year (2020) to the demands of the Ballast Water Management Convention and CO2 emissions reductions.

It isn't for The Swedish Club to tell members what to do or not to do, says Rhodin. "We are not operational technical experts. But we can provide guidelines, facilitate the exchange of experience, expertise and information, and give as much advice as we can."

Meanwhile, the insurance landscape is changing too. Several syndicates at Lloyd's have pulled out of marine insurance and Rhodin believe that rates and premiums will gradually become more in line with exposure.

"Yes, that should mean an increase from a low point. We do have concerns that P&I clubs are creating a perfect storm with zero general increases for a number of years - decisions driven more by strong capital than strong underwriting performance."

The International Group

At the International Group level, a change of leadership is coming as Chief Executive Andrew Bardot prepares to retire in 2019. "We have spent more time together at CEO level within the International Group to discuss pooling, governance, branding and communication," says Rhodin.

"We have also discussed interaction with other stakeholders and a better Asia outreach. We started these discussions two years ago, and at a meeting which we will host in Gothenburg in June, we will finalise the work of reforming, changing and modernising the International Group."

A positive outcome

In other developments, the Club was pleased with the outcome of the case of the MSC Flaminia container ship fire, after a ruling that placed liability on the shipper and manufacturer of the chemical that caused the fire in 2012 and exonerated their member. "Exemplary claims handling, and accurate reporting ensured that the case progressed efficiently and with a satisfactory result," explains Rhodin.



"It is crucial to keep business strong for the long term."



“During difficult operating conditions, the Management Team has worked to keep a steady hand on the tiller, and we were delighted to see that dedication rewarded.”



3

**Behind the
scenes**

Anders Leissner

Director, Corporate Legal
& FD&D

Born: 1969

In Management Group since 2011

Master of Law from University of Lund. Traineeships at the United Nations in New York and a law firm in Washington DC. Joined The Swedish Club in 1998 as a P&I and FD&D claims handler and worked at the London office from 2001–2003. Appointed FD&D Manager in 2003 and Director, Corporate Legal & FD&D in 2011. Serves on various International Group Committees and the BIMCO Documentary Committee.

Lars A. Malm

Director, Strategic
Business Development
& Client Relations

Born: 1969

In Management Group since 2007

Master of Law from University of Gothenburg and Oslo. Joined The Swedish Club in 2000 from the Swedish insurance company Skandia, as a Hull Claims Adjuster. Appointed Area Manager in 2003. Became Director of Risk & Operations in 2008 and Director of Strategic Business Development & Client Relations in 2014.

Britta Patriksson

Director, Human
Resources

Born: 1965

In Management Group since 2018

Completed higher education in strategic HR at TBV Akademin Gothenburg in 2000. Solid background in human resources and extensive experience in management and shipping. Held the position of HR Director of Transatlantic AB and Senior VP & Head of HR at Rederi AB Transatlantic before joining The Swedish Club in 2018. Chairman of SUI (Swedish shipping educational institute), serves as board member at Södra Bohuslän, a regional business association, and holds a number of positions in shipping related family companies.

The team



Lars Rhodin

Managing Director

Born: 1959

In Management Group since 1997

Master of Law from University of Lund and Master of Business Administration from University of Gothenburg. Worked as a lawyer in private practice before joining The Swedish Club. Served at the Hong Kong office 1988–1991. Deputy Managing Director 2003–2008, before his appointment as Managing Director in July 2008. Member of the International Group of P&I Clubs' Committees and Working Groups, and Det Norske Veritas (DNV). He is also on the Board of Directors of the Swedish Sea Rescue Society.

Mikael Kromli

Director, Finance, Risk Management & IT

Born: 1962

In Management Group since 2015

Bachelor of Science from the School of Business and Accountancy at Wake Forest University in Winston-Salem, North Carolina. Before joining The Swedish Club in his current position, Mikael was CFO of TitanX following a long career within the Volvo Group where he held numerous executive positions, including CFO of Volvo Powertrain and CFO of Volvo Parts. He has also served as CFO of Nobel Biocare, at the time listed on the Stockholm Stock Exchange.

Tord Nilsson

Director, Underwriting, Reinsurance & Risk Control

Born: 1965

In Management Group since 2014

Master's degree in Finance from University of New Mexico. Marine insurance broker at Arvid Bergvall from 1993 and joined The Swedish Club as an underwriter in 1996. Appointed Managing Director of the Hong Kong office in 2000, Area Manager and Senior Underwriter for Team Gothenburg In 2005 and Area & General Manager at Piraeus in 2009. Since 2014 he has been Director of Underwriting, Reinsurance & Risk Control.



Delivering value

Business overview:

Interview with **Mikael Kromli**,
Director Finance, Risk Management & IT

The Swedish Club showed solid operating performance in 2018 delivering a combined ratio of 99% and investment returns in line with benchmark.

S&P upgrade

Just after having closed the year, S&P announced its decision to award the Club with A- rating with stable outlook, which is a significant confirmation of the Club's strengths. "It is an important recognition of what we have been doing for years," says Kromli. "It underpins our capabilities when communicating with the market."

Strong solvency

Naturally, the Club measures itself against the competition. Kromli says an excellent comparison is in the Solvency and Financial Condition Reports (SFCR) issued by P&I clubs under the Solvency II requirements.

The SCFRs provide in-depth insights into the risks of insurance providers' operations and into their financial strength to handle those risks. In the most recent round of reporting, The Swedish Club delivered the strongest solvency ratios of all the International Group (IG) clubs.



"It is an important recognition of what we have been doing for years, it underpins our capabilities when communicating with the market."

As well as commenting on the Club's disciplined underwriting and strong risk controls, S&P drew positive attention to the Club's enterprise risk management (ERM) capabilities. Kromli says: "Being one of the smaller P&I clubs, with an inherent potential for higher comparable volatility, it is a priority and of vital importance for us to be on top of our risks. We are, and we continuously aim to improve our ERM further."

At about the same time as S&P announced its rating of the Club, A.M. Best once again awarded the Club a Financial Strength Rating of A- (Excellent) and the Long-Term Issuer Credit Rating of 'A-', with a stable outlook.

Competitive

For a number of years, it has been a soft market for marine insurance and the last four years have passed with the Club providing zero percent general increases for the P&I business.

Says Kromli, "It is still a tough pricing situation and prices generally need to catch up with inflation to be sustainable; however, we do not stay idle waiting for that. We drive to improve further on our position as an attractive business partner by making sure that we provide value to our members. This means having a strong financial position, good control of our costs,



fine-tuned price/risk selection, and focus on that which we do best.

“Through technology and through understanding the needs of our members we also need to advance on ‘product’ development – not necessarily new insurance types but new ways of communication and of providing our members with information to make it easy for them to go about their own business and to do business with us.”

One example to be launched soon is the Club’s AIS-enabled Loss Prevention advice initiative. “This type of product will become more and more important for our members,” he says. “We will continue to provide wide-ranging advice and effective Loss Prevention information, allied with improved communication and administration.”

Prudent investments

When managing the investment portfolio, the Club balances risk and reward, taking into consideration the requirements of the insurance operations and exploring different options, risks and expected returns. A long-term strategic allocation composition of the portfolio, allowing for periodic dynamic asset allocations, is in place.

Since mid-2017, The Swedish Club has collaborated with the global financial advisor Mercer to deliver a more robust, structured and evidence-based approach to the management of its investment portfolio.

This partnership has been working well, says Kromli. “The collaboration gives us access to in-depth research and a solid sounding board. We feel comfortable that when we take decisions, we have taken relevant facts and information into consideration. An important result is that our investment returns stick close to our benchmark month after month.”

Value proposition

From a financial perspective the value proposition of the Club to its existing and potential members rests on the strength reflected in the very strong solvency ratio of the Club and the A- ratings of rating agencies S&P and AM Best. In addition, the structured management of members’ premiums by means of solid investment management and prudent underwriting adds more value.

The Club has the financial muscle and ability to respond efficiently and effectively to the needs of members when required.

Business strategies

Interview with **Lars Malm**,
*Director Strategic Business
Development & Client Relations*

What sets The Swedish Club apart? Lars Malm is clear on that: "As an all-in-one provider, including hull & machinery as well as P&I, we can deliver complete customised marine insurances."

This full-service capability is what also underpins the Club's extensive knowledge, he says. "We thoroughly analyse the different products, how they work together and what type of business we should write. We check the whole spectrum and therefore have sufficient knowledge on which risks to target."

"This helps us continuously improve our risk assessment. We are able to make our decisions based on facts and experience, predicting what we can expect in terms of claims – both cost and frequency. That is crucial in terms of understanding how the two classes of insurance interact and in optimising our portfolio."

Of course, Loss Prevention ties in with this, he adds. "One of the reasons why our Emergency Response Training (ERT) has become such a popular initiative is because it shows how the Club would handle a complex matter across all classes of insurance. Based on our Loss Prevention experience and data, we have a better understanding of the complexities."

Diversity

Malm believes that this diversity was a significant factor in achieving S&P's A- rating with stable outlook. "We were able to show that we have business diversity and efficient emergency response and claims handling and that this contributes to the bottom line and the combined ratio."

Top quality members

The overall quality of The Swedish Club membership is exceptional, he says. "And that is what we strive for. We want to bring in business that is consistent with the other business we have."

Malm says that focusing on 'what we know' and adding similar new business is an important part of having the trust of members. "We are all about large vessels – tankers, bulk carriers, container ships – and our focus is on young vessels. We want to add value to owners in terms of Loss Prevention and efficient claims handling."



Increasing lead business

Overall in 2018, the Club made good progress in its targets of attracting new business across the board, based on a strategy of building closer relationships and converting follow lines to lead within the Marine and Energy sectors.

"We haven't increased our volume in Marine and Energy but we have increased our share on lead compared to a year ago," says Malm. "It's a case of taking care of what we have, and developing it further. It comes back to the Club's full-service abilities; we can attract business through other means than monoline competitors. We aim to develop our Marine business into lead, and then into P&I.

Although the Club was forced to cease some P&I business because of sanctions, underlying growth was good, says Malm. "Total tonnage has gone down a little, because sanctions meant we could not continue with some accounts. But we have more vessels and members today compared to a year back and that is in line with our long-term strategy."

Being the lead on the majority of hull business is also important in building and maintaining the comprehensive knowledge which underpins the Club's value proposition, he says.

"That is why we focus on converting follow to lead lines, because we know that our value proposition is appreciated by members. In terms of quality, we are proud to offer such a high value proposition: hands-on, comprehensive claims handling and Emergency Response Training (ERT), one of the most high-quality Loss Prevention products in the market."

The importance of claims handling

The MSC Flaminia container ship fire casualty is one example of effective claims handling, where the Club was able to save costs for the member, says Malm. "With less proactive hands-on claims handling, the claim could have been far costlier. This was based on our solid understanding of how to handle large, complex claims involving all classes of insurance. Claims are of course the largest cost for the Club. If we can do something every day to reduce that cost, it makes a huge difference."

Beyond Loss Prevention

Loss Prevention is the flip side of the coin and, within this, the Club's ERT initiative has been extremely popular with members. ERT sessions have also been organised for potential new members, giving them an insight into what The Swedish Club can offer.

The Club also continues to develop more proactive and individualised Loss Prevention.

The new Trade Enabling Loss Prevention tool will pull together a live AIS feed which shows where members' vessels are going, with the Club's own extensive background knowledge and experience of particular ports or areas where there may be more groundings, higher frequency of collisions, more cargo claims or issues with poor pilotage, for example. "We can then notify the owner, sharing our knowledge of any particular risks to be aware of."

Developments in Maritime Resource Management

The Swedish Club's Maritime Resource Management (MRM) programme remains a strong part of the Loss Prevention drive, with its focus on preventing accidents at sea caused by human and organisational errors. Recent updates have included new online modules, with more to be released in 2019. Two MRM 'train the trainer' events were held in 2018 – one in Europe and two in Asia.

In 2018, Martin Hernqvist, who leads the MRM programme, relocated to Hong Kong, reflecting the fact that 40% of the Club's P&I business comes from Asia and there is an increasing demand for MRM training from the region.

Making it easy to do business

There is a constant focus on enhancing services and products, and making it easier to do business with the Club. Online documentation and simplified procedures are being developed to free up time for the Club's staff, members and brokers, so that they can all focus on more important issues.

Malm sets out the path ahead. "With pressure on premiums, we need to be able to do more business in an efficient manner. Digitalisation - including a new app - less administrative work, more tailored Loss Prevention – that is where the future will be," he says.



"We were able to show that we have business diversity and efficient emergency response and claims handling and that this contributes to the bottom line and the combined ratio."

Emergency Response Training

Following a successful pilot in 2016, The Swedish Club's Emergency Response Training (ERT) programme has gone from strength to strength with more than 30 exercises carried out around the world.

ERT offers benefits to both the Club and its members. In addition to providing members with valuable experience in performing under adverse circumstances, they can use their ERT session as a way of meeting the International Safety Management (ISM) Code requirement to carry out one major exercise a year. At the same time by planning and enacting an ERT, The Swedish Club gains an insight into its members' markets and keeps updated on the requirements and challenges its members are facing.

Both sides learn how they would handle a major incident and how the various organisations and authorities in any given jurisdiction would act and interact.

There are two types of tabletop exercises: one involves only the Club and the member, while the other also brings in external stakeholders such as class, rescue organisations, coast guards,

port states and flag states, and other authorities. Other kinds of excercises can be tailor-made to suit clients' requirements.

The exercise scenarios can take place anywhere that the vessel operates, and they reflect as realistic a situation as possible. Whatever the situation, however, when the exercise starts, the member is completely unaware of the incident that is about to unfold. Equally, the Club's claims handlers join the exercise unprepared.

Members are asked to leave Safety Management System (SMS) manuals and procedures behind them. The exercises focus on the decision-making process and encourage individuals to draw on their experiences. The outcome of the exercise can be later compared and evaluated against the company written procedures in their SMS in order to find possible areas of improvement.

The Club has been impressed by the willingness of participants to fully engage with the process, leaving behind any concept of a tick box exercise. With the ability to vary scenarios and focus of the exercises, The Swedish Club's ERT will be supporting members for some time to come.

“The scenarios reflect as realistic a situation as possible”



Scenario 1

Member: A

Vessel location: US East Coast

Vessel type: 9,999 GT container vessel

Scenario: Following a medivac of the Chief Engineer the vessel collides with another container vessel in dense fog. After some confusion the damage is assessed and a salvage operation carried out.

Comment: This scenario ensured that participants understood the specific US requirements regarding Vessel Response Plans (VRPs) which are compulsory when trading in the US.

Scenario 2

Member: B

Vessel location: North Atlantic

Vessel type: 90,645 GT container vessel

Scenario: A major fire breaks out on board the vessel, involving injury and loss of life. The crew needs to be rescued and a salvage operation begins. There are delays in finding a safe haven for the vessel and complications in handling subsequent repairs.

Comment: Based on the MSC Flaminia, this scenario focused on how the member, as a shipmanager with similar vessels, would manage a situation such as this. The Swedish Club had an in depth knowledge of the original case and was well placed to identify the major challenges and what could have been done better.

Scenario 3

Member: C

Vessel location: English Channel

Vessel type: 22,409 GT bulk carrier

Scenario: Water ingress in the engine room leads to a requirement for tug assistance. Problems with connecting the towing line result in vessel grounding. The outcome is a salvage operation and abandonment of the vessel. Due to its location the casualty has attracted the attention of the media.

Comment: This exercise demonstrates how an incident can rapidly escalate and highlights the multiple decisions that need to be made in a short space of time. It also highlights the importance of understanding the procedures contained in the Emergency Towing Booklet.

Scenario 4

Member: D

Vessel location: Finland

Vessel type: 2,956 GT chemical/oil tanker

Scenario: Prior to bunkering the vessel is subject to cyber attack. This is followed by an oil spill which leads to extensive social media activity.

Comment: The cyber security element of the scenario assisted the member to prepare for the additional section on Maritime Security recently added to version three of the Oil Companies International Marine Forum's (OCIMF) Tanker Management and Self-Assessment (TMSA3). In addition, the ERT explored issues with bunker spill, media response, and also International Ship and Port Facility Security (ISPS).

Scenario 5

Member: E

Vessel location: Mediterranean Sea

Vessel type: 118,938 GT container vessel

Scenario: Problems with the rudder result in a loss of steering control. Difficulties in attaching the steering line then lead to crew injury and the vessel grounding. This is followed by oil spill and containers overboard, several which were covered by the International Maritime Dangerous Goods Code (IMDG). The vessel is salvaged and towed into a safe port. Due to the oil spill, local authorities arrest the Master, and request a security of EUR 60 million.

Comment: This scenario poses several difficult decisions for the owner, in addition to raising political issues and testing the member's PR crisis management preparedness.

A teal-tinted photograph of a park with large trees and a path. The text is overlaid on the left side of the image.

The Swedish Club is committed to the management and coordination of environmental, social and financial demands and how they are dealt with to ensure responsible, ethical and ongoing success.



4

Sustainability

Operating sustainably

- just another day in the office

Interview with **Anders Leissner**, *Director Corporate Legal and FD&D* and **Britta Patriksson**, *Director Human Resources*

The Swedish Club's Sustainability Report outlines the Club's commitment to the management and coordination of environmental, social and financial demands on the Club, and how they are dealt with to ensure responsible, ethical and ongoing success. Ultimately this commitment is the responsibility of the legal team and is delivered by The Swedish Club's team of personnel. We ask Anders Leissner, Director, Corporate Legal & FD&D and Britta Patriksson, Director, Human Resources, what measures the Club takes to support this task.

The Report states that sound business decisions and stability in the operation are safeguarded by robust processes for internal control and a holistic enterprise management system. But what does this mean in practice? Anders Leissner explains: "Risk – the way you relate to it and think about it – isn't confined to a 'risk' department. We believe that it should be integrated across all aspects," he says. "It should be in the spine of the company. It is important that every individual in the organisation has an awareness that we are all ambassadors and that risk is what we, as a marine insurer, are about."

Regulatory compliance

Of course that approach to risk operates with a background of stringent regulatory compliance. "We work in a very structured regulatory environment," explains Leissner. "On all fronts there are higher demands - from governance to client payments. There is a wide variety of issues. First you have the legal requirements, where we allocate considerable resources to get things right. For instance, we select our new members very carefully, and every month



we carry out a sanction screening to ensure we do not insure any inappropriate entities. We also have exclusions in the insurance cover ensuring we never insure any illegal activities.

"But you also have other types of requirements that we need to adhere to. For instance, I have spent a lot of time in 2018 working to satisfy very exacting banking requirements for international payments. Banks must be very careful, and many routine aspects of our business can flag up as a problem."

A sense of community

The community aspect of the mutual model is a very important part of the Club's contribution to social responsibility. "In our business we bring together companies from countries that may be in conflict. We provide a neutral platform - as a mutual these businesses are essentially co-owners of The Swedish Club - sharing the risk and trusting one another. In addition, small businesses rub shoulders with multinationals, its very much a level playing field."

Personal responsibility

But how does the Club ensure sound business behaviour and compliance with internal and external regulation? The Swedish Club has, of course, written policies and procedures in place for its staff, explains Leissner, but it's about personal responsibility. "If an employee sees someone doing something wrong or of concern, they are expected to act immediately.

"It is very easy to sit and do nothing," says Leissner. "If an employee sees something wrong or someone doing something of concern, they are expected to act immediately. "We all have a duty to act. Otherwise it is difficult to improve and get things right the next time." We employ quality people, but sometimes we all need guidance. Care and clear communications should be guiding stars.

Keeping on track

Ethics within The Swedish Club team are also key. The Club ensures that every employee understands what is, and is not acceptable within the business environment.

"Risk – should be in the spine of the company"

Core values are about individual responsibility

The Report emphasises the Club's core values – 'Proactive, Reliable and Committed'. "We work to put those core values into our daily activities," says Britta Patriksson. "We are proactive with our customers, we are reliable, we are committed in everything we do. We talk about these values – and the respective managers talk to their teams about them. But these values are also about individual responsibility and are discussed in employees' annual appraisals. The emphasis is all about focus, and 'it starts with me'. We encourage employees to consider how they can contribute to be more aligned with our core values."



The Swedish Club has an ethical code of conduct, and this is discussed and signed by all employees and is followed up regularly.

Dynamic and healthy teams

Creating, maintaining and developing the right team is vital. The Club deliberately avoids simply 'replacing' someone who is leaving, says Patriksson. "The Club develops, the demands of the industry move on and it is important to analyse recruitment to understand what skills are required and which personality we need to maintain the best dynamic group."

The staff's wellbeing is consistently high on the agenda at The Swedish Club; employee surveys are conducted every two years and health checks are carried out by an occupational health service company in the intervening years. These checks go much further than merely testing blood pressure, says Patriksson: "Employees are asked about their lifestyle, daily wellbeing, exercise and food habits, etc. It is a wellness conversation."

Green actions

As the Report states, the Club seeks to apply high standards to operate in an environmentally friendly way. Initiatives in the offices include recycling waste, minimising the use of paper and using videoconferencing instead of travelling, where this is possible.

"We encourage employees to consider how they can contribute to be more aligned with our core values."

Gender issues

The Club is unusual in the male-dominated maritime world in having an almost equal split of men and women in its workforce. The Club's written policy on equal treatment states that it will safeguard equal possibilities to employment, education, promotion and development in the work role. Salaries are mapped every year, so any undue differences can be detected.

As well as striving towards a balance of gender in the various functions and organisational levels, the Club strongly supports employees who are combining work with raising children.

"#MeToo has had its impact everywhere. We should be good role models in the team as managers," says Patriksson. "What matters is having a strong team identity. Everyone has their part to play in the team. In 2019 we will be working even harder on this aspect, to ensure that all employees feel that they are part of the whole. We want to be 'one Swedish Club'."



Sustainability report

The Swedish Club business model

The Swedish Club (hereinafter the Club) is an independent, self-managed, mutual insurance company headquartered in Gothenburg, Sweden, with offices in Hong Kong, Oslo, London and Piraeus. It has been in existence since 1872. At the end of February 2019 it had 123 staff.

Mutuality means that the Club is owned and controlled directly by the policy holders (hereinafter members). The interests of the Club's management and Board of Directors are therefore identical to the collective interests of the members.

The Club's purpose is to provide marine insurance to shipowners and other ship operators worldwide. The liability insurance (P&I) provided by the Club, and through the Club's reinsurance arrangements, is a key factor in enabling world seaborne trade, the protection of the marine environment and of the interests of both public and private victims of maritime accidents. The Club's core business is therefore a vital component for a well-functioning and sustainable society.

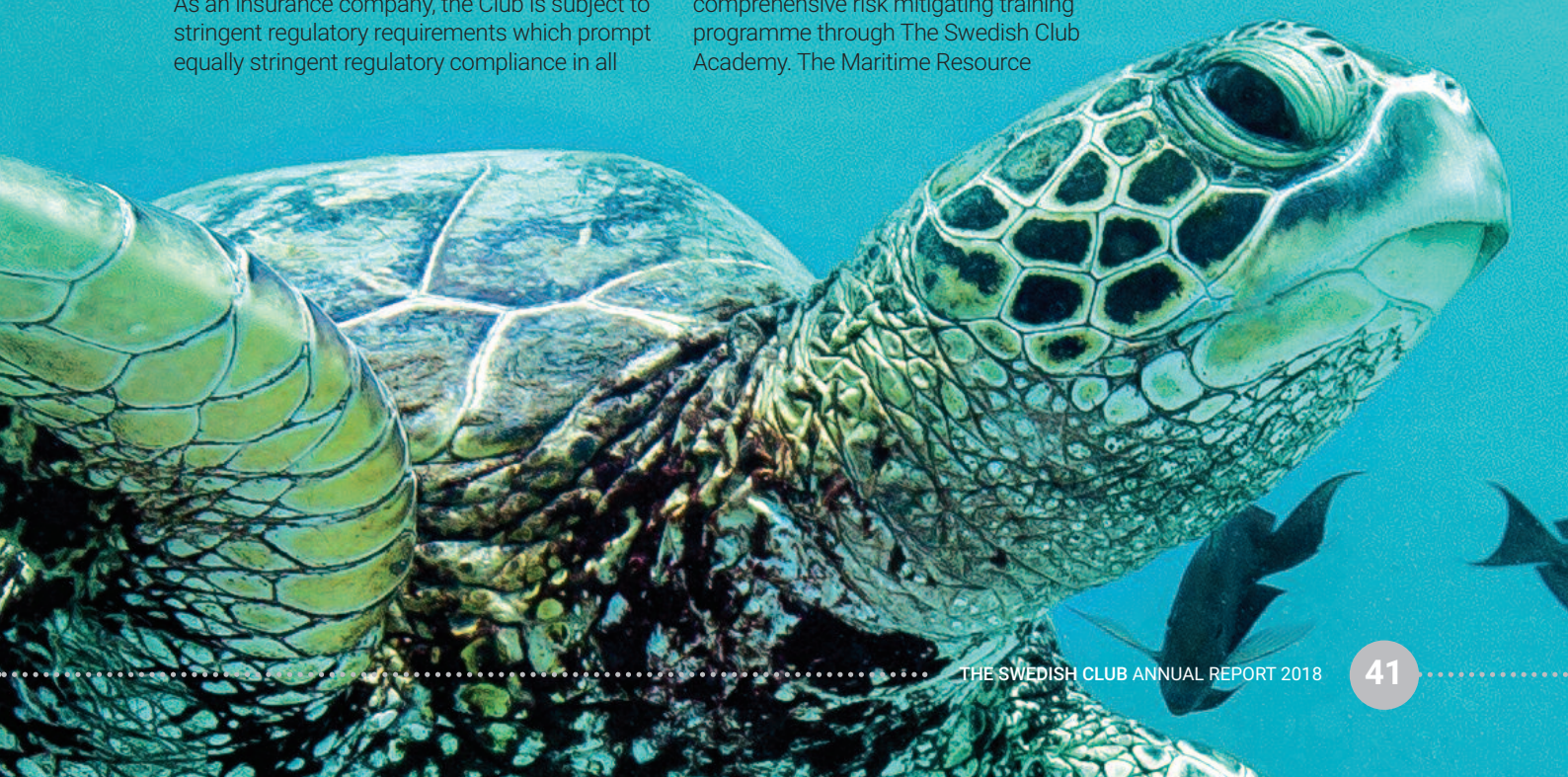
As an insurance company, the Club is subject to stringent regulatory requirements which prompt equally stringent regulatory compliance in all

areas. Sound business decisions and stability in its operations are safeguarded by robust processes for internal control and a holistic enterprise risk management system (ERM). This system is executed through a control cycle which involves the systematic identification, valuation, monitoring and reporting of all existing and emerging risks. The Club's assessment of its risks and how the risks are managed are regularly reported to the Swedish Financial Supervisory Authority as well as other stakeholders.

The Club's core values are encapsulated in the statement 'Proactive, Reliable and Committed'. These keywords shall apply to everything that the Club and the Club's staff do.

Environment and social relationships

In its day to day work, the Club makes significant efforts to safeguard environmental interests. Within the auspices of its Loss Prevention activities, the Club regularly issues publications and holds workshops on how to avoid marine casualties, reduce marine risks and consider the environmental impact generally e.g. regarding fuel consumption. The Club also participates in a comprehensive risk mitigating training programme through The Swedish Club Academy. The Maritime Resource



The Club's gender apportionment is 49% women and 51% men. According to the Club's written policy on equal treatment the Club shall safeguard equal possibilities of employment, education, promotion, and development in the work role.

Management (MRM) programme was developed following the industry realisation that the majority of marine casualties are due to human factors, its aim being to establish safe and sound attitudes and behaviours within organisations. The training is conducted through 100 facilities in 35 countries. The Club subsidises its members' cost for this training.

Furthermore, the Club seeks to apply high standards and operate in an environmentally friendly manner inter alia by recycling waste, minimising the use of paper and using videoconferencing instead of travelling, to the extent that is possible. However, the Club believes physical presence is necessary to maintain a close relationship with the members as well as to properly manage marine casualties. It is therefore to some extent unavoidable for the Club's employees to travel by aeroplane.

Social responsibility is a central feature in the Club's operations. An ethical code of conduct is discussed with and signed by all employees, and application of the ethical guidelines is followed up at regular employee/manager meetings, as well as through interactive questionnaires on the intranet.

Another important social dimension involves the community that ownership in the Club entails. The Club's membership stretches from local bunker barge operators to the world's largest state-owned shipowners. Further, some of the Club's members are based in countries that have a tense political relationship with each other, and, as a result, little or no business relationships. The Club therefore serves as a rather unique platform for creating a community and building relationships beyond political and geographical boundaries.

Personnel and human rights

The Club is a true knowledge company and as such fully dependent of the expertise and wellbeing and of its employees. Every second year, the Club measures employee satisfaction by way of an engagement survey performed by a third party. Following the 2017 survey, the key performance indicators (KPIs) for the employees' work satisfaction was significantly higher than the industry benchmark and a majority of other KPIs came out better or on par with benchmark. The survey covers discrimination and bullying, areas where the Club has zero tolerance. The Club has a policy to combat discriminatory behaviour.

The Club's gender apportionment is 49% women and 51% men. According to the Club's written policy on equal treatment the Club shall safeguard equal possibilities of employment, education, promotion, and development in the work role. The Club shall strive towards an equal apportionment between men and women in the Club's different functions and organisational levels and the Club shall facilitate the possibility to combine work with raising children. Annual mapping of salaries is conducted in order to detect undue differences between men and women. During 2018, 22 employees (12 men and 10 women) took advantage of this policy to take parental leave.

Sound business behaviour and compliance with internal and external regulations is ultimately dependent on the acts of the individual employee. This includes safeguarding the values mentioned in this sustainability report.

The Club has several channels through which employees can alert management



about any abuses or wrongdoing. Annual risk workshops are held within the auspices of the risk management function. These workshops aim to target operational risks which include fraud, malicious damage, employment practices, business practices, workplace safety and public safety. In addition, the Club has two web-based applications where risks as well as incidents – ‘near misses’ - in the line organisation are registered. The findings are compiled and communicated to management and the Club’s Board on an annual basis.

Furthermore, the Club has a whistle blower policy which encourages employees to submit complaints on a confidential basis regarding non-compliance, any kind of illegal or unethical activity, or any other abusive or erroneous behaviour that has an adverse impact on any individual, the Club or the environment.

As can be seen above, the Club’s work in identifying and mitigating risks includes several tools that are used to safeguard respect for human rights regarding both the Club’s employees and the Club’s business associates. In addition, the P&I insurance provided by the Club contains elements to safeguard the human rights of an otherwise exposed group of people – seafarers. In case of injury or illness on board an insured vessel the Club will ensure that the crew member receives proper medical assistance and, if necessary, is repatriated back home. Notably, in response to a request put forward by the International Labour Organisation (ILO), the Club’s Board recently decided to extend the P&I insurance to include financial security for repatriating seafarers (other than due to illness), as well as four months of wages, should the shipowner fail to pay this cost due to insolvency.

Combatting corruption

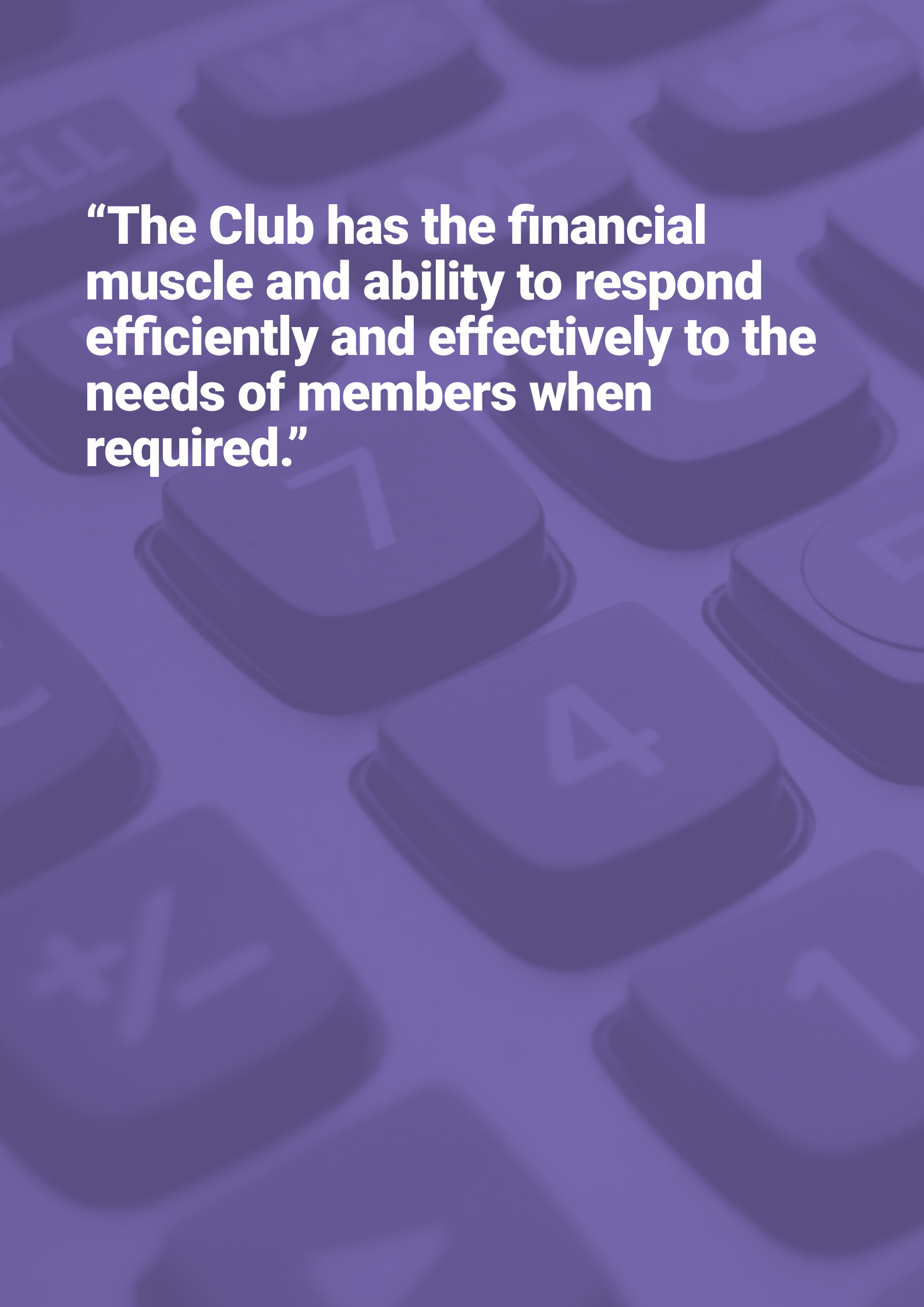
The Club has zero tolerance towards corruption and bribes. The Club applies the UK Bribery act as a benchmark for its employee policy which is more stringent than the equivalent Swedish legislation that would otherwise have applied (in general). As to corruption, the Club uses a market leading screening tool provided by World-Check whereby all the Club’s members and insured vessels are screened once a month. The screening includes global sanctions’ lists, global enforcement and warning lists, global politically exposed (PEP) lists and global state-owned entity lists (SOE). The screening also includes corporate managers who are directly or indirectly connected to or associated with an embargoed country or entity which carries related or other risk relevant information.

World-Check also draws on hundreds of thousands of credible media sources to monitor all of the categories above. It is also used to identify and maintain a large number of profiles related to individuals convicted of one or more of the predicate offences as defined by FATF (Financial Action Task Force). The purpose of the screening is to avoid the Club doing business with inappropriate companies or individuals. In addition, all the Club’s Board members, members of the Management Group and personnel being responsible for the Club’s central functions (actuary, risk manager and compliance) are subject to an equivalent screening process in order to ensure that regulatory fit and proper standards for these individuals are met.



P&I insurance provided by the Club contains elements to safeguard the human rights of an otherwise exposed group of people – seafarers.





“The Club has the financial muscle and ability to respond efficiently and effectively to the needs of members when required.”



5

Financial statements

Financial statements

These financial statements, based on the Swedish statutory financial statements, with few editorial changes, have been translated from Swedish into English by professional translators and from SEK into USD in accordance with the principles laid out in Note 1 to these statements. All amounts in thousands, unless stated otherwise.

() = Year 2017 figures.

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Board of Directors' report

The Board and the Managing Director of The Swedish Club (Sveriges Ångfartygs Assurans Förening) hereby present their annual report for the year 2018, its 146th year of operation.

Principal activities and structure

The Swedish Club (also referred to in this report as "the Club") is a marine mutual insurer, headquartered in Gothenburg, Sweden, with a service office in Piraeus and branch offices in Hong Kong, London, and Oslo. The Club also has a subsidiary in Hong Kong. The Swedish Club is both owned and directly controlled by its members.

The Club's activities concern marine insurance, in the following classes of non-life insurance: Ship

(Marine & Energy), Ship liability (Protection and Indemnity, P&I) and Defence (Freight Demurrage & Defence, FD&D). The Club also writes accepted reinsurance included in the Marine class.

In accordance with the Swedish Annual Accounts Act, the Club's subsidiary in Hong Kong has not been consolidated as it is of lesser importance with regard to true and fair view requirements.

Board members attending the Hong Kong meeting 28 March 2019.



Significant events during the year

During the year, the Club extended a rebate corresponding to 5% of the premiums for P&I. This was motivated on the basis of the Club's strong financial position. During the year, a P&I claim provision was significantly lowered (USD 45.7 million) due to recourse pertaining to prior insurance years. The decrease falls within the scope of the reinsurance scheme (USD 44.8 million).

Financial overview

The following is a brief commentary on the income statement and balance sheet. For more detailed information, please see the notes and performance analysis per insurance class.

Result for the period

For 2018, the result before appropriations and tax was USD -9.6 (+18.8) million.

The relationship between the result expressed in USD and SEK is shown in the table below as a change in free reserves.

The Club's assets in foreign currency are larger than its liabilities resulting in exchange rate gains when measured in SEK.

Free reserves	USD M	USD/SEK	SEK M
31 December 2017	213.5	8.2322	1,757.4
Result before appropriations and tax	-9.6		71.6
Current tax	-0.1		-0.4
31 December 2018	203.8	8.9709	1,828.6

Insurance activities

Gross premiums written in 2018 amounted to USD 143 (151) million. Following the deduction of outgoing reinsurance premiums totalling USD 35 (35) million, premiums written, net of reinsurance amounted to USD 109 (116) million. Earned premiums, net of reinsurance, amounted to USD 111 (118) million.

Part of investment income is reallocated to insurance activities. The amount is based on the expected return on the investment portfolio and the average technical provisions for own account during the year. The transferred investment income amounted to USD 5.2 (5.1) million.

Claims incurred, net of reinsurance, amounted to USD 89 (100) million. In relation to earned premiums, net of reinsurance, this corresponds to 80 (85)%.

Changes in other technical provisions amounted to USD 2 (2) million. This change reflects the value development of reinsurance vehicle Hydra related to the Club.

During the year, there were 19 claims reported in excess of USD 500,000. In 2017, there were 22 such claims. For 2 (5) of the claims, the cost before reinsurers' share amounted to more than USD 2 million.

Operating expenses for insurance activities amounted to USD 24 (25) million. In relation to earned premiums, net of reinsurance, this corresponds to 21 (21)%.

The balance on the technical account amounted to USD 1.5 (-3.7) million.

Result by class of insurance

The combined ratio for P&I was 89 (102)%. Earned premiums, net of reinsurance, amounted to USD 68 (73) million. The claims cost for other clubs' pool claims was USD 13 (14) million for the current insurance year. Claims incurred, net of reinsurance, fell from USD 59 million in 2017 to USD 46 million in 2018. The loss ratio for the year was 67 (81)%. As of 31 December 2018, the P&I portfolio, including Charterer's liability, consisted of 2,125 (1,973) vessels with gross tonnage of 82 (83) million. The Club extended a rebate of 5%, corresponding to USD 4.4 million, to its members.

The combined ratio for FD&D was 79 (58)%. As of 31 December 2018, the FD&D portfolio consisted of 1,306 (1,046) vessels with gross tonnage of 47 (39) million. Earned premiums for FD&D, net of reinsurance, amounted to USD 6.4 (5.9) million. Claims incurred, net of reinsurance, increased from USD 2.8 million in 2017 to USD 4.2 million in 2018. The loss ratio for the year was 66 (47)%.

The combined ratio for Marine & Energy was 122 (116)%. Earned premiums for Marine & Energy, net of reinsurance, amounted to USD 36 (39) million. Claims incurred, net of reinsurance, increased from USD 36 million in 2017 to USD 37 million in 2018. The loss ratio for the year was 101 (93)%. At the end 2018 the Marine & Energy portfolio consisted of 2,795 (2,752) vessels, with gross tonnage of 111 (109) million, and covered insured value of USD 9.5 (9.7) billion. The number of vessels insured for Loss of Hire was 973 (1,184) with a gross tonnage of 31 (32) million.

Investments

The financial result, including exchange rate differences amounted to USD -5.9 (27.7) million. The result from interest-bearing securities was USD 1.7 (6.5) million. The result for quoted shares amounted to USD -5.9 (17.8) million and the result for other financial income and expenses amounted to USD -0.2 (-0.6) million.

The translation of investment assets into USD resulted in exchange losses of USD -1.2 (3.3) million. Other exchange differences amounted to USD -0.2 (0.7) million. At the end of 2018, the value of the Club's investments amounted to USD 345 (376) million, of which 82 (84)% consisted of interest-bearing securities and 18 (16)% was equity funds.

Balance sheet

For 2018, the provision for claims outstanding was USD 225 (258) million.

The value of the Club's investments amounted to USD 345 (376) million.

At year-end, Hydra receivables (see Note 2, in the section on counterparty risks) had an estimated value equivalent to USD 11 million. These are reported in the balance sheet under the heading, 'Other assets'.

Environment

The Club's Sustainability Report, in accordance with EU Directive 2014/95 (included in the Chapter 6, Section 12 of the Swedish Annual Accounts Act, 1995:1554 (ÅRL)), has been published on the Club's website, www.swedishclub.com/about/corporate-governance/.

Significant events after the balance sheet date

Since the balance sheet date, the business has developed in line with the established goals and expectations. The Club does not have any significant events after the balance sheet date to report.

Employees

The Swedish Club is a knowledge-intensive organisation. The commitment, competence and performance of employees are decisive factors for the organisation's success and competitiveness. The Swedish Club intends to remain an attractive employer by having a progressive human resources policy, a healthy organisational culture and well-established core values.

The Swedish Club's core values are as follows:

Proactive

- We are proactive in our approach.
- We respond in a forward-thinking and proactive manner and focus on cost-efficient solutions.

Reliable

- We are reliable in our values and we stand behind them.
- Through honesty and fair treatment, we are able to gain confidence and ensure continuity.

Committed

- We are committed in everything we do.
- We build and develop relationships of mutual benefit.
- Our service is based on respect and professionalism.

The average number of employees during the year was 117 (see Note 29 for more information). A bonus programme for employees was introduced in 2011. The maximum total cost of the bonus program has been set at 10% of the Club's salary costs including social security expenses. No provision for bonuses was made in 2018.

Note 29 also contains information on the principles for establishing salaries and benefits for senior management.

Risks and uncertainties

The Swedish Club's operations give rise to various types of risks that could have an effect on its result and financial position.

There are four main categories of risk:

- Insurance risk
- Counterparty risk
- Financial risk
- Operational risk

Already in 2012, an internal capital model (ICM) designed as a control mechanism for the Club's management process was implemented. The model is an important tool for assessing capital needs, as well as a dynamic tool that is helpful in the decision-making process.

The ICM, which has been named INCA internally, is an essential component of The Swedish Club's ability to meet the requirements of the EU Solvency II Directive, which has been in force since 2016.

Note 2 contains an overview of how these risks affect operations and how the Club manages them.

Credit ratings

The annual credit valuation of The Swedish Club, carried out by Standard & Poor's, resulted in an upgrade from BBB+ to A-, which was made public in January 2019. A.M. Best also confirmed its rating of A- that same month.

Prospects for 2019

In 2019, we expect the premium volumes for all of our insurance areas to grow due to higher insured tonnage and to some extent price recovery. We anticipate that claims incurred in 2019 will be in line with 2018, adjusted for volume changes.

Most macroeconomic forecasts call for continued economic growth worldwide and in the specific economies that are most important to the Club. However, the growth rates for 2019 are expected to be lower compared to 2018. We expect a cautious rise in interest rates in 2019 and that stock markets around the world will develop positively but will remain volatile due to political and cyclical uncertainties.

Financial strength

Since inception, the Club has grown its untaxed reserves to USD 219.5 million. The 'Free Reserves' of the Club – i.e. results carried

forward plus untaxed reserves and deferred taxes – amounted to a strong USD 203.8 million at year end 2018. According to the methodology of Solvency II regulations, the Club's Basic Own Funds amounts to USD 229.2 million. These numbers correspond to a Solvency Capital Requirement ratio of 237%, which shows that the Club's capitalisation is very sound.

The losses carried forward below need to be understood in the perspective of Swedish regulations allowing the Club to build an untaxed Safety Reserve by appropriation of income.

Appropriation of earnings

The following earnings are at the disposal of the AGM:

Amounts in USD thousands	
Accumulated loss	-15,683
Profit/loss for the year	-1,116
Translation difference capital	734
Total	-16,065

The Board and the Managing Director propose that the accumulated loss is distributed as follows:

Carried forward	-16,065
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Virtue rewarded

Global ratings agency Standard & Poor's has upgraded the financial strength rating of The Swedish Club to A- with stable outlook

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Five-year summary

Amounts in USD millions.	2018	2017	2016	2015	2014
Income statement					
Earned premiums, gross	146.1	153.3	167.3	180.4	180.7
Earned premiums, f.o.a.	111.2	117.5	130.5	142.9	139.4
Investment income, allocated from non-technical account	5.2	5.1	4.7	4.8	3.8
Claims, f.o.a.	-86.6	-98.1	-103.0	-115.2	-93.2
Refunds and P&I discounts	-4.4	-3.4	-	-	-
Net operating expenses	-23.9	-24.8	-25.4	-25.8	-27.6
Balance on technical account	1.5	-3.7	6.8	6.8	22.5
Balance on non-technical account	-11.1	22.6	5.0	-9.9	-4.1
Result before appropriations and tax	-9.6	18.8	11.8	-3.1	18.4
Financial position					
Investment assets at fair value	345.2	375.8	351.5	349.4	353.4
Technical provisions, f.o.a.	193.6	214.4	220.1	227.8	219.7
Free reserves	203.8	213.5	194.9	183.1	186.3
Deferred tax liability included in free reserves	45.5	51.5	45.6	43.0	43.5
Eligible Own Funds, in accordance with Solvency 2	277.7	288.2	215.6	-	-
Basic own funds	229.2	234.1	215.6	-	-
Ancillary own funds	48.4	54.1	-	-	-
Minimum Capital Requirement (MCR)	29.9	33.6	35.4	-	-
Solvency Capital Requirement (SCR)	96.8	108.2	118.5	-	-
Basic Own Funds / SCR	237%	216%	182%	-	-
Eligible Own Funds / SCR	287%	266%	232%	-	-
Key data insurance business					
Loss ratio	78%	83%	79%	81%	67%
Expense ratio	21%	21%	19%	18%	20%
Combined ratio	99%	104%	98%	99%	87%
Average Expense Ratio (AER)	13.8%	13.4%	13.3%	13.3%	13.0%
Key data asset management					
Total return	-1.1%	6.2%	2.8%	-0.6%	3.2%
Other key figures					
Free reserves ratio, claims	123%	116%	104%	95%	103%
Average number of employees	117	114	109	109	109

Definitions are provided on pages 85-86

Income statement

For the financial year January through December 2018.
Amounts in USD thousands.

	Note	2018	2017
Technical account			
Earned premiums, net of reinsurance			
Premiums written, gross	3	143,265	151,020
Outward reinsurance premiums		-34,647	-35,475
Change in provision for unearned premiums		2,823	2,295
Reinsurers' share of change in provision for unearned premiums		-244	-324
		111,197	117,516
Investment income transferred from the non-technical account	4	5,200	5,100
Claims incurred, net of reinsurance			
Claims paid	5		
Before outgoing reinsurance		-83,132	-120,731
Reinsurers' share		-23,846	16,678
		-106,978	-104,053
Change in provision for claims outstanding			
Before outgoing reinsurance		33,070	1,696
Reinsurers' share		-14,812	2,034
		18,258	3,730
		-88,720	-100,323
Change in other technical provisions	6	2,139	2,209
Refunds and P&I discounts		-4,428	-3,418
Net operating expenses	7,8,29	-23,859	-24,831
Balance on technical account		1,529	-3,747
Non technical account			
Balance on the technical account		1,529	-3,747
Financial result			
Financial income	9	1,975	24,267
Unrealised gains on investments	10	1,346	3,985
Financial costs	11	-1,847	-595
Unrealised losses on investments	12	-7,397	-
		-5,923	27,657
Allocated investment income transferred to the technical account	4	-5,200	-5,100
Result before appropriations and tax		-9,594	18,810
Appropriations: change in safety reserve		7,181	-23,091
Result before tax		-2,413	-4,281
Tax on result for the year	22	1,297	1,095
Profit/loss for the financial year		-1,116	-5,376

Balance sheet

Assets

As of 31 December. Amounts in USD thousands.

	Note	2018	2017
Intangible assets			
Intangible assets	13	49	94
		49	94
Investment assets			
Investments in group and associated companies			
Shares in group and associated companies	14	11	11
Other financial investment assets			
Quoted shares	15	62,173	59,918
Bonds and other interest-bearing securities	16	272,015	315,822
Loans to credit institutes		11,000	-
		345,199	375,751
Reinsurers' share of technical provisions			
Provisions for unearned premiums	17	3,456	3,700
Provision for claims outstanding	17	58,798	73,610
		62,254	77,310
Receivables			
Receivables related to direct insurance operations	18	81,705	38,707
Receivables related to reinsurance operations		2,014	1,299
Other receivables		1,204	1,587
		84,923	41,593
Other assets			
Tangible assets	19	740	564
Cash and bank balances		22,338	25,118
Other assets	20	11,514	9,432
		34,592	35,114
Prepaid expenses and accrued income			
Prepaid acquisition costs		2,783	3,189
Other prepaid expenses and accrued income		672	531
		3,455	3,720
Total assets		530,472	533,582

Equity, provisions and liabilities

As of 31 December. Amounts in USD thousands.	Note	2018	2017
Equity			
Statutory reserve		56	61
Accumulated loss		-15,683	-10,309
Profit/loss for the financial year		-1,116	-5,376
Translation difference capital		734	621
	A	-16,009	-15,003
Untaxed reserves			
Safety reserve		218,345	225,526
Equalisation reserve		1,200	1,307
	B	219,545	226,833
Technical provisions before reinsurers' share			
Provision for unearned premiums	17	30,811	33,634
Provision for claims outstanding	17	225,053	258,123
		255,864	291,757
Provision for other risks and charges			
Pensions and similar obligations	21	558	900
Deferred tax	C 22	302	1,642
		860	2,542
Liabilities			
Liabilities related to direct insurance operations	23	9,718	8,157
Liabilities related to reinsurance operations		48,787	5,757
Other liabilities	24	10,187	11,567
		68,692	25,481
Accrued expenses and deferred income			
Accrued expenses		1,520	1,972
		1,520	1,972
Total equity, provisions and liabilities		530,472	533,582
Free reserves (A+B+C)		203,838	213,472

Change in equity

Amounts in USD thousands.	Statutory reserve	Accumulated profit or loss	Translation difference capital	Profit/loss for the financial year	Total equity
Balance brought forward 2017-01-01	55	-13,060	751	2,750	-9,503
Carried forward	-	2,750	-	-2,750	-
Profit for the year	-	-	-	-5,376	-5,376
Change in translation difference capital	6	-	-130	-	-124
Balance carried forward 2017-12-31	61	-10,309	621	-5,376	-15,003
Balance brought forward 2018-01-01	61	-10,309	621	-5,376	-15,003
Carried forward	-	-5,376	-	5,376	-
Profit for the year	-	-	-	-1,116	-1,116
Change in translation difference capital	-5	2	113	-	110
Balance carried forward 2018-12-31	56	-15,683	734	-1,116	-16,009

Profit/loss for the year includes unrealised gains/losses on investments. Deferred tax has been calculated on that portion. See Note 22.

Cash flow statement

As of 31 December. Amounts in USD thousands.	2018	2017
Paid premiums	147,595	154,705
Paid reinsurance premiums	-38,098	-33,739
Claims paid	-127,988	-120,731
Claims paid, reinsurers' share	21,010	16,678
Cash flow from insurance operations	2,519	16,913
Other expenses	-25,485	-23,610
Paid interest	-	-1
Interest received	507	85
Dividends received	355	325
Paid tax	-86	-218
Refunds and discounts	-4,428	-3,418
Cash flow from other operations and insurance operations	-29,137	-26,837
Acquisitions of tangible assets	-336	-135
Net investments in nontangible assets	7	-
Investments in financial investment assets	-73,521	-406,540
Sale of financial investment assets	106,268	409,600
Net result financial investments	-5,981	-135
Exchange rate difference	-1,806	-940
Cash flow from investments operations	24,631	1,850
Cash flow for the year	-1,987	-8,074
Cash and bank balances		
Cash and bank balances at the beginning of the year	25,118	31,580
Cash flow for the year	-1,987	-8,074
Exchange rate difference on cash and bank balances	-793	1,612
Cash and bank balances at year-end	22,338	25,118

Performance analysis per class of insurance

According to Swedish regulations, there is only one class of insurance. However, the Club voluntarily reports on other subclasses. Please see pages 85-86 for an explanation of the classes of insurance.

For the financial year January through December 2018. Amounts in USD thousands.

	Total	P&I	FD&D	Marine & Energy	
Technical account					
Earned premiums, net of reinsurance					
Premiums written, gross	143,265	95,823	6,508	40,934	
Outward reinsurance premiums	-34,647	-27,502	-	-7,144	
Change in provision for unearned premiums	2,823	214	-109	2,718	
Reinsurers' share of change in provision for unearned premiums	-244	-190	-	-54	
A	111,197	68,345	6,399	36,453	
Investment income transferred from the non-technical account	B	5,200	4,200	200	800
Claims incurred, net of reinsurance					
Claims paid					
Before outgoing reinsurance	-83,132	-32,294	-4,466	-46,372	
Reinsurers' share	-23,846	-25,164	-	1,318	
Change in provision for claims outstanding					
Before outgoing reinsurance	33,070	22,362	253	10,455	
Reinsurers' share	-14,812	-12,656	-	-2,156	
C	-88,720	-47,752	-4,213	-36,755	
Change in other technical provisions	C	2,139	2,139	-	-
Refunds and discounts	D	-4,428	-4,428	-	-
Net operating expenses					
External acquisition costs	-10,866	-6,138	-463	-4,265	
Operating expenses for renewal of insurance contracts	-6,075	-4,085	-160	-1,830	
Administrative expenses	-6,918	-5,252	-213	-1,453	
E	-23,859	-15,475	-836	-7,548	
Balance on technical account	A+B+C+D+E	1,529	7,029	1,550	-7,050
Run-off result (according 5 Chapter 4§ 3 ÅFRL)	6,849	4,844	1,764	241	
Result outward reinsurance	-73,548	-65,512	-	-8,036	
Key figures					
Loss ratio [C/A]	78%	67%	66%	101%	
Expense ratio [E/A]	21%	23%	13%	21%	
Combined ratio [(C+E)/A]	99%	89%	79%	122%	
Three-year average combined ratio	101%	97%	64%	113%	
Insurance portfolio¹⁾					
Number of insured vessels	-	2,125	1,306	2,795	
Gross tonnage (millions)	-	82	47	111	
Average share covered (per cent of gross tonnage)	-	100%	100%	13%	
Average age (years)	-	10	9	10	

¹⁾Marine & Energy including H&M and Energy only. P&I including Charterers' Liability.

Performance analysis per class of insurance

As of 31 December 2018.

Amounts in USD thousands.

	Total	P&I	FD&D	Marine & Energy
Technical provisions				
Before reinsurers' share				
Provision for unearned premiums	30,811	12,714	900	17,198
Provision for claims outstanding	225,053	184,487	7,464	33,101
	255,864	197,201	8,364	50,299
Reinsurers' share				
Provision for unearned premiums	3,456	3,288	-	168
Provision for claims outstanding	58,798	46,219	-	12,578
	62,254	49,507	-	12,746
For own account				
Provision for unearned premiums	27,355	9,425	900	17,030
Provision for claims outstanding	166,255	138,268	7,464	20,522
	193,610	147,693	8,364	37,553

Note 1. Accounting principles

Statement of compliance with regulations applied

The annual report has been prepared in accordance with the Law of Annual Reports in Insurance Companies (ÅRFL) and The Swedish Financial Supervisory Authority's rules, and regulations regarding annual reports for insurance companies (FFFS 2015:12) and the Swedish Financial Reporting Board's recommendation RFR 2. Law-limited IFRS have been applied, which are international accounting standards that have been adopted for use with the limitations that follow from RFR 2 and FFFS 2015:12. This means that all of the EU approved IFRS and statements have been applied, to the extent possible given Swedish law and with consideration given to the relationship between accounting and taxation.

Unless otherwise stated, all amounts in the financial statements are in USD thousands.

The Club has a subsidiary in Hong Kong which, in accordance with Chapter 7, Section 3a of the Swedish Annual Accounts Act (ÅRL), has not been consolidated, since the subsidiary is considered to be of lesser importance with regard to true and fair view requirements.

The Club also has holdings in the associated company, The Swedish Club Academy.

Assumptions when preparing the insurance company's financial statements

USD is the Club's accounting currency, since most of the Club's income and expenses are in USD. It is also the most significant currency used when making technical provisions and therefore, the primary environment in which the Club runs the business.

The Club converts transactions in foreign currency to the currency rate applicable on the transaction day, both to SEK and to USD. This financial statement is reported in USD while SEK is used in the official Swedish regulatory reporting in accordance with law-limited IFRS. All amounts, unless stated otherwise, have been rounded off to the nearest thousand.

Assets and liabilities are reported at cost, except for certain financial assets and liabilities that are measured at fair value. Financial assets and liabilities that are measured at fair value consist of financial assets classified as financial assets measured at fair value through profit or loss.

Assessments and estimates made when preparing the financial statements

In order to prepare the financial statements in accordance with law-limited IFRS, senior management must make assessments, estimates and assumptions that affect the application of accounting principles and the carrying amounts of assets, liabilities, income and expenses.

Estimates and assumptions are based on past experience and a number of other factors that under current circumstances seem to be feasible. The result of these estimates and assumptions are then used when assessing the carrying amounts of assets and liabilities for which the values are not clearly evident from other sources. Actual outcomes can differ from these estimates and assessments. Estimates and assumptions are regularly reviewed. Changes in estimates are reported in the same period that the change occurred, provided that the change only has an effect on that period. Otherwise, changes are reported in the same period that the change occurred and future periods, if the change affects both current and future periods.

Important estimates and assessments regarding technical provisions are based on assumptions about future claims payments, which means that the estimates are always associated with uncertainty. Estimates are based on the Club's own historical statistics on prior claims losses available on the reporting date. The following are examples of items considered when estimating technical provisions: unpaid claims, claims development, changes in legislation, judicial decisions and general economic development. See also Note 2 (Risk management and risk analysis).

The accounting principles stated below have been applied consistently to all periods presented in the financial statements.

Principles applied

New and revised standards applied by the company

During the year, the Club transitioned to reporting and measurement in accordance with IFRS 9 Financial Instruments. The new standard has not, however, had any impact on the Club's reporting and measurement.

Application of IFRS 9 has resulted in reclassification of the Club's financial assets. Balance sheet items that were previously classified as 'Loan receivables and Accounts receivable' (which are other receivables, along with cash & bank balances) are

reported at amortised cost in accordance with IFRS 9. The balance sheet items previously measured at fair value through the profit and loss statement under the fair value option (which are bonds and other interest-bearing securities) must, under IFRS 9, be measured at fair value through the profit and loss statement

The financial assets in the Club's balance sheet that fall within the scope of IFRS 9 rules on anticipated credit losses consist of bank deposits and other receivables. Because the Club's deposits are held at bank's with a high rating (at least A) and they are repayable upon demand, the anticipated amount of credit losses on this exposure is insignificant. Other receivables amount to an insignificant amount in the balance sheet and they have a short maturity, which means that the anticipated credit losses are negligible. Accordingly, the Club does not report any provision for losses.

There has thus not been any impact on the opening balances for 1 January 2018 resulting from the transition to IFRS 9.

The transition to IFRS 15 Revenue Recognition has not had any impact on how the Club recognises its revenue.

New standards, amendments and interpretations to existing standards that have not yet entered into force and have not been early adopted.

Several new international accounting standards, along with revisions to standards and interpretations will come into force as of the next financial year and the Club has not opted for early adoption when preparing these financial statements. The Club has no plans to elect early adoption on new or revised standards.

IFRS 16 Leases replaced the previous standards on leases as of 1 January 2019. The Club reports leasing in accordance with RFR 2 Accounting for Legal Entities, which means that is granted an exemption from the principles contained in IFRS 16. As such, there will be no change in how the Club reports leases.

IFRS 17 enters into force in 2022. The standard introduces new principles on how to report and measure insurance contracts. FI (the Swedish financial supervisory authority) has not yet decided whether or not it will require Swedish insurance companies to apply the new standard. The Club has started evaluating how implementation of IFRS 17 would impact its financial statements, processes and systems.

None of the IFRS or IFRIC interpretations that are obligatory for the fiscal year that started on 1 January 2018 have had a significant impact on The Swedish Club's income statement or balance sheet.

Insurance contracts

All of the Club's insurance contracts are defined as insurance contracts in accordance with IFRS 4. Insurance contracts are reported and measured in the income statement and balance sheet in accordance with their financial substance rather than their legal form whenever there is a difference between the two. Items reported as insurance contracts must transfer substantial insurance risk from the policyholder to the Club. They must also obligate the Club to compensate the policyholder, or another beneficiary, if a predetermined insured event were to occur.

Income tax

Income taxes are comprised of current tax and deferred tax. Income taxes are reported in the income statement. Current tax is tax that is payable or refunded for the current year, applying tax rates that have been decided or effectively adopted as of the reporting date. This also includes adjustments of current tax related to prior periods.

Deferred tax is measured according to the balance sheet method. The starting point is thus temporary differences between the carrying amount of an asset or liability and its tax base. The valuation of deferred tax is based on the extent to which the underlying assets and liabilities are expected to be realised or settled. Deferred tax is calculated by applying the tax rates and tax rules that have been decided or effectively adopted as of the reporting date. Untaxed reserves are reported including deferred tax liability.

Premiums written, gross f.o.a.

Gross premium written is normally reported according to the maturity principle. This means that the gross premium written is reported in the income statement when the annual premium falls due for payment, or, when the first partial premium falls due for payment (this happens in cases where the contractual insurance period's premiums have been divided into several partial premiums). Furthermore, in order for the gross premium written to be included, the term of the underlying insurance contract must start during the current accounting period. The method described above is used also for premium written, reinsurers' share.

Premiums earned f.o.a.

Premiums earned reflect the proportion of the gross premium written that is attributable to the accounting period. The share of the premium income from insurance contracts pertaining to periods after the closing date is allocated to the premium reserve in the balance sheet. Calculation of the provision to the premium reserve is done by allocating the premium income to the proper period

based on the underlying duration of the insurance contract. The method described above is also used for earned premiums (reinsurers' share).

Investment income transferred from the non-technical account

Investment income is reported in the non-technical result. The Club uses a model for the calculation of investment income transferred from the financial business to the technical account. The model compensates the insurance business with interest for the float generated during the period between premium payment and claim payment. The interest rate that was used corresponds to the expected return on investments for the current year.

Net claims incurred

The total net claims incurred for the accounting period includes claims paid during the period and changes in the provision for claims outstanding. Besides claims, net claims incurred also includes claims handling costs. The provision for claims outstanding is calculated using expected nominal cash flows.

The provision for claims outstanding net of reinsurance is revalued using the closing day rate of exchange. Historical data on claims payments provides the basis for allocation of the provision to each relevant currency. Based on these statistics, the Club has chosen to make the assessment that the reserves are fully comprised of USD.

Net operating expenses

The proportion of the total operating expenses related to claims handling is reported under the heading 'Net claims incurred'. A portion of net operating expenses is also related to investment administration and this portion is reported as 'Internal asset management costs'. These costs include both direct costs and indirect allocated costs. Operating expenses in the insurance business include, besides administrative costs, also acquisition costs. Internal acquisition costs and internal investment administration costs are allocated in accordance with a model (see Note 7 and Note 10).

Investment income - realised and unrealised profit on investments

Realised profit/loss on sale of investments is equivalent to the difference between the sales price and acquisition cost. The Club's investments are reported at fair value. Unrealised changes in values are reported in the income statement and can be defined as the annual change in the difference between fair value and acquisition cost.

Financial instruments

Financial instruments reported in the balance sheet as assets:

- Accounts receivable (reported under the heading, 'Receivables')
- Shares and participating interests
- Bonds and other interest-bearing securities

Items reported as liabilities or equity include:

- Trade creditors (reported under the heading 'Liabilities')

Reporting of financial assets and removal from the balance sheet

A financial asset or financial liability is reported in the balance sheet when the Club becomes a party to the instrument's contractual terms (economic approach), except for instances when the Club acquires or disposes listed securities (for these, cash/settlement approach is applied). Accounts receivable are reported in the balance sheet when an invoice has been sent. A liability is reported when the counterparty has completed performance and there is a contractual liability to pay, even if the invoice has not yet been received. Accounts payable, however, are reported when the invoice has been received. A financial asset is removed from the balance sheet when the rights in the agreement have been realised, expire or when the company loses control over them. The same applies to part of a financial asset. A financial liability is removed from the balance sheet when the obligation in the agreement has been fulfilled or in some other way extinguished. The same applies to part of a financial liability.

Offset of financial instruments

Offsetting of a financial asset and financial liability and reporting them at a net amount in the balance sheet only occurs when there is a legally enforceable right of set-off and the intention either to settle on a net basis or realise the financial asset and settle the financial liability simultaneously.

Classification and measurement of financial assets

Initial recognition of a financial instrument is based on the purpose for which the instrument was acquired. The initial classification also determines how the financial instrument shall be measured going forward, as described below.

Financial instruments are initially reported at cost, which is equal to the instrument's fair value plus transaction costs. This applies to all financial instruments, except those that belong to the category, 'Financial assets measured at fair value

through profit or loss'. Those are reported at fair value excluding transaction costs.

Applied principles after 1 January 2018

- Financial assets measured at fair value through profit or loss

All of the Club's investment assets are measured at fair value through profit or loss. For bonds and other interest-bearing securities, this measurement method is used because they are continually measured based on their fair value.

Measurement of the Club's investment assets at fair value is at the current buying rate based on prices quoted on an active market (Level 1).

- Financial assets measured at amortised cost

These are balance sheet assets reported in the categories 'other receivables' and 'cash and bank balances'. Both are measured at amortised cost. Amortised cost is determined based on the effective rate of interest calculated at the time of the acquisition. Bank deposits have repayment cover. As such, anticipated credit losses are insignificant due to the fact that the investments are secured by the Swedish State.

Applied principles prior to 1 January 2018

The Club has classified financial instruments in the following categories, in accordance with IAS 39:

The category, 'Financial assets measured at fair value through profit or loss' consists of two subcategories:

- Financial assets that are held for trading.
- Other financial assets that the Club initially chose to recognise in this category (according to the fair value option).

Financial instruments in this category are valued at fair value with changes in value reported in the income statement under the heading, 'Unrealised gains – or losses on investments'.

This subgroup consists of the Club's loan receivables. The Club has chosen to apply the fair value option on assets, since key personnel in The Club evaluate all investment assets on the basis of fair value in accordance with documented risk and investment strategies.

The Club classifies such investment assets (i.e. assets that are financial instruments and not shares in subsidiaries) as 'Financial assets measured at fair value through profit or loss.' This is due to the fact that the Club evaluates its asset management activities on the basis of fair values.

The category, 'Loan receivables and accounts receivable' are financial assets that have determined or determinable payments and that are not listed on an active market. These are valued at amortised cost.

Amortised cost is determined based on the effective rate of interest calculated at the time of the acquisition. Accounts receivable and loan receivables are reported at net realisable value, i.e. after the deduction for doubtful debts.

At each reporting occasion, the Club assesses whether there is any objective evidence that a financial asset or group of assets has become impaired as the result of the occurrence of one or more events (loss events) having taken place after the asset was reported for the first time. Furthermore the loss event(s) must have an impact on the forecasted cash flows for the asset or group of assets.

Classification of financial liabilities

Borrowings and other financial liabilities, such as trade creditors, are included in the category, Financial liabilities. These are valued at amortised cost.

Determination of fair value

For a description of the methods and assumptions used by the Club to establish the fair value of financial instruments, please see Note 2.

Intangible assets

Intangible assets are capitalised expenses for the development of computer systems. They are valued at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over a useful life of five years starting from the time when the system is put into operation.

Property, plant and equipment

Machinery and equipment are reported at cost less accumulated depreciation according to plan, which is based on the useful life of the assets plus any write-downs. Depreciation is calculated on a linear basis over a useful life of three or five years. For improvements made on property owned by others, depreciation is calculated on a linear basis over a 20-year period.

Subsidiaries and associated companies

A subsidiary is a company that is subject to a controlling influence by the Parent Company. Controlling influence is the right to, directly or indirectly, formulate a company's financial or operating strategies in order to obtain economic benefits.

Associates are companies in which the Group has a significant (but not controlling) influence over the operating and financial management, usually through holdings corresponding to 20-50% of the votes. Shares in subsidiaries and participations in associated companies are reported in accordance with the cost method. Any dividends received are reported as income.

Cash and bank balances

Cash and bank (with the exception of minor cash amounts) consists of bank accounts and funds that have been transferred to asset management that will not be invested in assets.

Prepaid acquisition costs

The item includes allocated commissions associated with the signing of insurance contracts. These costs are allocated in the same way as the allocation of unearned premiums.

Provision for unearned premiums

The provision for unearned premiums is calculated strictly pro rata (pro rata temporis). In accordance with technical guidelines pertaining to insurance, testing is performed on a regular basis to determine whether a provision needs to be made for remaining risks.

Provision for claims outstanding

The provision for incurred and reported claims is based on individual, realistic assessments of individual claims using information that is available on the reporting date. Incurred but not reported claims, IBNR, is calculated using statistical methods that are based on past experience of the number and extent of claims reported for prior accounting years. The provision for outstanding claims also includes a reserve for operating costs associated with settling outstanding claims. The provision for outstanding claims has been reported using undiscounted values.

Pensions costs and pensions commitments

The pension obligations comprise pension plans that are regulated through collective agreements and national insurance laws. The obligations consist of both defined contribution and defined benefit plans.

Retirement through insurance

The Club's pension plans for collective pension agreements are secured through insurance agreements with SPP. The pension plan for the Club's employees has been assessed as a defined benefit plan covering multiple employers. However, the Club has assessed that UFR 10, 'Reporting of

Pension Plans' in ITP 2 that are financed through insurance with SPP is also appropriate for the Club. The Club lacks sufficient information for reporting in accordance with IAS 19. Therefore, in accordance with UFR 10, it reports these pension plans as defined contribution plans. The Club's obligations concerning contributions to defined contribution plans have been reported as an expense in the income statement at the rate they are earned by employees performing services during the period.

Retirement through own management

Besides the collective pension agreements guaranteed through insurance agreements, the Club also has special agreements with certain employees allowing them to retire earlier than 65 years' of age and obtain further compensation in addition to the collective pensions benefits. The majority of the provision originates from the 2006 change of terms in the collective agreement for the insurance sector, which gives employees born before 1956 the right to early retirement from the age of 62. The calculated provision is based on anticipated future pension payments and it includes assumptions regarding mortality, employee turnover, salary growth and price inflation.

Leasing contracts

The Club has signed contracts in which assets such as cars and office equipment are leased for a contracted period of time. Leasing fees are expensed over the contracted period of time based on utilisation.

Assets and liabilities in foreign currency

Assets and liabilities in foreign currency are translated to SEK at the closing day rates of exchange. However, shares in subsidiaries are valued using the rate of exchange prevailing on the acquisition date. For translation from a foreign currency to SEK, the difference is reported in the income statement under the heading, 'Investment income or Investment costs'.

For the Club's most important currencies, the following rates (prevailing on 31 December) have been used:

Currency (equals 1 USD)	2018	2017
Swedish kronor (SEK)	8.9710	8.2322
British pound (GBP)	0.7905	0.7413
Euro (EUR)	0.8731	0.8358
Hong Kong dollar (HKD)	7.8308	7.8149
Norwegian kroner (NOK)	8.7565	8.2232

Note 2. Risk management and risk analysis

Risk management

The Swedish Club's risk management is carried out with the help of the company's risk management system, which is an integral part of operations. Its goal is to create and maintain a good ability to identify, measure, manage, control, monitor and report risks that the Club is, or could become, exposed to. The risk management system is in line with the risk management directive adopted by the Board.

The Swedish Club has developed an Internal Capital Model (ICM) for quantifying its risks. The model is used as a control mechanism for the management process, the Own Risk and Solvency Assessment (ORSA) process and in conjunction with efforts to evaluate and optimise the Club's reinsurance programme. It is also used in the creation of new products.

The Club believes that having a strong Enterprise Risk Management process provides a competitive advantage. ICM is an important tool that enables calculation of the risk-adjusted returns for alternative decisions. Successful risk management lowers the likelihood of undesirable operational and financial results. As such, it is a critical component of the Club's ability to achieve its business goals.

Risk culture

The Club strives to have an open risk culture that creates risk awareness and encourages all levels of the organisation to participate in discussions about risk as a natural part of their daily work. All employees contribute to identifying and quantifying both current and future operational risks. As part of its risk management efforts, The Swedish Club encourages all departments to discuss (during meetings and while carrying out their work) the risks that they are aware of and also propose suggestions on how to eliminate or manage them.

Capital requirements

The Swedish Club applies the standard model for calculating the regulatory capital requirement and it uses an ICM for its ORSA. Reporting is based on the quantitative reporting templates that have been adopted by the EU supervisory authority, EIOPA.

The calculation of capital requirement in accordance with the standard model and ORSA is supplemented with Standard & Poor's and A.M. Best's rating models. Analytical stress tests and sensitivity analyses are also performed and disclosed in the ORSA report.

A Solvency and Financial Condition Report (SFCR) is available on the Club's website. It describes the regulatory solvency and capital requirements stipulated in the directive.

Structure of corporate governance and allocation of responsibilities

Annual General Meeting (AGM)

The AGM is the highest decision-making body and it consists of all members. The AGM elects the Board of Directors and members of the Nomination Committee. It also adopts the income statement and balance sheet contained in the annual report, elects the external auditors and addresses other matters that fall within its realm of responsibility.

Board of Directors

The Board has ultimate responsibility for ensuring that the Club complies with the prevailing laws and regulations. It also creates the strategic guidelines and instructions for the Club. Furthermore, the Board ensures that suitable internal instructions for risk management and risk control exist.

The Board continually monitors the Club's operations, financial result and asset management. The Board maintains regular contact with all of the committees that have been set up, as well as with the senior management team and key functions. The Board must pro actively request information and challenge it, as required. The work, obligations and responsibilities of the Board are described in its rules of procedure. The Board consists of 24 members, including the Managing Director and two employee representatives.

Nomination Committee

The Club's nomination committee is responsible for suggesting new Board members and members of the nomination committee, which are then considered by the AGM. The committee also proposes the level of remuneration to Board members. In total, the committee consists of three members, of which, one is a Board member.

Finance & Audit Committee

The Finance & Audit Committee is a sub-committee of the Board of Directors. It serves as a link between the Board of Directors, senior management and the auditors on financial issues. It also prepares issues to be considered by the Board, so that the Board can make well-informed decisions.

The committee also reviews recommendations and gives feedback to the senior management team on key areas including changes in investment allocation, audit, compliance with regulations and collection of premiums. It monitors the results of investment activities and makes decisions concerning

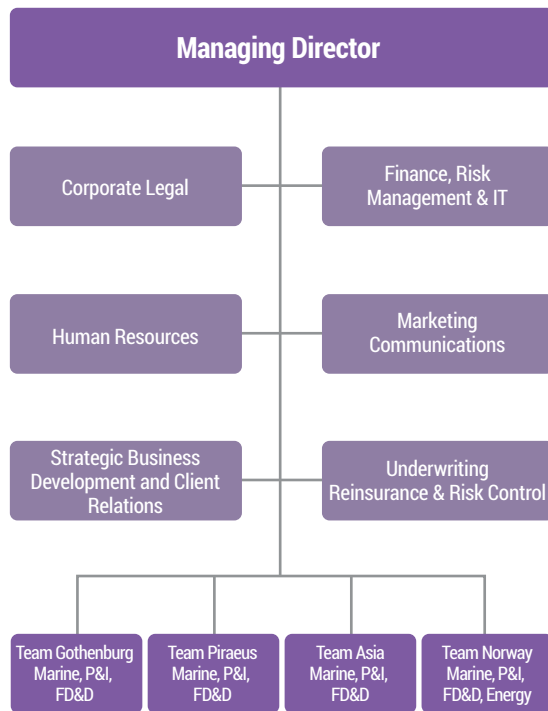
investment allocation within the limits stated in the Club's investment directive. The Finance & Audit Committee consists of seven members, including the Managing Director and CFO.

Managing Director

The Managing Director is appointed by the Board and is responsible for the daily management activities of the Club.

Organisation and internal control

The Club's organisation consists of the Managing Director, a senior management team with six members and four geographic teams. The geographic teams are mostly independent in terms of daily operations. However, many of the organisation's functions have been centralised, as illustrated in the figure, below.



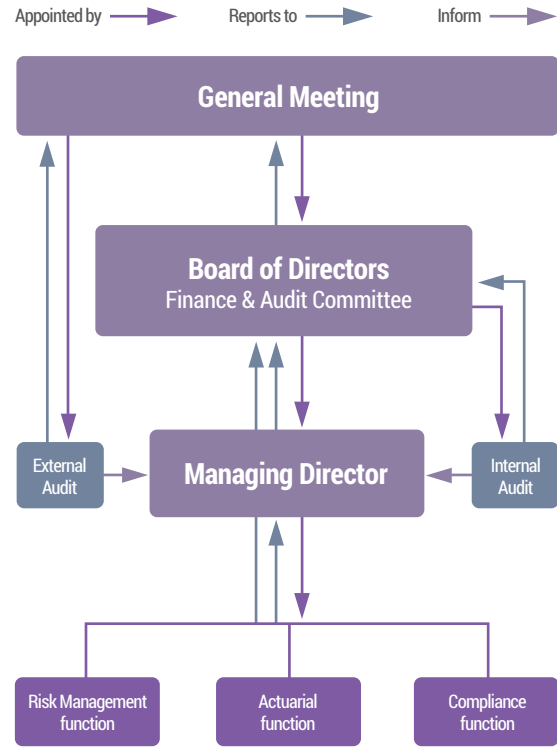
The work and responsibilities for each component of the organisational structure must be well-defined, allocated and coordinated. Relevant processes are described and documented in the Club's management system.

Internal control

There are three levels of internal control applied to the organisation. The first level of internal control occurs through the operational functions, as illustrated in the figure, above. The second and third levels are independent of the operational functions. The second level consists of risk management, the

actuarial function and regulatory compliance. The third level, which is completely independent of all other functions, is internal audit, with an internal auditor that has been appointed by the Board.

Allocation of responsibilities



The figure above illustrates important information flows and allocation of responsibilities.

Operational functions

Managers of the operational functions or geographic teams are responsible for the internal controls and regulatory compliance within their area of responsibility. They must ensure that the employees in their department are well acquainted with the guidelines and instructions in the management system, as well as all rules and regulations. The managers must control and monitor compliance within their area of responsibility. They must also implement corrective measures whenever a lack of compliance has been detected. The managers of functions and teams are also responsible for informing the risk management, actuarial, compliance and internal audit entities about any circumstances that may be relevant to the performance of their respective areas of responsibility.

Risk management function

The risk management function is an independent central function responsible for ensuring that risks

are identified, measured, managed, controlled, monitored and reported. The risk management function has overall responsibility for quantifying and modelling risks, along with developing and maintaining the Club's ICM. The risk management function uses adequate methods and techniques for that purpose, including stochastic models, sensitivity analysis and scenario tests.

The risk management function has overall responsibility for implementing an effectively functioning risk management system. The function is independent of the operational activities. The risk management function is responsible for compliance with the Board's directive on risk tolerance and solvency. It also coordinates and is responsible for the Club's Own Risk and Solvency Assessment (ORSA). Twice per year, the function must prepare and submit a risk control report to the Board.

Actuarial function

The actuarial function is responsible for coordinating the calculations of technical provisions, participating in implementation of the ORSA process and strengthening the Club's risk management system. The function is required to state an opinion on the overall underwriting policy and suitability of the reinsurance programme. Once per year, it must also prepare and submit a report to the Board on the work it has done, noting any deficiencies in compliance and providing recommendations on corrective measures.

Compliance function

The compliance function consists of a *Compliance Manager (CM)*, *Compliance Control Officer (CCO)* and *Compliance Coordinators (CC)*. The CM is responsible for identifying, evaluating and reducing the risks in connection with deficiencies in compliance; monitoring relevant legislation and changes in existing rules and regulations; providing support and guidance to the organisation regarding regulatory compliance; as required, providing information and training on rules and regulations; obtaining confirmation of regulatory compliance from the managers in charge; and providing support to the organisation whenever new policies, routines and instructions are need to be created.

The CCO is responsible for designing methods and routines for control of regulatory compliance, along with identifying significant risks in operations if any deficiencies in compliance are detected. The risk analysis is continually updated and control of regulatory compliance is carried out in accordance with the audit plan adopted by the Board. All implemented control activities must be reported to the Board, or, if the Board has decided such, to the Finance & Audit Committee. The CC is responsible for assisting the regulatory compliance efforts of the various operational functions.

Internal audit function

Internal audit is an entirely independent function that has been delegated to an external party (KPMG). It is responsible for evaluating the system for internal control, other parts of the corporate governance system, independence of the actuarial function and the remuneration policy for employees. The function must report its findings to the Board or, if the Board has decided such, to the Finance & Audit Committee. The internal audit function is subordinate to the Board.

Internal audit is to be carried out in accordance with the audit plan adopted by the Board.

Risk analysis

The Club's risk exposure is primarily associated with variations in the outcome of claims for the Marine and P&I insurance classes, as well as variations in investment income. However, the Club is also exposed to a number of other risks.

The components of *insurance, counterparty, operational and financial risks* are presented below:

Insurance risks

Insurance risks consist of *underwriting risks* and *reserving risks*. Effective management of *underwriting risks* is fundamental to The Club's operations. Potential member's vessels and management team are thoroughly reviewed prior to acceptance. Rating systems and premium models are used to ensure that correct premium levels have been selected. The Club's comprehensive reinsurance arrangements level out fluctuations in claims results. This helps protect the Club from incurring losses that are associated with very large claims, including the aggregation of losses from multiple insured interests.

The accuracy of current claims models is monitored on a monthly basis, by comparing the actual outcome per insurance class to the expected result that was generated by the models.

The claims model is also used to simulate claims costs in the Club's ICM, which enables a consistent treatment of underwriting risk based on the capital requirements at all levels, i.e. from the company level down to the underwriting of an individual risk.

Concentration of insurance risk

The table below shows concentration measures for the two largest individual classes of insurance as of December 2018. The weighted average duration for outstanding claims is approximately 3.2 years.

	Number of vessels	Average age (years)	Gross tonnage (millions)	Average payment period (years)
P&I ¹⁾	1,224	10.8	47.3	3
H&M ²⁾	2,795	10.0	111.5	2

¹⁾P&I Owners ²⁾100% basis including Energy risks

It is not uncommon for a vessel to be insured in more than one of the Club's business areas. In these cases, the same incident can lead to claims in more than one business area. Based on how the different reinsurance protections have been set up, this could affect the allocation of claims costs between reinsurers and the Club. It primarily concerns the insurance classes shown in the table below.

Exposure	Vessels	H&M ¹⁾	P&I ²⁾	Loss of Hire ¹⁾	Hull Interest ¹⁾
Four classes	125	X	X	X	X
Three classes	30	X	X	X	
	340	X	X		X
	564	X		X	X
	5		X	X	X
Two classes	88	X	X		
	53	X		X	
	984	X			X
	20		X	X	
	19		X		X
	21			X	X
Vessels by class of insurance		2,795	1,224	974	2,091
Total number of vessels			3,646		

¹⁾Incl. Energy risks ²⁾P&I Owners

The table shows the concentration of insurance classes per vessel as of 31 December 2018: 3.4% of vessels were exposed to four insurance classes, 25.8% to three classes and 32.5% to two classes.

Reserving risk

Reserving risk is associated with the provision for claims outstanding and the provision for unearned premiums. When calculating the provision for unearned premiums, consideration must be given to differences in risk exposure during the policy period. For example, there are seasonal variations in the frequency/severity of claims between quarters or other periods of time that must be considered.

The provision for incurred and reported claims is based on individual assessments of claims using the latest information available. Claims reserves must reflect the total liability, which includes claims handling costs, expected claims inflation and currency considerations.

Incurred but not reported claims, IBNR, is calculated using statistical methods that are based on past experience of the number and extent of claims reported for prior accounting years.

Sensitivity of provisions made

The table on the next page, 'Insurance year', shows the development of claims, net, i.e. how the originally determined claim amount at the end of each insurance year has developed over time (from the end of each respective accounting year through 31 December 2018). Variations in the provisions that were made have had a positive impact on the provision currency (USD) over the past five years.

Insurance year	2013	2014	2015	2016	2017	2018
Estimated final claims cost (net) at the end of:						
claim year (net)	81,932	103,649	130,969	108,087	112,058	93,428
one year later	89,301	101,862	139,055	110,709	118,168	
two years later	89,414	97,360	133,715	114,455		
three years later	84,376	92,322	125,579			
four years later	78,354	90,077				
five years later	76,283					

The table shows the development of claims in USD thousands. Since the end of the 2014 financial year, the composition of the technical provision has been 100% USD. Prior to that, it had been assessed that a certain percentage of it was EUR. Accordingly, when comparing figures in the table, it is important to keep in mind that there is a currency effect associated with these currencies. However, this effect is compensated by an opposite trend in exchange rates for investments. See the section on currency exposure for more information.

Counterparty risk (reinsurance)

Reinsurance protection is essential for the successful operation of the Club. Risks can arise due to insufficient or incorrect reinsurance protection. Reinsurance purchasing activities are centralised and they are the responsibility of the Reinsurance Department. Documented routines are followed in order to ensure correct wording and consistency of reinsurance contracts. Each year, the department compiles a Reinsurance Risk Assessment Report, which is used to ensure that the costs for reinsurance are optimal given the anticipated risk, results, volatility and capital needs. Thorough knowledge of probabilities and expected outcomes of claims are important components in assessing the risks associated with reinsurance.

The Club has had a consistent reinsurance strategy for many years. For Marine & Energy, the Club purchases its own protection. This is based on a long relationship with some of the world's leading reinsurance companies – a collaboration that has been productive for all of the parties involved. For P&I, the reinsurance is based on the cooperation within the International Group of P&I Clubs, where claim costs between USD 10 million and USD 100 million are pooled (the Pooling Agreement). To supplement this, the Group purchases reinsurance protection up to USD 3,100 million (Excess reinsurance programme). The International Group's joint reinsurance company is Hydra Insurance Group Ltd (Bermuda). It reinsures the Group's P&I pool claims for USD 70 million in excess of USD 30 million and also part of the layer USD 500 million in excess of USD 100 million.

Parts of the pool, as well as parts of the reinsurance protection are covered by the captive company, Hydra Insurance Company Limited (Bermuda), which is owned by the Group's 13 members. Hydra is a protected cell company, which means that the assets and liabilities in each cell are legally separate from the other cells. Each of the 13 clubs owns one of the protected cells and from it, claims are paid and premiums received.

Hydra writes two reinsurance contracts for the clubs:

- 100% of the coverage between USD 30 and 100 million.
- 30% of the coverage between USD 100 and 600 million.

Our share of the business in Hydra is approximately 5%. For more information on International Group see www.igpandi.org/.

The Swedish Club has a reinsurance solution for the level USD 8 million in excess of USD 2 million, which covers the insurance classes, Marine and P&I. The thought behind this structure is to combine the protection for the different classes and only retain the first USD 2 million per combined claim. With this structure, the Club retains all claims in the layer USD 8 million in excess of USD 2 million during a normal claims year by means of an annual aggregated deductible of USD 30 million. The reinsurance is only settled in a claims year when the claims in this layer exceed the annual aggregated deductible.

Operational risks

The Club is exposed to many types of operational risk. Different parts of the organisation participate in self-assessment activities to identify and analyse operational risks. They also provide the input that makes modelling possible.

Operational risks might arise as a result of inadequate processes, human factors or ambiguous management practices. The Club has a history of adequate documentation of critical activities via its quality systems. This helps ensure that many undesired operational events are avoided.

Important operational risks also include risks that can arise in conjunction with a catastrophe scenario, such as an office fire, IT systems breakdown, a lengthy power failure, and so on. The Club has an established contingency plan for such situations, which is evaluated annually.

Financial risks

Market, credit and liquidity risks are classified as financial risks. Here, the Club's primary objective is to identify an acceptable risk level from which it can maximise long-term investment income. The investment portfolio's currency mix also plays an important role when matching the Club's assets and liabilities. The investment philosophy is based on risk diversification and investing primarily in assets with a high level of creditworthiness. In order to minimise and control risks, the Board of Directors

establishes an investment policy (Investment Directive), which governs the composition, control and authority over asset management. A model has been developed in order to stress the investments and measure the total value-at-risk. It measures exposure in equities, currencies, interest rates and maturities. According to the model, risk exposure has increased from USD 22 million at the beginning of the year to USD 23 million at the end of 2018, which is in line with the goal of keeping risk exposure within the tolerance limits.

Performance and other factors are measured and reported to the Managing Director on a monthly basis. Monitoring of the priority register, outcomes and risks is handled by the Finance & Audit Committee. Follow-up, which includes sensitivity analysis, is performed and reported on a quarterly basis to the Board.

2018	Financial assets measured at fair value through the income statement	Loans receivables	Total carrying amount	Fair value
Assets designated as belonging to this category				
Financial assets				
Shares	62,173	-	62,173	62,173
Bonds and other interest-bearing securities	272,015	-	272,015	272,015
Loans to credit institutions	11,000	-	11,000	11,000
Other receivables	-	211	211	- ¹⁾
Cash and bank balances	-	22,338	22,338	- ¹⁾
Other assets	-	651	651	- ¹⁾
Total financial assets	345,188	23,200	368,388	345,188

2018	Other financial liabilities	Total carrying amount	Fair value
Assets designated as belonging to this category			
Financial liabilities			
Other liabilities	10,006	10,006	- ¹⁾
Total financial assets	10,006	10,006	-

¹⁾ Disclosure on fair value has not been provided because the carrying amount is deemed as being a reasonable approximation of fair value.

2017	Financial assets measured at fair value through the income statement	Loans receivables	Total carrying amount	Fair value
Assets designated as belonging to this category				
Financial assets				
Shares	59,918	-	59,918	59,918
Bonds and other interest-bearing securities	315,822	-	315,822	315,822
Other receivables	-	321	321	- ¹⁾
Cash and bank balances	-	25,118	25,118	- ¹⁾
Other assets	-	709	709	- ¹⁾
Total financial assets	375,740	26,148	401,888	375,740

2017	Other financial liabilities	Total carrying amount	Fair value
Assets designated as belonging to this category			
Financial liabilities			
Other liabilities	11,074	11,074	- ¹⁾
Total financial assets	11,074	11,074	-

¹⁾ Disclosure on fair value has not been provided because the carrying amount is deemed as being a reasonable approximation of fair value.

Calculation of fair value

The following is a summary of the primary methods and assumptions that have been used to determine the fair value of financial instruments, which are reported at fair value in the balance sheet:

Level 1

For financial instruments listed on an active market (investment assets) the fair value is determined on the basis of the asset's listed buying rate on the reporting date, not including transaction costs (e.g. brokerage fees) at the time of acquisition. Any future transaction costs related to disposal are not taken into account.

Level 2

In those few instances where prices are not available in an active market, valuation has been made by an independent nominee, who, by own account, has used price components that can be observed on the market and which therefore are included in level 2.

The Club does not use any valuation methods relying on data that cannot be observed in the market (Level 3).

In the table below, data is provided on how fair value is decided based on the description of the levels provided above for the financial instruments that are measured at fair value in the balance sheet.

2018	Level 1	Level 2	Total
Shares	62,173	-	62,173
Bonds and other interest-bearing securities	254,490	17,525	272,015
Total	316,664	17,525	334,189

Market risks

Market risks include fluctuations in interest rates, exchange rates and share prices. The Club operates in an international environment, with revenue, expenditures and investments in various currencies.

As of 31 December 2018 the duration of fixed income securities was 2.6 (2.7) years. A change in interest rates of 1% would result in a change in the

value of the bond portfolio of approximately USD 8 (8) million.

Currency exposure for the Club's most important currencies (see the table, below) was, as of 31 December 2018 USD 31 (31) million. As all decisions regarding currency positions are based on a US dollar perspective, the Club has chosen to regard free reserves as consisting entirely of US dollars. However, operating costs arise in a variety of currencies.

Currency exposure	EUR	GBP	SEK
Investment assets	25,645	-	10
Receivables	4,566	1,231	1,195
Other assets	7,966	547	1,981
Total assets	38,178	1,778	3,186
Equity and untaxed reserves	-	-	-
Technical provisions, net	-1,741	-12	-155
Other liabilities and provisions	-7,572	-141	-2,771
Total liabilities and provisions	-9,312	-153	-2,926
Net exposure	28,865	1,625	260

Approximately 18% of the Club's investments are shares. All equity exposure is in well-diversified funds or in indexed-linked securities with a high rating. Decisions concerning investments and reallocations of equity investments are the responsibility of the Board of Directors through the Finance & Audit Committee.

The Club's main credit risks are associated with the following items: risk of bond failures, reinsurance

compensations, receivables from members and guarantees from counterparts.

The likelihood that the Club's result would be significantly impacted by fixed income portfolio defaults has been assessed as quite small. At year-end, the Club had USD 272 (316) million invested in fixed income products.

Creditworthiness for classes of financial assets at the fair value¹⁾	AAA	AA	A	BBB	Other
Bonds and other interest-bearing securities					
Foreign governments	83,400	4,361	3,857	3,756	1,811
Other foreign issuers	2,175	18,841	37,731	50,940	43,237
Total	85,575	23,202	41,588	54,696	45,049

^{1)Rating by Standard & Poor's and Moody's}

Reinsurance purchasing has been centralised to one department in order to minimise counterparty risk for losses relating to payments from reinsurers. Furthermore, in accordance with documented procedures, minimum rating limits apply to the participating reinsurers, which means that no reinsurer may have a rating lower than BBB (Standard & Poor's) or Baa2 (Moody's). However, 90 percent of the reinsurers have a rating of at least A- (Standard & Poor's) or A3 (Moody's).

During 2018, no participating reinsurer was rated below A by Standard & Poor's.

In connection with claims handling, the Club occasionally accepts guarantees from counterparts. In general, the Club only accepts guarantees issued by other P&I Clubs, major insurance companies, banks or cash deposits. The number of guarantees is

limited and the associated risks are relatively small. In December 2018, outstanding premiums older than 3 months were 0.6 (0.9)% of the 2018 gross premium.

There is little liquidity risk in the short term of the Club becoming short of cash funds, since the majority of the investment portfolio can be converted to cash within a few days. In addition, the Club is not dependent on financing from capital markets.

Capital requirements

FI's (the Swedish financial supervisory authority) oversight of insurance companies includes a quarterly reporting requirement on Solvency Capital Requirement (SCR) and own funds. SCR at the end of 2018 was USD 96.8 million and Eligible own funds were USD 277.7 million.

Note 3.

Premiums written, gross by geographic area (direct insurance)	2018	2017
China	32,315	30,906
Greece	29,588	29,745
Germany	18,147	22,161
Singapore	11,978	12,331
Hong Kong	9,355	8,488
Norway	8,930	10,724
Sweden	7,755	8,380
Other countries	25,197	28,285
	143,265	151,020

Note 4.

Investment income transferred from the non-technical account	2018	2017
Allocated investment income transferred to the technical account	5,200	5,100

Investment income is reported in the non-technical result. From 2006, a model is used for the calculation of investment income transferred from the financial business to the technical account. The model compensates the insurance business with interest for the float generated during the period between premium payment and claim payment. The interest rate used corresponds to the expected yield on the investment portfolio. For 2018 the expected yield was 3.0% (the actual yield was -1.6%).

	2018	2017
Average interest rate	3.0%	2.7%

Note 5.

Claims paid	2018			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Current year:						
Claims Paid	-33,879	2,206	-31,673	-36,556	-	-36,556
Claims Handling Costs	-10,153	-	-10,153	-9,646	-	-9,646
Previous years:						
Claims Paid	-39,100	-26,052	-65,152	-74,529	16,678	-57,852
	-83,132	-23,846	-106,978	-120,731	16,678	-104,053

Note 6.

Change in other technical provisions	2018	2017
Value change, Hydra	2,139	2,209
	2,139	2,209

This income item reflects the change in value of receivables on Hydra. See Note 20.

Note 7.

Net operating expenses	2018	2017
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Specification of net operating expenses reported in the income statement

Acquisition costs	-10,460	-11,171
Change in prepaid acquisition costs	-406	-212
Internal operating expenses for acquisition of insurance contracts	-6,075	-6,088
	<u>-16,941</u>	<u>-17,471</u>
Administrative expenses	-6,918	-7,360
Net operating expenses	-23,859	-24,831

Allocation of other operating expenses in the income statement:

Claims handling expenses reported as claims paid	-10,153	-9,646
Finance administrative expenses reported as Financial costs, Note 11	-334	-487
	<u>-34,346</u>	<u>-34,964</u>

Total operating expenses analysed under the following categories:

Advertising and selling expenses	-895	-935
Personnel costs	-15,215	-15,491
Travel expenses	-926	-913
Cost of premises	-1,582	-1,493
Office expenses	-1,374	-1,451
External services and fees ¹⁾	-3,040	-3,573
Depreciation	-199	-211
Charged claims handling cost	3,253	3,385
Other revenue	171	98
External acquisition costs	-10,866	-11,383
Costs for The Swedish Club Hong Kong Limited	-3,673	-2,997
	<u>-34,346</u>	<u>-34,964</u>

Total operating expenses analysed under the following categories, including The Swedish Club Hong Kong Limited:

Advertising and selling expenses	-1,010	-1,050
Personnel costs	-17,652	-17,468
Travel expenses	-1,130	-1,072
Cost of premises	-2,121	-1,968
Office expenses	-1,520	-1,601
External services and fees	-3,272	-3,694
Depreciation	-199	-211
Charged claims handling cost	3,253	3,385
Other revenue	171	98
External acquisition costs	-10,866	-11,383
	<u>-34,346</u>	<u>-34,964</u>

¹⁾ Operating expenses includes remuneration to PwC

Audit assignment	-98	-142
- of which concerns PwC Sweden	-76	-112
Other statutory assignments (nothing concerns PwC Sweden)	-1	-
Tax advice services	-2	-
Other services (nothing concerns PwC Sweden)	-9	-5

Note 8.

Operational leasing	Machinery & Equipment	Buildings & Premises
Fees due		
Year 2018	231	1,748
1 year	169	1,656
2 - 5 years	94	542
> 5 years	-	-

The company has operational leasing agreements, mainly rental agreements for premises, that are presented above.

Note 9.

Financial income	2018	2017
Dividends on quoted shares	355	325
Interest income		
Bonds and other interest-bearing securities	326	2,496
Other interest income	181	90
	507	2,586
Gains on foreign exchange, net	-	3,988
Gains on the realisation of investments, net:		
Quoted shares	1,113	16,903
Bonds and other interest-bearing securities	-	465
	1,113	21,356
	1,975	24,267

Note 10.

Unrealised gains on investments	2018	2017
Quoted shares	-	579
Bonds and other interest-bearing securities	1,346	3,407
	1,346	3,986

Note 11.

Financial costs	2018	2017
Internal management expenses	-334	-487
External management expenses	-66	-107
Interest costs	-	-1
Losses on foreign exchange, net	-1,447	-
	-1,847	-595

Note 12.

Unrealised losses on investments	2018	2017
Quoted shares	-7,397	-
	-7,397	-

Note 13.

Intangible assets	2018	2017
Capitalised expenditure on computer software system		
Opening accumulated costs	5,329	4,822
Revaluation of accumulated acquisition costs	-439	507
Closing accumulated costs	4,890	5,329
Opening accumulated depreciation	-5,235	-4,700
Depreciation for the year	-39	-40
Revaluation of depreciation	433	-495
Closing accumulated depreciation	-4,841	-5,235
	49	94

Depreciation is accounted for in the income statement under 'Net operating expenses'.

Note 14.

Shares in group and associated companies	2018	2017
Non-quoted shares in subsidiaries:		
The Swedish Club Hong Kong Limited 1 share nominal value HKD 1	0	0
Non-quoted shares in associated companies		
The Swedish Club Academy 750 shares nominal value SEK 100	11	11
	11	11

The Club has a subsidiary company which, in accordance with the Swedish Annual Accounts Act, has not been consolidated since the subsidiary company is of lesser importance with regard to true and fair view requirements.

The Club's ownership share of The Swedish Club Hong Kong Limited and The Swedish Club Academy is 50%.

Information about The Swedish Club Academy AB:
CIN: 556798-1435
Registered office: Göteborg
Country: Sweden

Information about The Swedish Club Hong Kong Limited:
CIN: F21394
Registered office: Hong Kong
Country: China

Note 15.

Quoted shares	2018	2017
Quoted shares at fair value	62,173	59,918
	62,173	59,918

Costs of quoted shares USD 64,138 (54,486) thousands,

Quoted shares are specified in the table below:

Name	Number	Cost	Fair value
Mercer Passive Global Equity UCITS Fund	433,618	44,281	43,540
Mercer Low Volatility Equity Fund	82,829	13,180	12,515
MGI Emerging Markets Equity Fund	60,735	6,677	6,118
		64,138	62,173

Note 16.

Bonds and other interest-bearing securities

2018	Nominal value	Cost	Fair value	Carrying amount
Bond funds		268,639	272,015	272,015

2017	Nominal value	Cost	Fair value	Carrying amount
Bond funds		313,792	315,822	315,822

Note 17.

Technical provisions	2018			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Provision for claims outstanding						
Opening balance, provision for reported claims	221,306	-69,610	151,696	225,836	-71,175	154,661
Opening balance, provision for incurred not reported (IBNR)	36,817	-4,000	32,817	33,983	-400	33,583
Opening balance	258,123	-73,610	184,513	259,819	-71,575	188,244
Claims occurred during the current year	89,699	-4,284	85,416	117,198	-12,576	104,622
Claims paid current year	-72,979	-23,846	-96,825	-111,085	16,677	-94,408
Change in expected cost for claims occurred previous years (run-off result)	-49,790	42,942	-6,849	-7,809	-6,136	-13,945
Gains/losses on foreign exchange						
Closing balance	225,053	-58,798	166,255	258,123	-73,610	184,513
Closing balance, reported claims	188,521	-56,398	132,123	221,306	-69,610	151,696
Closing balance, provision for incurred not reported (IBNR)	36,532	-2,400	34,132	36,817	-4,000	32,817
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Provision for unearned premiums						
Opening balance	33,634	-3,700	29,934	35,929	-4,024	31,905
Insurance contracts signed during the period	30,811	-3,456	27,355	33,634	3,700	37,334
Premiums earned during the period	-33,634	3,700	-29,934	-35,929	4,024	-31,905
Closing balance	30,811	-3,456	27,355	33,634	3,700	37,334

The provision is treated as USD. No exchange differences therefore arise. Provision for claims handling included in provision for claims outstanding amounts to USD 8,107 (8,107) thousands. The provision for incurred and reported claims is reported including incoming reinsurance amounting to USD 521 (621) thousands.

Note 18.

Receivables related to direct insurance operations	2018	2017
Policyholders (members)	33,954	35,625
Insurance brokers	31	25
Insurance companies	1,953	3,057
Other	45,767	-
	81,705	38,707

Note 19.

Tangible assets	2018	2017
Machinery and equipment		
Opening accumulated cost	2,896	2,525
Acquisitions	383	135
Sales and disposals	-	-36
Revaluation of accumulated purchase prices	-243	272
Closing accumulated cost	3,036	2,896
Opening accumulated depreciation	-2,332	-1,979
Reversed depreciation on tangible assets sold	-	28
Depreciation for the year	-160	-171
Revaluation of depreciation	196	-211
Closing accumulated depreciation	-2,296	-2,332
	740	564

Depreciations are accounted for in the income statement under 'Net operating expenses'.

Note 20.

Other assets	2018	2017
Receivables, Hydra	10,862	8,723
Other assets	652	709
	11,514	9,432

Note 21.

Pensions and similar obligations	2018	2017
Provision pensions	330	349
Provisions for deferred non-vested pension	228	551
	558	900

The pension obligations comprise pension plans that are regulated through collective agreements and national insurance laws. The obligations consist of both defined contribution and defined benefit plans. For defined contribution plans, pension costs consist of the premium paid for securing the pension obligations in life insurance companies. The total premium paid during the year amounted to USD 2,355 thousands.

The Club's pension plans for collective pension agreements are guaranteed through insurance agreements. The pension plan for the Club's employees has been assessed as a defined benefit plan covering multiple employers. However, the Club has determined UFR10 Accounting for pension plans in ITP 2, which is financed through insurance with Alecta, is also applicable to the Club. The Club lacks sufficient information for reporting in accordance with IAS 19. Therefore, in accordance with UFR 10, it reports these pension plans as defined contribution plans. The Club's obligations concerning contributions to defined contribution plans have been reported as a cost in the income statement at the rate they are earned by employees performing services during the period. Premiums paid to SPP Liv and SKANDIKON amounted to USD 1,206 thousands.

As per the collective agreement, employees born before 1956 are entitled to retire at the age of 62. The provision is based on anticipated future pension payments and it includes assumptions regarding mortality, employee turnover, salary growth and price inflation. Pension payments for the year amounted to USD 293 thousands.

Note 22.

Taxes	2018	2017
Tax on result for the year		
Deferred tax ¹⁾	1,340	-877
Other taxes	-43	-219
Closing accumulated cost	1,297	-1,096

¹⁾Tax rate 21.4%. Current year's deferred tax is assignable to unrealised value changes in investment assets.

Change in provision for deferred tax

Opening balance	1,642	765
Change recognised in income statement	-1,340	877
Closing balance	302	1,642

Change in provision for deferred tax reported in untaxed reserves

Opening balance	44,797	44,797
Change reported in untaxed reserves	-1,501	-
Closing balance	43,295	44,797

Note 23.

Liabilities related to direct insurance operations	2018	2017
Policyholders (members)	4,192	1,673
Insurance brokers	3,466	4,148
Insurance companies	2,060	2,336
	9,718	8,157

Note 24.

Other liabilities	2018	2017
Trade creditors	1,245	1,033
Other creditors	8,942	10,534
	10,187	11,567

Note 25.

Expected settlement of assets and liabilities

Approximately 60% of the provision for claims outstanding is expected to be paid more than 12 months in the future. For other balance sheet items that are expected to be settled more than 12 months in the future, 50% of the receivables and liabilities are associated with other insurance companies. There is little risk in the short term of the Club becoming short of cash funds since most of the investment portfolio can be converted to cash within a few days. For more information on liquidity risk, please see Note 2 and the cash flow statement.

Note 26.

Memorandum items	2018	2017
<p>The listed assets below, are held in the priority register for coverage of technical provisions. In case of insolvency the members have a priority right to the registered assets. The company has the right that in going concern add or delete assets in the priority register as long as the requirements are met in accordance with Swedish Insurance Act.</p>		
Government/municipal bonds, etc.	126,971	150,925
Bonds other	127,520	150,347
Quoted shares	62,173	59,918
Investment fund	17,525	14,550
Cash and bank balances	25,209	16,716
Receivables related to direct insurance operations	18,839	22,240
	378,237	414,696
Technical provisions, net	193,610	214,447
Surplus of registered assets	184,627	200,249
	378,237	414,696

Bank guarantees

In connection with commitments to other members of the International Group and to members of The Swedish Club, the Association has provided bank guarantees of USD 0.6 (2017: 1.9) million.

Note 27.

Related party transactions

With the exception of what is required by insurance contracts, there are no related party transactions with Board members. Neither are there any related party transactions with senior executives of the Club. During the year, the Club reimbursed the equivalent of USD 3.7 million to its subsidiary in Hong Kong. This was for operating costs in 2018. In addition, a receivable is reported in the balance sheet for USD 0.2 million.

Note 28.

Significant events after the balance sheet date

Subsequent to the balance sheet date, the business has developed in line with the established goals and expectations. The Club does not have any significant events to report that occurred after the balance sheet date.

Note 29.

Personnel	2018	2017
Average number of employees:		
Sweden	79	77
Greece	17	17
Norway	5	6
Hong Kong	16	14
	117	114
Of which women	49	54
Women in Management Team	(17%)	(17%)
Salaries and payments:		
In Sweden		
Chairman of the Board	22	22
of which variable portion	(9)	(9)
Other Board members (20 persons)	207	224
of which variable portion	(145)	(161)
Managing Director	386	358
of which variable portion	-	(19)
Management Team excluding the Managing Director (5 persons)	859	851
of which variable portion	-	(48)
Other employees	4,173	3,808
In Greece	1,645	1,461
In Norway	657	634
	7,949	7,358
Social security costs:		
in Sweden	4,965	5,059
in Greece	456	422
in Norway	206	180
	5,627	5,661
of which pension costs	3,323	3,450
Management Team including Managing Director (6)	(588)	(651)

The Managing Director's employment contract states that the Club is required to give notice of termination two years in advance. Included under the heading Provision for pensions in Note 21 is the capital value of pension obligations for prior senior executives, which amounts to USD 235 (231) thousands.

Fees have been paid to Board members during the year in accordance with the AGM decision. The AGM decides on how remuneration to the Board shall be allocated between the Chairman of the Board and the other members. The variable portion is based on the number of meetings attended. Remuneration to the Managing Director is decided by the Chairman of the Board. Remuneration to other senior executives is decided by the Managing Director. Remuneration to the Managing Director and other senior executives is comprised of basic salary, other benefits and pension. Other senior executives are individuals who, together with the Managing Director, form the Management Team. Please see Note 21 for information about pensions. No fees are paid to Board members who are also employees of the Club.

Note 30.

Proposed appropriation of earnings

The following earnings are at the disposal of the AGM:

Accumulated loss	-15,683
Profit for the year	-1,116
Translation difference capital	734
Total	16,065

The Board and the Managing Director propose that the loss be distributed as follows:

Carried forward	16,065
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P&I income statement

The financial year of The Swedish Club runs from January through December. However, as the policy year ends 20 February, the P&I statements reflecting this period are presented here.

P&I financial year statement

The P&I financial statement shows the estimated result for each respective twelve-month period ending 20 February regardless of policy year. This statement shows revenues and expenses matched to the financial year in which these have been accounted for.

For the year ended 20th February.			
Amounts in USD thousands.	2018/19	2017/18	2016/17
Calls and premiums	94,913	98,780	104,133
Reinsurance premiums	-27,300	-27,390	-25,096
Earned premiums net of reinsurance	67,613	71,390	79,037
Claims paid	-22,405	-68,648	-95,902
Change in provision claims	-3,005	23,645	-23,350
Reinsurance recoveries	-26,950	15,983	40,857
Change in provision claims	11,930	-25,255	25,903
Claims handling costs	-6,622	-6,287	-8,234
Claims cost	-47,052	-60,562	-60,726
Administrative expenses	-14,870	-15,303	-14,854
Underwriting result	5,692	-4,475	3,457
Investment result	4,528	22,180	7,514
Result of operation	10,220	17,705	10,971
Refund and discounts	-4,428	-3,418	-
Result after discount	5,792	14,287	10,971
Combined ratio	92%	106%	96%

Definitions & glossary

AER, Average expense ratio:	all members of the International Group of P&I Clubs are subject to the EU Commission requirement to report the AER for P&I business. This is a measure of cost-effectiveness. AER is measured in US dollars and calculated for the latest five-year period by relating operating costs, excluding claim handling costs, connected with P&I activity to premiums plus investment income concerning P&I activity.
Ancillary own funds:	consists of items in addition to those included in basic own funds and which may be required for covering losses. For items in Level 2 and 3 of the hierarchy, the maximum amount of ancillary own funds that may be included here is 50% of the SCR.
Basic own funds:	the core of eligible own funds according to Solvency II. Calculated as the difference between assets and liabilities, including technical provisions measured at fair value.
Claims frequency:	the observed relationship during a specific period between the number of claims arising within a certain category of insurance and the number of insurance policies within the same category. Does not include major claims.
Combined ratio:	claims for own account and net operating expenses in the insurance business, as a percentage of earned premium f.o.a.
CTL, Constructive Total Loss:	is when the vessel is beyond any reasonable cost for repairs. The damage or damages to the ship will cost more to repair than the insured value.
Direct yield:	direct yield on investments (dividends received and interest income) as a percentage of the average fair value of investments and cash/bank balances.
Eligible own-funds:	own funds consist of basic own funds and ancillary own funds, established according to the Solvency II requirements. Own-fund items are classified in three tiers, depending on their value. Only basic own funds classified as Tier 1 and Tier 2 are eligible for covering the MCR.
Energy:	insurance that is comprised of Hull & Machinery, Increased Value, Hull Interest, War, Loss of Hire for Mobile Offshore Units and FPSO. For more information see: Insurance Products at www.swedishclub.com .
Expense ratio:	net operating expenses in the insurance business, as a percentage of earned premium f.o.a.
FD&D, Freight, Demurrage & Defence (legal protection):	a main class of insurance that convey advice and cover the legal costs incurred in pursuing or defending claims covered by this class of insurance pursuant to its terms and conditions. There is no cover under FD&D, however, for the claim itself.
For own account, f.o.a:	net of reinsurance.
Free reserves:	equity less deferred tax assets plus untaxed reserves and deferred tax liability.
H&M, Hull & Machinery:	a cover that protects the insured against damage to, or loss of, his vessel or machinery.
IBNR, Incurred but not reported:	a term used to describe an estimate of claims which may have occurred, but of which the Club is not yet aware, or is only partially aware and for which provisions must be made when calculating the Club's liabilities.

International Group of P&I Clubs:	this organisation arranges collective insurance and reinsurance for P&I clubs and represents the views of the P&I community.
Loss ratio:	claims incurred, net of reinsurance, as a percentage of earned premiums f.o.a.
Marine & Energy (vessels):	a main class of insurance which includes Hull & Machinery (H&M), Hull Interest, War, Loss of Hire and Energy. For more information: see Insurance at www.swedishclub.com
MCR, Minimum Capital Requirement:	insurers subject to Solvency II must at all times have eligible basic own funds of at least the level of the MCR. The authorisation of an insurer is withdrawn when the undertaking's amount of eligible basic own funds falls below the MCR and the undertaking is unable to re-establish the amount of eligible basic own funds at the level of the MCR within a short period of time.
MRM, Maritime Resource Management:	is a training course intended for seagoing staff, pilots and shore-based personnel. The overall objective is to minimise casualties and losses caused by human and organisational errors. The Swedish Club Academy AB is the owner of the MRM course and has licensed a large number of training providers world-wide for delivery of training. For more information see: www.swedishclub.com/academy .
Overspill:	claims exceeding the International Group of P&I Clubs' reinsurance are pooled amongst the members up to the overall limit set by the P&I Rules. The estimate is currently USD 3.5 billion in excess of reinsurance.
Own funds:	equity and untaxed reserves, minus intangible assets in the balance sheet.
P&I, Protection & Indemnity (ship liability):	a main class of insurance that indemnifies or covers the insured in respect of the discharge of legal liabilities incurred during the operation or employment of the vessel.
Pool:	the P&I clubs in the International Group share claims made in excess of the retention of USD 10 million. In the excess of the pool limit, the Group has jointly purchased Excess of Loss reinsurance.
Regulatory capital base divided by solvency margin:	own funds in relation to the regulatory solvency margin (through 2015).
Regulatory solvency margin:	calculated in accordance with the regulations of the Swedish Financial Supervisory Authority and the Swedish Insurance Business Act (through 2015).
Retention:	the highest insured or claims amount relating to the same risk that an insurer retains for its own account, without reinsurance.
Solvency ratio, claims:	free reserves, as a percentage of provision for claims outstanding f.o.a.
Solvency ratio, premiums:	free reserves, as a percentage of earned premium f.o.a.
SCR, Solvency Capital Requirement:	capital requirement in accordance with the Solvency II Directive. It corresponds to the level where the probability that the company is unable to meet its obligations does not exceed 1 in 200. The requirement is calculated using a standard model. The capital requirement is affected by insurance, market, credit and operational risks.
Total return:	direct yield on investments (dividends received and interest income), unrealised profits and losses and capital gains or losses from the sale of investment assets, in relation to the average fair value of the investments and cash/bank.
Underwriting:	includes the risk assessment and pricing that occurs when insurance contracts are drawn up. In accounting contexts, the term is also used more broadly to designate the operations of an insurance company that do not have the character of asset management.



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