

# DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR TO 20 FEBRUARY 2019



# CONTENTS

OUR MISSION	3
BUSINESS AT A GLANCE	4
FIVE YEAR COMPARISON	5
CHAIRMAN'S STATEMENT	6
CEO'S STRATEGIC OVERVIEW	8
OPERATIONAL REVIEW	11
FINANCIAL STATEMENTS	16

## EXCELLING AT THE FUNDAMENTALS

We never drop the ball around understanding and pricing risk, handling claims and building legal expertise.

## SCALE AND STRENGTH

We use our global reach, financial strength and access to capital to invest, protect and return value to our Members.

## DEEP MARITIME EXPERTISE

Our deep maritime expertise and experience create real customer empathy and competitive edge.



## POSITIVE INDUSTRY INFLUENCE

We use our industry leading position to build networks and partnerships, bringing knowledge and people together for higher industrial standards.

## INNOVATION CULTURE

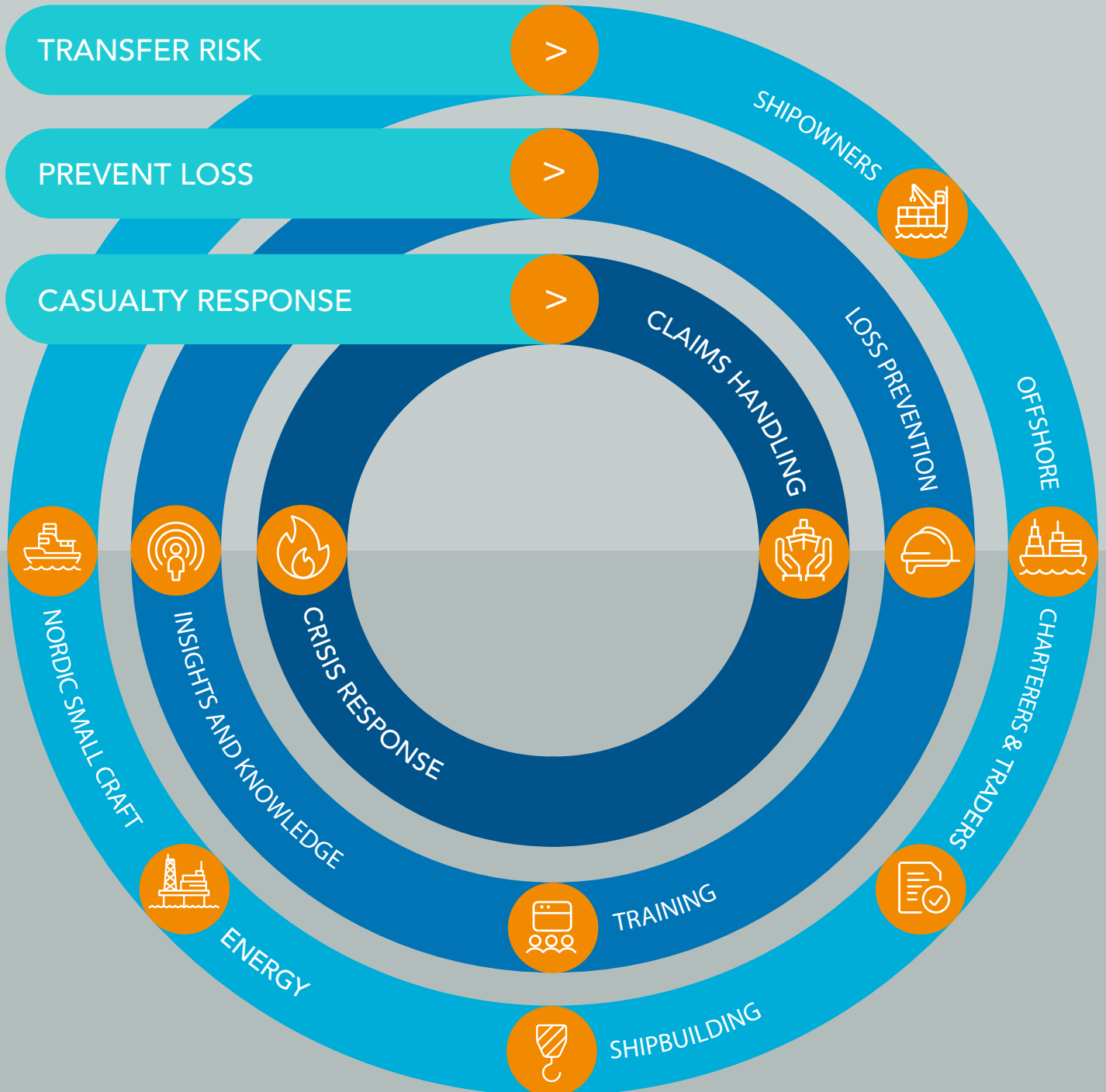
We use our diverse talents and curiosity to stay ahead of developments in the maritime industry and shape first class solutions.

## INSIGHT LED

Our insights – driven by knowledge and experience, help us to spot market opportunities, solve Members' problems, assess risk and make good business decisions every day.



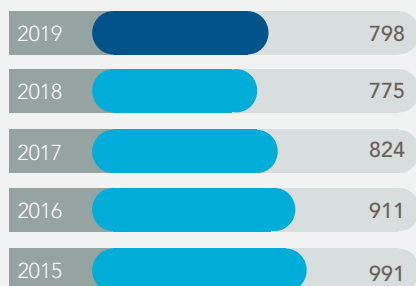
WE HELP OUR MEMBERS AND CLIENTS MANAGE THE TOTALITY OF THEIR EXPOSURES – BOTH TO EXISTING AND DEVELOPING RISKS.



# FIVE YEAR COMPARISON

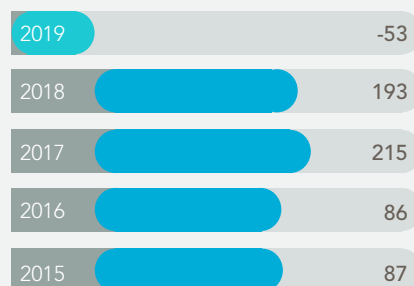
## GROSS WRITTEN PREMIUM

USD millions, ETC basis



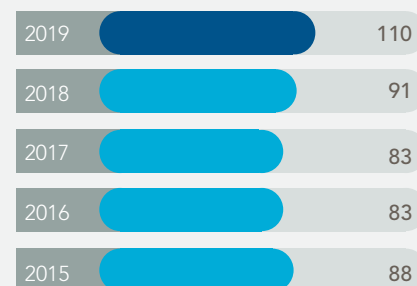
## RESULT

USD millions, ETC basis



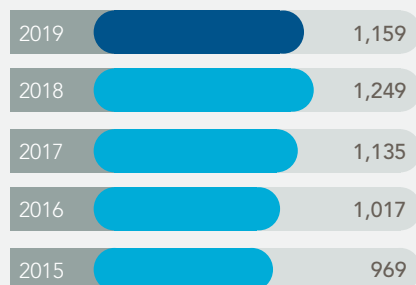
## COMBINED RATIO

Per cent, ETC basis



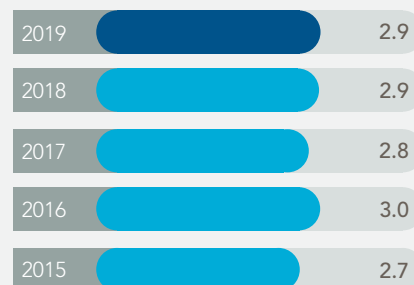
## EQUITY

USD millions



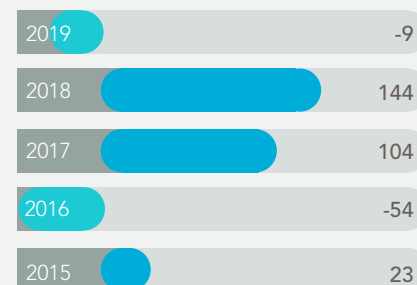
## ASSETS

USD billions



## NON-TECHNICAL RESULT

USD millions



# CHAIRMAN'S STATEMENT

OUR ROLE IS TO ENSURE THAT GARD AS AN ORGANISATION IS FIT FOR THE FUTURE – WITH A CLOSE ALIGNMENT BETWEEN MEMBERS AND MANAGEMENT TO BUILD A BUSINESS THAT CAN ADAPT TO WHAT COMES NEXT.



In this my first statement as Chairman of the Board of Gard P. & I. (Bermuda) Ltd., I would like to start by thanking my predecessor, Bengt Hermelin, for the dedication, energy and personal leadership he gave to Gard during the five years he served as Chairman. I am honoured to be taking over the role, and very much look forward to working with my fellow board members and everyone at Gard in taking the group forward towards its 2025 goals.

## RESPONDING TO CHANGE

As I write this, the world feels like a very uncertain place – particularly for trade. As evidence of this increased uncertainty, in January this year the International Monetary Fund cut its forecast for world economic growth citing the risks posed by rising trade tensions around the globe. The ongoing and messy divorce of the United Kingdom from the European Union also adds unhelpful ambiguity to the picture.

## GARD CAN AND MUST BE PART OF THE CONVERSATION AND ACT AS A SIGNIFICANT FORCE FOR GOOD IN OFFERING INSURANCE PRODUCTS AND SOLUTIONS TO NEW REGULATORY REQUIREMENTS.

The outlook for global shipping inevitably reflects the risks of protectionism and slower economic growth. Free global trade is crucial for the development of maritime industries, with more than 80 per cent of goods traded being carried by sea. More stringent fuel regulations regarding sulphur content and higher fuel costs are also likely to put pressure on shippers by significantly increasing operating costs in all segments.

There are also growing expectations that shipping will take more responsibility for its environmental, social and governance impacts. New regulations such as those on ballast water management and the introduction of a global sulphur cap in 2020 will ensure that shipping becomes more environmentally aware and accountable. And the trend will continue with future regulations required to comply with the IMO's goal of reducing greenhouse gas emissions by half by 2050. Gard is a leading marine insurance group with scale, global reach and specialist expertise. As such, it can and must be part of the conversation and act as a significant force for good in offering insurance products and solutions to new regulatory requirements.

## FACING THE FUTURE

Our role is to ensure that Gard as an organisation is fit for the future – however uncertain it might be. One of the great strengths of this group is the close alignment between Members and management in driving an agenda to build a business that can adapt to what

comes next. The shipowner directors are closely involved and actively engaged in all aspects of operations in Gard, ensuring that the voice of Members and clients is always heard and incorporated in planning for the future. For example, at our meeting last May, the Board agreed on a refreshed mission for the group – “Together, we enable sustainable maritime development” – as well as our goals for 2025, which focus on financial strength, an agile and competent global organisation and sustainable growth. It was the culmination of a well-anchored process which engaged everyone within the group. By making sure that our ambition is clear and tangible, we can ensure that we are focusing our daily activities in a way that everyone understands, with clear goals against which progress can be measured.

Gard is evolving. By clearly articulating our sense of direction, Members, clients, directors and everyone involved in the business can understand how Gard fits in the larger maritime ecosystem in which it operates and the role it wants and needs to play within it.

## EVOLVING OVER TIME

Sustainability is above all about resilience over time. For Gard it is about how we conduct our core business, create value and how our activities affect the environment, employees and other stakeholders, as well as society at large. A core part of this is creating scale and strength – both operationally and financially. This allows us to use our global reach, financial strength and access to capital to invest, protect and return value to our Members.

## EVERYONE INVOLVED IN THE BUSINESS CAN UNDERSTAND HOW GARD FITS IN THE LARGER MARITIME ECOSYSTEM IN WHICH IT OPERATES AND THE ROLE IT WANTS AND NEEDS TO PLAY WITHIN IT.

This year, for the first time since 2009, Gard incurred a loss. This totalled USD 53 million before the reduction in the deferred call. As of 20 February 2019, the consolidated equity which provides security and stability for the membership stood at USD 1,159 million, compared to USD 1,249 million 12 months prior. Nevertheless, the group's capital position remains robust and, even with a negative result, the Board has decided that, for the 10th year in a row, money will be returned to our Members by cancelling part or all of the deferred call.

## FUTURE-PROOFING

For 112 years Gard has helped to keep world trade moving and enabled the global shipping industry to grow and evolve through effective risk transfer and loss mitigation. In that time, we have grown to become the global leader in our field but, despite our

# CHAIRMAN'S STATEMENT

## CONTINUED

relative size, we remain a small financial institution. In line with the rest of the financial sector we need to manage the rising cost and complexity of increasingly stringent reporting and compliance requirements.

**IMPROVED SCALE MEANS THE GROUP WILL HAVE A DEPTH OF REAL-TIME AND HISTORIC DATA THAT IS UNMATCHED ACROSS THE INDUSTRY, AND THE CHALLENGE WILL BE TO HARNESS THIS IN THE BEST WAY FOR THE GREATEST BENEFIT.**

The operation of the group's Boards and Committees has also evolved in line with a shifting structure and culture of corporate governance in the last five years, as well as the introduction of the Solvency II regulations for insurance companies. Gard has managed to turn this into an opportunity to strengthen corporate governance, and currently enjoys a very positive dynamic between the governance bodies and management. Strong foundations have been built, but we cannot be complacent and must always look at how we can improve.

In developing and growing our business we also need to find ways to use and leverage technology. This will mean we can deliver better intelligence on broad market trends, detailed analysis for individual owners, and, where possible, improved customer service and underwriting and claims handling outcomes. Improved scale means the group will have a depth of real-time and historic data that is unmatched across the industry, and the challenge will be to harness this in the best way for the greatest benefit.

To quote Abraham Lincoln, the best way to predict the future is to create it. In this changing business and geo-political environment, the mutual P&I industry has provided a vital constant for over a century and a half – a ticket to trade. This robust system has stood the test of time simply because it works. The shipping industry decided then, and has continued since, to make the choice to self-insure – a principle that clearly seems to work, but which should not be set in stone. Each club, and the industry as a whole, has to be willing and able to face the future and embrace change, both individually and collectively.

I am confident that Gard has such an appetite, and there can be little doubt that the quality of our membership, the breadth of our offering, continued focus on loss prevention and strong claims handling capabilities are key foundations for dealing with the opportunities and challenges we will face in the future. As the leading club it is my ambition for Gard to be a vocal and pro-active protagonist for modernising and future-proofing the mutual P&I system and the International Group structure.

I would like to thank everyone who is serving on our Boards and Committees for their time and commitment, and for the energy and enthusiasm of everyone working at Gard who contribute to its strong performance every single day. It has been a pleasure to get to know many of you better, and I look forward to continuing to do so in the coming years.

**Morten W. Høegh**  
Chairman

# CEO'S STRATEGIC OVERVIEW

A UNIQUE COMBINATION OF STRENGTHS INCLUDING SCALE AND STRENGTH, EXCELLENCE IN THE FUNDAMENTALS, DEEP MARITIME EXPERTISE, INSIGHT LED, HAVING A CULTURE OF INNOVATION AND A POSITIVE INDUSTRY INFLUENCE.



## WHAT IS IT GARD IS HERE TO DO?

The entire Gard organisation – colleagues, Members and various Boards, has worked together to articulate our future direction and 2025 goals – with a strategic focus on financial strength, building a competent, agile and effective global organisation and developing our market position through sustainable growth.

**GARD IS WORKING EVERY DAY TO MANAGE THE RISKS TO THEIR PEOPLE AND PROPERTY, AS WELL AS THOSE POSED TO THE ENVIRONMENT BY THE CONSEQUENCES OF ANY CASUALTIES.**

We want to achieve those goals by delivering on our vision: Together, we enable sustainable maritime development. Each word is chosen carefully. The word 'together' reflects on our mutuality, our desire to ensure that Members and clients are the focus for everything we do, and the fact that co-operation with our Members is what we do every day. The word "we" is about the value of sharing knowledge and experience with Members, clients and the wider world. 'Enable' and 'develop' describe our ambition to be market leading in our sector, at the forefront of developing new products and services for our Members and clients so as to be able to make a positive contribution to the maritime industries in which we are embedded. And finally, 'sustainable' encompasses the creation of long-term financial value for our Members, the mitigation of maritime risks, our responsibility for the marine environment and for conducting our business with integrity and high ethical standards.

To help our Members and clients to make the most of opportunities at sea, Gard is working every day to manage the risks to their people and property, as well as those posed to the environment by the consequences of any casualties. To do this we need to use a unique combination of strengths including scale and strength, excellence in the fundamentals, deep maritime expertise, being insight led, having a culture of innovation and a positive industry influence.

## SCALE AND STRENGTH

2018 was a year of two halves. While at the six month mark the group reported a profit, by the end of the year this had turned into a loss of USD 53 million on an Estimated Total Call (ETC) basis. This was a combination of a small underwriting loss from a few severe claims and the impairment of an IT project due to change of direction and vendor and a reduction in the expected benefits. A negative investment return also contributed to the loss.

The marine and energy insurance industry is typified by volatility and cyclicity. In our long-term business model, we expect years with losses. The fact that this is our first loss in a decade is testament to our ability to deliver better than average results. We aim to stay financially strong to deliver the stability and consistency needed to protect the assets, income and reputation of our Members and clients. We aim to keep premium levels fair, predictable and sustainable over the long term, and return surplus capital to our Members when the situation allows.

This year, for the 10th year in a row we will be able to return funds to the mutual membership by way of reductions in the premium paid. Mutual Members will get a 10 per cent reduction in the ETC amounting to USD 37 million.

## EXCELLING AT THE FUNDAMENTALS

At the heart of the group are the core underwriting skills which drive our ability to effectively transfer risk for our Members and clients. The ability to understand the risks they face, offer the best solutions and price them accurately is core to our long-term success.

Excellent claims handling is also fundamental. We have the broadest claims offering across the P&I, marine and energy lines of business in the industry but, compared to others, we deliver a significantly larger part of our claims offering from internal resources. This inevitably comes at a cost, and we are alive to the need to manage those on behalf of our Members. It does mean however that we have the right expertise, capacity and teamwork in place when required, producing a lower total when you include the claims costs. In a year when the severity of claims significantly impacted our results, our ability to handle those costs as effectively as possible is clearly a priority.

**AT THE HEART OF THE GROUP ARE THE CORE UNDERWRITING SKILLS WHICH DRIVE OUR ABILITY TO EFFECTIVELY TRANSFER RISK FOR OUR MEMBERS AND CLIENTS.**

We continue to invest in our capabilities as an organisation, including improved processes and systems, people and organisational development. This inevitably comes at a cost, and we are alive to the need to manage those on behalf of our Members. However, we also believe that over the long term these are core functions to which we need to devote energy and resources.



# CEO'S STRATEGIC OVERVIEW

## CONTINUED

We have also finalised changes in our structure to help us be the most competent and agile organisation – delivering best-in-class support services to both internal and external customers. We are creating a single Customer Support organisation – focused in Arendal and Hong Kong, that will improve our customer experience, achieve efficiency gains through standardisation and automation where appropriate, and pave the way for new tasks and challenges for our many skilled colleagues.

### DEEP MARITIME EXPERTISE

It is a fundamental part of our philosophy that prevention is better than cure, especially since the environmental impact of maritime casualties can be catastrophic. So, we work to prevent them from happening, while standing ready to respond swiftly and effectively to mitigate the damage should they occur. The Gard Outreach Programme focusses on developing relationships with salvage and counter-pollution authorities around the world. Strong links between shipowners, insurers, authorities and international maritime organisations help to build both a better response to accidents and compensation practices that benefit both the shipping industry and society as a whole.

One of the main objectives of loss prevention in Gard is to turn a painful loss experienced by the few into lessons learned for the many. We do this by:

- producing Gard updates – 79 different topics were covered this year including environmental issues, maritime security and human health.
- conducting client training – for example contingency response training for incidents, cyber awareness and the dangers of enclosed spaces.
- conducting condition and entry surveys of vessels covered by Gard.

We have built up a comprehensive network within Gard with more than 200 claims and loss prevention professionals and the sharing of lessons learnt is a valuable source of knowledge and expertise for Members and clients.

### INSIGHT LED

Data and digitalisation are critical components for our future. As one of the largest marine insurers we have a depth and breadth of data that can reflect both individual performance, wider market trends and allows for augmented decision-making. Translating data and expertise into insights for underwriting, claims and loss prevention will allow us to make better business decisions. We are in the early stages of our digital journey, investing today to gain a future advantage.

One example of this is the work we have been doing around liquefaction of cargoes – an issue which has caused multiple casualties and the loss of hundreds of lives. We have developed and implemented a tool to track vessels in or near areas where cargoes prone to liquefy are typically loaded, and cross reference this with other relevant information, e.g. weather. We use this real time data to provide proactive risk advice to the Members

and clients who own or operate the vessels concerned (over 100 different vessels so far), allowing them to take a proactive approach to early intervention for loss prevention.

Another example is the changes to global sulphur cap regulations which are due to enter into force on 1 January 2020. We are working to support our clients and Members in their efforts to handle the practical challenges, for example in relation to the availability of appropriate fuel and transitional arrangements, as well as the changes in insurance risk. We are co-ordinating with the International Group of P&I Clubs (IG) and support the position adopted by international organisations at the IMO, including the International Chamber of Shipping. We have also contributed to the work of BIMCO regarding bunker wordings to achieve higher contractual certainty.

### ONE OF THE MAIN OBJECTIVES OF LOSS PREVENTION IN GARD IS TO TURN A PAINFUL LOSS EXPERIENCED BY THE FEW INTO LESSONS LEARNED FOR THE MANY

Container ship fires continue to be a major risk concern within the industry. The so-called 'upsizing' of container ships may have outpaced the firefighting regulations and the effectiveness of current on-board response measures, meaning that further development of risk mitigation in this area is called for. We are intensifying our loss prevention efforts in this area, sharing insights and knowledge with our Members and clients, whilst supporting industry initiatives from the IG, IUML and CEFOR.

### INNOVATION CULTURE

This year, for the first time, Gard has become part of Insurwave, a blockchain platform to support marine hull insurance. This platform brings together all the parties in the insurance value chain on a single platform. Ultimately, using IoT and smart contracts, policies will be updated automatically to reflect the risks covered; and this combination of technologies will help improve efficiency in claims assessment and payment.

Being part of the innovative platform delivers several benefits for our clients and the group. By automating much of the onboarding and servicing of larger clients we can provide a more streamlined service. We can offer clients the ability to engage with us digitally, reducing their costs and administrative burdens. The system also provides contract certainty as well as the tracking of exposures in real time.

Autonomous vessels are the beginning of a fundamental change within our industry and we are proud of our collaboration in the development of an autonomous logistics project. We do not believe that this technological shift will cause the human element to disappear, but rather move the location of the risk from ship to the shore, where the remote operator exists and from where the software design and updating takes place.

# CEO'S STRATEGIC OVERVIEW

## CONTINUED

There is no doubt that a great deal of regulatory work is still necessary since most international conventions are concerned with actions of manned vessels and envisage a clearly defined circle of responsible individuals. Gard is playing an active role in solving these problems. For instance, we participate in the IG's Autonomous Vessel Working Group, the Norwegian Forum for Autonomous Ships, and we are a cofounder of Digital Norway – a collective cross-industrial forum for digital innovation and leadership. We also contributed to a project entitled "Zooming in on liability and insurance Maritime Autonomous Surface Ships" published on 10 December 2018.

### POSITIVE INDUSTRY INFLUENCE

There are many profound changes in the way we do business happening around us. We are seeing a continuing increase in liabilities as environmental laws become more stringent and society demands more sophisticated clean-up in the aftermath of casualties. Many of the challenges faced by the maritime industries require a joint industry response. Gard has been actively involved in several areas in the last year including:

International Conventions such as the Civil Liability (CLC) and Fund Conventions – the judgments of the Spanish courts in the Prestige case are seen by many CLC and Fund Convention States, as well as many in the shipping and marine insurance industries, as being incompatible with the CLC and Fund Conventions as enacted by Spain. In recent years, there have been other examples of government claimants taking steps to try to set aside the owner's right to limit. Gard is committed to preserving the environment, and this includes committing in practice to well-thought out legal regimes seeking to allocate costs across industries and states in a unified, transparent and predictable manner.

We are working with the IG to table a proposal for an international agreement on the unified interpretation of conventions at the IMO to safeguard strict rights of limitation of liability in relevant jurisdictions. Limitation of liability is a cornerstone to make the international maritime liability conventions and compulsory insurance requirements work. Unified interpretation of these conventions is necessary to deliver the certainty our clients and Members need.

UN Action Platform for Sustainable Ocean Business – Gard is part of a working group looking to explore commercially attractive and viable solutions, suggest industry standards and establish guidelines and best practices to ensure sustainable use and management of our oceans. We also participate on the editorial board for a report with the working title "an Ocean of Opportunities". In this, ocean industries will for the first time map their contribution towards the 17 Sustainable Development Goals and share best practice on how to secure the health of our oceans. Once launched at the Nor-Shipping Conference in Oslo in June, this report will increase awareness and knowledge of the importance of the ocean to global growth and prosperity of mankind.

Climate change is a serious social and economic challenge. Together with other business leaders across the shipping value chain, Gard is a signatory to the Call to Action for CEOs and maritime industry leaders in support of decarbonization. Gard has already started pursuing emission reductions in our own operations. We embrace the need for transparency to help drive change and, as a member of the Climate Partners network, we will continue to pursue emission reductions.

### THE NEED TO BE AGILE

2018 was a year which demonstrated the need for resilience and agility. The inherent volatility of our business, combined with the shifts taking place within the maritime industries drives our need to be both nimble and to embrace change – while at the same time retaining our deep roots of mutuality and service. We want to be your preferred partner for insurance solutions and so will continue to focus on having the structures and skills to meet our buyers needs both now and in the future.

**Rolf Thore Roppestad**  
Chief Executive Officer

# OPERATIONAL REVIEW

## BUSINESS REVIEW

### *Gard group result and reduction in deferred call*

The 2018 financial year produced a total comprehensive loss on an Estimated Total Call (ETC) basis of USD 53 million. In April 2019, a decision was made to terminate a contract with a software vendor. Following the decision to terminate, the capitalised costs and the estimated cost of termination relating to that IT project were deemed to be impaired. The total charge made to the statement of comprehensive income related to impairment and provision amounts to USD 40 million after tax and thus represents a major contributing factor to the loss.

Due to the strong capital position of the Gard group, the Board of Directors decided in May 2019 to reduce the deferred call by 12.5 per cent, or USD 37 million, for the 2018 policy year. This adjustment in premium income increased the accounted total comprehensive loss for the 2018 financial year to 90 million. This is the 10th consecutive year that Gard has been able to call less than the forecast premium. Over the past 10 years mutual Members

has benefitted from a total premium reduction of USD 429 million compared to forecast premium levels.

In view of the above comprehensive loss, after a reduction in ETC, the consolidated equity which provides security and stability for the membership was USD 1,159 million as at 20 February 2019 compared to USD 1,249 million the previous year. The probability that Gard will have to raise additional capital from its mutual Members by way of unbudgeted supplementary calls is low.

As explained in our Member Circular 13/2018, the term 'deferred call' will be replaced with the term 'last instalment' as from the financial year to 20 February 2020. The deferred call was set as a percentage of the advance call whereas the last instalment will be set as a percentage of the ETC. By way of example, the 12.5 per cent reduction in deferred call for the 2018 policy year (USD 37 million) would equate to a 10 per cent reduction in the forecast ETC. See the table below for a comparison for the 2009 to 2018 policy years.

### Deferred call

Policy year	Estimated	Actual	Reduction	
			Per cent	USD million
2009	25%	10%	15%	40
2010	25%	15%	10%	28
2011	25%	20%	5%	15
2012	25%	15%	10%	31
2013	25%	15%	10%	35
2014	25%	15%	10%	37
2015	25%	15%	10%	37
2016	25%	0%	25%	90
2017	25%	0%	25%	79
2018	25%	12.5%	12.5%	37
Total 10 years				429
Total 5 years				280

### Last instalment

Policy year	Estimated	Actual	Reduction	
			Per cent	USD million
2009	20%	8%	12%	40
2010	20%	12%	8%	28
2011	20%	16%	4%	15
2012	20%	12%	8%	31
2013	20%	12%	8%	35
2014	20%	12%	8%	37
2015	20%	12%	8%	37
2016	20%	0%	20%	90
2017	20%	0%	20%	79
2018	20%	10%	10%	37
Total 10 years				429
Total 5 years				280

### *Gard group on Estimated Total Call basis (ETC basis)*

The 2018 financial year produced a total comprehensive loss, on an ETC basis, of USD 53 million. The non-technical result was a loss of USD 9 million, including a negative investment return of USD 3 million.

Gross written premium on ETC basis was USD 798 million, an increase of USD 23 million or 2.9 per cent from last year and above plan. This is a good result in a challenging and soft insurance market and helped by the turn of the hull market mid-year.

After a 9 per cent increase in volume achieved in the course of the year, the Gard group has maintained its overall market share.

# OPERATIONAL REVIEW

## CONTINUED

The Gard group reinsurance programmes have been stable in recent years and the cost of reinsurance has been reduced as a result of positive long-term relationships with reinsurers, improved claims records and changes in risk profile. The International Group of P&I Clubs (IG) initiated a broker tender process during the spring of 2018 as well as a review of the structure for the collective reinsurance arrangements for P&I mutual business. Some structural changes were made, and the IG achieved its target of ensuring sustainability whilst improving the cost-efficiency of the Pool and the collective reinsurance arrangements. No extreme event has had an impact on the reinsurance market and the capacity remains in good supply.

The year has demonstrated a decent technical performance even after a claims intensive second half of the financial year and when excluding the impaired project cost.

Claims incurred for own account totalled USD 537 million, an increase of USD 58 million from last year. Claims incurred developed adversely for Marine and more in line with expectations for P&I compared to the benign 2016 and 2017 years. Energy claims developed favourably due to an improvement in one large claim.

Accounting for the impaired project cost, the combined ratio for the Gard group deteriorated in 2018, increasing to 110 per cent from 91 per cent last year.

### Development of gross written premium in the last five years, as at 20 February

USD millions



### Development of gross written premium, P&I, in the last five years, as at 20 February

USD millions



The technical result is a negative USD 61 million and below plan.

With investment results being volatile and slightly negative this year, ensuring that we have a balanced underwriting becomes increasingly important. Being excellent at the fundamentals, assessing and handling maritime risk, is our first priority to deliver on our Members and clients' needs. There is no doubt that the quality of our membership, our continued focus on loss prevention and our strong claims handling capabilities will be important for the years to come.

### Protection & Indemnity on ETC basis

Gross written premium for P&I on ETC basis was USD 519 million, a reduction of USD 28 million or 5 per cent from last year. This is driven by decreasing premium volumes and insurance rates reflecting a benign claims development and more moderate growth in the world fleet. Both factors are intensifying competition and driving down profitability. Tonnage development has been positive for Gard. The 2018 renewal produced a modest net tonnage gain and there has been an overall tonnage increase in the course of the year of nearly 7 million gross tonnes.

### Development of claims incurred for own account in the last five years, as at 20 February

USD millions



### Development of claims incurred for own account, P&I, in the last five years, as at 20 February

USD millions





# OPERATIONAL REVIEW

## CONTINUED

The technical result for P&I was a loss of USD 24 million against a profit of USD 37 million last year. The negative result is due to the impairment of an IT project which was charged to P&I. Hence, the combined ratio for P&I increased to 106 per cent from 92 per cent last year, which was worse than plan.

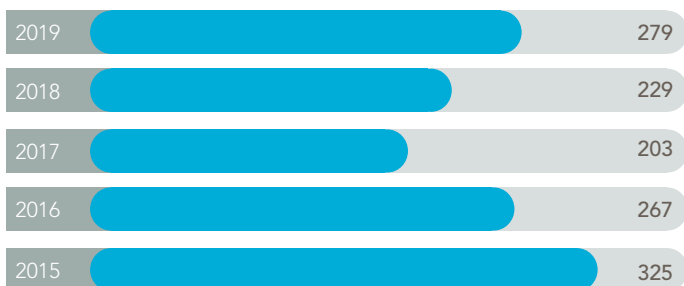
P&I claims incurred for own account totalled USD 339 million, a decrease of USD 19 million from last year, despite three claims reaching Pool levels compared to only one such claim at year end 2017 and none at year end 2016. In fixed premium P&I, there was an increase in P&I claims for charterers' entries which was partly offset by a benign level of P&I claims related to mobile offshore units.

Over the last few years, our insurance performance has been better than forecast due to fewer large claims and a lower claims frequency than expected. Our view is that operating standards and loss prevention focus have improved within the shipping industry and are likely to continue to do so. The Gard Members do not just reflect these trends, many are at the forefront, leading the drive for improvement. Maintaining the quality of membership through good risk selection, proper pricing as well as strong claims handling and loss prevention capabilities will remain key components in delivering a strong performance.

There has been an increase in pool claims for the 2018 policy year compared to last policy year. Previous policy years have seen a positive development, but the 2018 policy year is the highest since policy year 2013. Gard's share of pool claims in 2018 was slightly less than our relative size.

### Development of gross written premium, Marine & Energy, in the last five years, as at 20 February

USD millions



### Development of claims incurred for own account, Marine & Energy, in the last five years, as at 20 February

USD millions



### Marine & Energy

For Marine & Energy, gross written premium was USD 279 million, an increase of USD 50 million or 22 per cent from last year. Part of the increase is explained by fronting agreements for captives. Both marine (hull) and energy saw some hardening of rates towards the end of 2018, but the profitability needs to improve further as the current pricing levels are too vulnerable to withstand the volatility of claims or an unforeseen adverse change in frequency. The changes in the market seem to lead to more differentiation in risk pricing. The quest for more premium volume is becoming more balanced by improved pricing of the risks.

The technical result for Marine & Energy was a loss of USD 37 million against a profit of USD 22 million last year. Hence, the combined ratio increased to 118 per cent from 88 per cent in 2017.

Claims incurred for own account totalled USD 199 million, a relatively sharp increase of USD 77 million from last year. This was mainly driven by a higher number than expected of large marine claims exceeding USD 5 million. One claim exceeded USD 35 million and hence represented almost half the total increase for the year.

Even though the business areas have seen some hardening of rates towards the end of 2018, the general rate levels in marine continue to cause concern and attention. However, during 2018 we have increased our market share in a competitive market, with new owners showing a significant commitment to Gard. The strength of our claims handling, and ability to lead claims effectively to get businesses back on track, is seen as an attractive value proposition in the current market environment. From a wider perspective, good claims handling has the beneficial effect of reducing the cost and suffering for society at large.

The energy market has seen some hardening of rates, although premiums are still considered too low in a market segment prone to large claims. There has also been a pick-up in activity with more vessels and rigs being employed. A favourable litigation outcome on a large claim had a marked positive impact for the energy claims development in 2018.

### INVESTMENTS

Over the twelve months to 20 February 2019, the Gard group achieved an investment return of 0 per cent against a benchmark of 0.2 per cent. In the previous year, the investment return was 6.3 per cent. The group's investment portfolio decreased from USD 2,156 million as at 20 February 2018 to USD 2,103 million as at 20 February 2019.

The period to 20 February 2019 was one in which financial markets were reintroduced to volatility after a prolonged period of relatively benign market conditions. The last three months of 2018 proved particularly challenging for global investors, and Deutsche Bank reported that 90 per cent of the asset classes they track delivered negative returns for the year.

A relatively robust US economy, combined with ongoing monetary policy tightening, led US interest rates to continue their climb upwards for much of the year. The US 10-year government bond yield rose from 2.9 per cent in February 2018 to a high of 3.2 per cent in November. It subsequently fell towards the end of the

# OPERATIONAL REVIEW

## CONTINUED

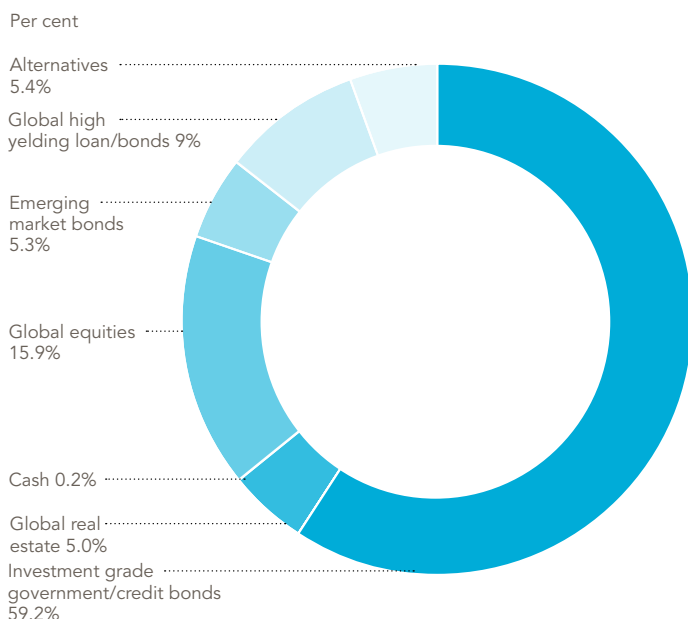
period in response to higher equity and credit volatility and ended at 2.7 per cent. Comparatively higher yields in the US, structural demand for dollars and increasing global trade tensions further helped strengthen the US dollar, putting pressure on emerging economies and currencies. In Europe, continued slow growth, falling inflation and increased tension between EU member states depressed investor sentiment. In addition, political divisions and ongoing economic issues continued to dominate the domestic agenda in core countries such as France, Italy and Spain.

Equity investments returned a negative 5.8 per cent, real estate investments a positive 1.5 per cent and fixed-income investments a positive 1.1 per cent over the period. All returns in USD terms.

Gard is and aims to remain a responsible investor and has therefore continued its effort during the year to increase the focus on sustainable investments in its portfolio. One new "global impact" portfolio was added during the year, focussing on equity investments that follow and responds to the UN sustainability goals.

We fully support the UN Principles of Responsible Investment and encourage fund managers to sign up to them. These principles recognise that long-term sustainable returns are dependent on stable, well-functioning and well-governed social, environmental and economic systems.

### Investment allocation, as at 20 February 2019



### CAPITAL AND RISK MANAGEMENT

Over the twelve months to 20 February 2019, the Gard group continued to be strongly capitalised.

#### Risk management

Gard has an effective system of risk governance, which provides sound and prudent risk management. Risk governance is based on the three lines of defence model, with clearly defined roles and responsibilities. Risk taking is carried out in the business functions (1st line), risk oversight is carried out by the Risk Management function, Compliance function and the Actuarial function (2nd line). Independent assurance is provided by Internal Audit (3rd line).

Gard's Risk Management function is mandated to ensure that the group and the legal entities have the necessary expertise, frameworks and infrastructure to support good risk-taking. In addition, it performs reporting activities. The independence of the Risk Management function is maintained by a direct reporting line from the Chief Risk Officer to the Chief Executive Officer, and regular reporting to the Risk Committee.

Gard's internal risk capital model provides a quantification of the risks to which the Gard group and its legal entities are exposed and is an important tool for Gard. The model is used to determine the risk and capital requirements for internal purposes. The internal model and its parameters are reviewed regularly to reflect Gard's experiences and changes in the risk environment and best practice. The insurance risk and market risk modules from the internal risk capital model have been approved by the Norwegian FSA to be used for regulatory reporting for Gard group, Assuranceforeningen Gard – gjensidig - and Gard Marine & Energy Insurance (Europe) AS under Solvency II. The Standard Formula is used for counterparty risk and operational risk.

#### Risk appetite and strategy

Gard's risk appetite is to hold sufficient capital and liquidity as well as to constrain its risk taking to ensure that the group can continue to operate following an extreme loss event with the same risk tolerance for insurance risk. The risk-taking must be aligned to Gard's risk-carrying capacity.

Gard aims to fulfil the following key objectives:

- Have a high probability of meeting its insurance liabilities and providing its services;
- Preserve the continuity of its offering after an extreme loss event; and
- Have the flexibility and competence to help Members and clients manage new risks and pursue attractive business opportunities as and when they arise.

# OPERATIONAL REVIEW

## CONTINUED

The probability that Gard would have to raise additional capital from its mutual Members by way of unbudgeted supplementary calls should be low.

Eligible own funds	20 February 2019	20 February 2018
Tier 1 Basic own funds	1,136	1,192
Tier 2 Ancillary own funds	244	328
Tier 3 Other own funds		
Eligible own funds	1,380	1,520

### Capital management

Gard has a simple capital structure consisting of Tier 1 capital through equity, which is earned and available, high quality Tier 2 capital in the form of unbudgeted supplementary calls, and tax assets included as Tier 3 capital.

The Gard group aims to manage its capital such that all its regulated entities meet local regulatory capital requirements at all times.

### Risk profile

In context of its business operations Gard enters into a broad variety of risks, where the main risks are insurance risk and market risk. Gard is also exposed to counterparty default risk, operational risk, liquidity risk, business risk, compliance risk and reputational risk.

### Reinsurance

Gard has an extensive reinsurance program. The mutual business is pooled between International Group (IG) clubs. For the 2018 policy year the IG clubs pool claims above the club retention of USD 10 million and up to USD 100 million. Above USD 100 million, the group purchases a reinsurance program with USD 2 billion cover per vessel per event with an annual aggregate deductible of USD 100 million and an overspill protection cover of a further USD 1 billion. For P&I Fixed and the Marine and Energy businesses there are high capacity reinsurance programs in place. The structure of the reinsurance programs has been stable during the last years.

### Liquidity

Liquidity risk is the risk that the Gard group, a legal entity and/or branch either does not have available sufficient financial resources to meet its obligations as they fall due or can secure such resources only at an excessive cost. The sources of inflows are stable in Gard, where liquidity is generated primarily through premium income. Although payments are fairly stable over time, the nature of the insurance business means that Gard must be prepared to make sudden and large payments.

The amount of liquidity held is largely determined by internal liquidity stress tests. Based on these stress tests, we estimate short-term and long-term liquidity needs. To mitigate liquidity risk, Gard has established several mechanisms including cash pool arrangements within the group and access to credit, in addition to holding deposits and highly liquid assets.

### S&P rating

In January 2019 Standard & Poor's affirmed the A+ financial strength of the Gard group and its direct writing subsidiaries (Gard P. & I. (Bermuda) Ltd., Assuranceforeningen Gard - gjensidig -, Gard Marine & Energy Limited and Gard Marine & Energy Insurance (Europe) AS). The rating reflects Gard's strong capital adequacy, strong operating performance and business profile as a leading insurer. The outlook is stable.



# FINANCIAL STATEMENTS

FOR THE YEAR TO 20 FEBRUARY 2019



# GARD P. & I. (BERMUDA) LTD.

## STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD 000's	Notes	Parent company		Consolidated accounts	
		21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18
<b>Technical account</b>					
Gross written premium	4, 5, 6	353,356	345,035	759,835	696,455
Gross earned premium	4, 5, 6	353,358	345,032	734,916	681,244
Ceded reinsurance	6	(229,740)	(224,873)	(153,708)	(134,172)
<b>Earned premium for own account</b>	6	<b>123,618</b>	<b>120,159</b>	<b>581,208</b>	<b>547,073</b>
<b>Other insurance related income</b>		<b>434</b>	<b>221</b>	<b>2,084</b>	<b>1,659</b>
Gross incurred claims	6	351,460	281,377	591,362	478,671
Reinsurers' share of gross incurred claims	6	(196,795)	(139,405)	(54,269)	561
<b>Claims incurred for own account</b>	6	<b>154,665</b>	<b>141,972</b>	<b>537,093</b>	<b>479,232</b>
Acquisition costs	7	22,767	20,091	43,757	40,743
Agents' commission	7	22,986	21,267	48,281	46,491
Commission received	7	(43,463)	(38,789)	(10,820)	(7,797)
<b>Insurance related expenses for own account</b>	7	<b>2,291</b>	<b>2,569</b>	<b>81,218</b>	<b>79,437</b>
<b>Other insurance related expenses</b>	7	<b>54,708</b>	<b>3,911</b>	<b>63,477</b>	<b>10,103</b>
<b>Technical result</b>		<b>(87,612)</b>	<b>(28,071)</b>	<b>(98,497)</b>	<b>(20,041)</b>
<b>Non-technical account</b>					
Income from investments in group companies		60,583	55,705	0	0
Interest and similar income/(expenses)	8	(3,163)	12,995	(3,613)	42,924
Change in unrealised gain/(loss) on investments	14	(32,537)	32,823	(47,045)	107,547
Gain/(loss) on realisation of investments		28,567	2,565	43,075	(3,133)
Other investment expenses		(557)	(1,317)	(1,607)	(3,537)
<b>Non-technical result</b>		<b>52,892</b>	<b>102,771</b>	<b>(9,190)</b>	<b>143,802</b>
<b>Profit/(loss) before tax</b>		<b>(34,720)</b>	<b>74,700</b>	<b>(107,686)</b>	<b>123,760</b>
Taxation	9	(14,593)	2,145	(18,659)	8,918
<b>Net result</b>		<b>(20,127)</b>	<b>72,556</b>	<b>(89,028)</b>	<b>114,842</b>
<b>Other comprehensive income/(loss)</b>					
<b>Items that may be reclassified to profit or loss</b>					
Exchange differences on subsidiaries		0	0	(827)	1,945
<b>Items that will not be reclassified to profit or loss</b>					
Remeasurement due to change in pension assumptions	20	(23)	(66)	(420)	(3,447)
Income tax related to change in pension assumptions	20	0	0	99	827
<b>Other comprehensive income/(loss) for the period, net of tax</b>		<b>(23)</b>	<b>(66)</b>	<b>(1,148)</b>	<b>(675)</b>
<b>Total comprehensive income/(loss)</b>		<b>(20,150)</b>	<b>72,490</b>	<b>(90,176)</b>	<b>114,167</b>

# GARD P. & I. (BERMUDA) LTD.

## BALANCE SHEET

Amounts in USD 000's	Notes	Parent company		Consolidated accounts	
		As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
<b>ASSETS</b>					
<b>Intangible</b>					
Developed software	10	0	0	1,279	20,575
<b>Total intangible assets</b>		<b>0</b>	<b>0</b>	<b>1,279</b>	<b>20,575</b>
<b>Investments</b>					
Property and plant used in operations	11	0	0	22,630	24,975
<i>Financial investments in subsidiaries</i>					
Investments in subsidiaries	13	595,294	597,289	0	0
Loan to subsidiaries	3, 15	26,292	41,501	0	0
<i>Financial investments at fair value through profit or loss</i>					
Equities and investment funds	14, 15	226,027	230,758	605,036	654,595
Interest-bearing securities and funds	14, 15	395,654	373,775	1,479,793	1,451,139
Financial derivative assets	14, 15, 16	0	812	0	3,186
Other financial investments	14, 15	3	13,316	119	51,277
<b>Total investments</b>		<b>1,243,270</b>	<b>1,257,450</b>	<b>2,107,579</b>	<b>2,185,172</b>
<b>Reinsurers' share of technical provisions</b>					
Reinsurers' share of gross premium reserve		41	36	15,065	3,930
Reinsurers' share of gross claims reserve	6, 15	492,279	435,226	257,535	251,052
<b>Total reinsurers' share of technical provisions</b>		<b>492,320</b>	<b>435,262</b>	<b>272,600</b>	<b>254,982</b>
<b>Receivables</b>					
<i>Receivables from direct insurance operations</i>					
Policyholders	5, 17	33,778	21,218	206,730	150,277
<i>Receivables from reinsurance operations</i>					
Receivables from reinsurance operations		4,173	0	8,421	208
Receivables from subsidiaries		24,900	27,496	0	0
<i>Other receivables</i>					
Other receivables	18	1	0	23,058	25,055
Other receivables from subsidiaries	18	0	238	0	0
<b>Total receivables</b>	<b>15</b>	<b>62,851</b>	<b>48,952</b>	<b>238,210</b>	<b>175,541</b>
<b>Other assets</b>					
Equipment	12	661	661	7,624	6,159
Cash and cash equivalents	15, 19	52,235	72,979	152,265	171,780
Deferred tax asset	9	14,589	0	25,255	1,763
Other financial assets	15	11,899	9,779	24,944	23,605
<b>Total other assets</b>		<b>79,383</b>	<b>83,419</b>	<b>210,089</b>	<b>203,308</b>
<b>Prepayments and accrued income</b>					
Accrued income and other prepayments		4,104	5,468	29,002	27,548
<b>Total prepayments and accrued income</b>		<b>4,104</b>	<b>5,468</b>	<b>29,002</b>	<b>27,548</b>
<b>Total assets</b>		<b>1,881,928</b>	<b>1,830,550</b>	<b>2,858,758</b>	<b>2,867,126</b>

# GARD P. & I. (BERMUDA) LTD.

## BALANCE SHEET

Amounts in USD 000's	Notes	Parent company		Consolidated accounts	
		As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Statutory reserve	21	463	463	463	463
Other equity	21	956,423	976,573	1,158,391	1,248,567
<b>Total equity</b>	22	<b>956,885</b>	<b>977,035</b>	<b>1,158,853</b>	<b>1,249,030</b>
<b>Technical provisions</b>					
Gross premium reserve		29	32	140,840	115,920
Gross claims reserve	6, 15	846,945	769,979	1,409,646	1,338,266
<b>Total technical provisions</b>		<b>846,975</b>	<b>770,010</b>	<b>1,550,486</b>	<b>1,454,187</b>
<b>Provisions for other liabilities</b>					
Pension obligations, net	20	1,231	1,271	36,270	38,935
Income tax payable	9, 15	991	3,186	6,903	4,567
Other provision for liabilities		0	0	524	0
<b>Total provisions for other liabilities</b>		<b>2,222</b>	<b>4,457</b>	<b>43,698</b>	<b>43,502</b>
<b>Payables</b>					
Payables arising out of direct insurance operations		14,785	17,634	27,420	30,430
Payables arising out of reinsurance operations		15,103	11,872	36,420	33,675
Payables arising out of reinsurance operations - group companies		22	16,358	0	0
Payables to group companies		21,073	13,844	0	0
Financial derivative liabilities	14, 15, 16	0	6,310	0	20,945
Other payables	15, 18	67	100	11,272	6,800
<b>Total payables</b>		<b>51,050</b>	<b>66,118</b>	<b>75,112</b>	<b>91,850</b>
<b>Accruals and deferred income</b>					
Accruals and deferred income	15	24,796	12,930	30,608	28,558
<b>Total accruals and deferred income</b>		<b>24,796</b>	<b>12,930</b>	<b>30,608</b>	<b>28,558</b>
<b>Total liabilities</b>		<b>925,043</b>	<b>853,515</b>	<b>1,699,905</b>	<b>1,618,097</b>
<b>Total equity and liabilities</b>		<b>1,881,928</b>	<b>1,830,550</b>	<b>2,858,758</b>	<b>2,867,126</b>

# GARD P. & I. (BERMUDA) LTD.

## STATEMENT OF CHANGES IN EQUITY

Amounts in USD 000's	Statutory reserve	Parent company		Statutory reserve	Consolidated accounts	
		Other equity	Total		Other equity	Total
<b>Equity as at 21.02.17</b>	<b>463</b>	<b>904,083</b>	<b>904,545</b>	<b>463</b>	<b>1,134,400</b>	<b>1,134,862</b>
Net result	0	72,556	72,556	0	114,842	114,842
Remeasurement due to change in pension assumptions	0	(66)	(66)	0	(3,447)	(3,447)
Income tax related to change in pension assumptions	0	0	0	0	827	827
Exchange differences on subsidiaries	0	0	0	0	1,945	1,945
<b>Equity as at 20.02.18</b>	<b>463</b>	<b>976,573</b>	<b>977,035</b>	<b>463</b>	<b>1,248,567</b>	<b>1,249,030</b>
<b>Equity as at 21.02.18</b>	<b>463</b>	<b>976,573</b>	<b>977,035</b>	<b>463</b>	<b>1,248,567</b>	<b>1,249,030</b>
Net result	0	(20,127)	(20,127)	0	(89,028)	(89,028)
Remeasurement due to change in pension assumptions	0	(23)	(23)	0	(420)	(420)
Income tax related to change in pension assumptions	0	0	0	0	99	99
Exchange differences on subsidiaries	0	0	0	0	(827)	(827)
<b>Equity as at 20.02.19</b>	<b>463</b>	<b>956,423</b>	<b>956,885</b>	<b>463</b>	<b>1,158,391</b>	<b>1,158,853</b>



# GARD P. & I. (BERMUDA) LTD.

## STATEMENT OF CASH FLOW

Amounts in USD 000's	Notes	Parent company		Consolidated accounts	
		21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18
<b>Cash flow from operating activities</b>					
Profit/(loss) before tax		(34,720)	74,700	(107,686)	123,760
Tax paid	9	(2,018)	(3,537)	(2,790)	(8,177)
Dividends received from subsidiaries		(59,424)	(55,172)	0	0
Change in unrealised gain/(loss)		32,537	(32,823)	47,045	(107,547)
Income/(loss) from sales of equipment		0	0	(115)	(77)
Depreciation, impairment and amortisation expenses	10, 11, 12	0	0	42,571	6,023
Change in pension obligations	20	41	284	(1,838)	5,402
Pension defined benefit plan/pension cost paid		(81)	(77)	(827)	(231)
Financial investments		(41,871)	58,437	7,260	48,442
Change in valuation due to change in exchange rates		35,012	(778)	2,450	195
Change in receivables and payables		(24,776)	1,932	(59,915)	(1,405)
Change in technical provisions and other accruals		33,136	(52,830)	79,177	(50,869)
<b>Net cash flow from operating activities</b>		<b>(62,163)</b>	<b>(9,863)</b>	<b>5,331</b>	<b>15,516</b>
<b>Cash flow from investment activities</b>					
Dividends received from subsidiaries	3	59,424	55,172	0	0
Group contribution received from subsidiary	3	1,995	0	0	0
Purchase of intangible assets	10	0	0	(23,039)	(19,452)
Purchase of equipment	12	0	0	(1,848)	(650)
Purchase of property and plant	11	0	0	(155)	(1,179)
Proceeds from disposal of equipment		0	0	197	1,358
<b>Net cash flow from investment activities</b>		<b>61,419</b>	<b>55,172</b>	<b>(24,845)</b>	<b>(19,924)</b>
<b>Cash flow from financial activities</b>					
Borrowings		(20,000)	(11,674)	0	0
Repayment of borrowings		0	470	0	0
<b>Net cash flow from financial activities</b>		<b>(20,000)</b>	<b>(11,205)</b>	<b>0</b>	<b>0</b>
Net change in cash and cash equivalents		(20,745)	34,104	(19,515)	(4,408)
Cash and cash equivalents at beginning of year		72,979	38,875	171,780	176,189
Bank overdraft at beginning of year		0	0	0	0
<b>Cash and cash equivalents at end of year</b>		<b>52,235</b>	<b>72,979</b>	<b>152,265</b>	<b>171,780</b>

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 1 – Corporate information – the Gard group of companies

**Gard P. & I. (Bermuda) Ltd.** (the “Company”) is a mutual insurance association domiciled in Bermuda. The Company is incorporated as an exempt company and is registered by the Bermuda Monetary Authority as a Class 2 insurer. As a mutual insurance association, the Company is owned by its Members, being the owners and charterers of the ships from time to time insured by the Company for Protection and Indemnity risks (“P&I”). There are no external capital owners.

The principal activities of the Company and its subsidiaries (the “Gard group” or the “group”) are to insure its Members for: marine P&I risks; marine and energy risks through its wholly owned subsidiary Gard Marine & Energy Limited; and management of its assets which are used to cover the technical provisions.

The Members of the Company are also Members of Assuranceforeningen Gard - gjensidig - and vice versa. The major part of the two associations’ combined portfolio of direct business (currently about 60 per cent) is underwritten by the Company through its Norwegian branch as direct insurer. Assuranceforeningen Gard - gjensidig - is primarily used as a vehicle for a smaller proportion of the combined P&I portfolio, which is primarily, direct P&I business where an EU/EEA based insurer is required in order to comply with governing regulations regarding cross border activities.

**Assuranceforeningen Gard - gjensidig** (“Gard Norway”) is a mutual insurance association registered and domiciled in Norway and licensed by the Norwegian Ministry of Finance to carry out marine liability and legal costs insurances. The principal activity of Gard Norway is to insure its Members for marine P&I risks, including the reinsurance of a proportion of the P&I risks underwritten by the Company as direct insurer.

**Gard Marine & Energy Limited** (“Gard M&E”) is a wholly owned subsidiary of the Company. Gard M&E is domiciled in Bermuda and is registered by the Bermuda Monetary Authority as a Class 3B insurer covering, *inter alia*, marine and energy risks. The principal activity of Gard M&E is direct insurance of marine and energy risks.

**Gard Marine & Energy Insurance (Europe) AS** (“Gard M&E Europe”) is a wholly owned subsidiary of Gard M&E. Gard M&E Europe is registered and domiciled in Norway and licensed by the Norwegian Ministry of Finance to carry out direct insurance of marine and energy risks.

**Hydra Gard Cell.** Hydra Insurance Company Limited (“Hydra”) is an insurance company established by the parties to the International Group of P&I Clubs’ Pooling Agreement. Hydra is a segregated accounts company incorporated pursuant to the Bermuda Segregated Accounts Companies Act 2000, as amended, for the purpose of reinsuring certain layers of risks which have been retained by the parties to the said Pooling Agreement. The Hydra Gard Cell (a segregated account) is owned 100 per cent by the Company. The assets and liabilities of the Hydra Gard Cell, are separated from Hydra’s general accounts and from the other cells, or segregated accounts, of the company.

**Safeguard Guarantee Company Ltd.** (“Safeguard”) is a wholly owned subsidiary of the Company and is domiciled in Bermuda. Safeguard was previously registered by the Bermuda Monetary Authority as a Class 3A insurer; however, Safeguard suspended underwriting after 20 February 2015 and the company cancelled its insurer registration in October 2018.

**Gard Reinsurance Co Ltd** (“Gard Re”) is a wholly owned subsidiary of the Company domiciled in Bermuda. Gard Re is registered by the Bermuda Monetary Authority as a Class 3A insurer.

Its principal activity is the reinsurance of an agreed proportion of the risks retained by the Company, Gard M&E and Gard Norway.

**Lingard Limited** (“Lingard”) is an insurance management company registered and domiciled in Bermuda and is a wholly owned subsidiary of the Company. Lingard offers insurance management and insurance intermediary services to the Company and its Bermuda based subsidiaries: Gard M&E, Gard Re and Safeguard.

**Gard AS** is a wholly owned subsidiary of the Company. Gard AS is registered and domiciled in Norway. Its principal activity is to provide insurance agency and intermediary services to Lingard, Gard Norway and Gard M&E Europe.

**AS Assuransegården** is a wholly owned subsidiary of the Company. AS Assuransegården is a Norwegian registered and domiciled company and is the owner of various fixed properties in Norway which are used by the companies in the Gard group.

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 2 - Accounting policies

#### 2.1 Basis of preparation of the Accounts

Gard P. & I. (Bermuda) Ltd. is incorporated under Bermuda Law. The operations and insurance activities of the Company are carried out by Lingard. The accounts include the activity from 21 February 2018 to 20 February 2019.

The financial statements have been prepared in accordance with regulations for annual accounts for general insurance companies approved by the Norwegian Ministry of Finance.

#### 2.2 Basis for consolidation

The consolidated financial statements comprise Gard P. & I. (Bermuda) Ltd. and the accounts of the companies over which the Company has a controlling interest. A controlling interest is normally obtained when ownership of the shares in a company is more than 50 per cent, and that ownership can exercise control over the company. The Company has the right to exercise membership rights in Gard Norway, therefore the Company controls all voting rights in Gard Norway. This is the legal basis for consolidating the two associations' accounts pursuant to the International Accounting Standard 27 - Consolidated and Separate Financial Statements.

Transactions between consolidated companies have been eliminated in the consolidated financial statements. The consolidated financial statements have been prepared in accordance with the same accounting principles for both parent and subsidiaries. The acquisition method is applied when accounting for business combinations.

#### 2.3 Use of accounting estimates when preparing the accounts

The preparation of the accounts requires management to make estimates and assumptions that affect the valuation of assets, liabilities, revenues, expenses and contingent liabilities. Due to unforeseen circumstances these estimates may change in the future. Estimates and their assumptions are considered continuously, and accounts adjusted accordingly.

#### 2.4 Foreign currency

##### *Functional currency and presentation currency*

The accounts are prepared in USD, which is both the functional currency and presentation currency of the Company.

##### *Transactions in foreign currency*

Transactions in foreign currencies are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are translated into USD using the exchange rate applicable on the balance sheet date. The currency exposure of the provision for claims is assessed to be equivalent to the same currency exposure as claims paid. The opening and closing balances of the provision for claims in foreign currency are translated into USD based on the same method as for monetary items. Non-monetary items that are measured at fair value and expressed in a non-USD currency are translated into USD using the exchange rate applicable on the transaction date. Translation differences are recognised in the income statement as they occur during the accounting period. Foreign exchange gains and losses

that relate to borrowings, cash and cash equivalents and financial investments, are presented as part of the non-technical result as 'Interest and similar income' and 'Change in unrealised gain/loss on investments' respectively. All foreign exchange gains and losses relating to technical operations are presented in the income statement as part of the technical result.

The assets and liabilities of group companies that have a functional currency different from USD are converted into USD at the rate of exchange at the closing date. Income and expenses are translated at an average rate of exchange. All resulting exchange differences are recognised in 'Other comprehensive income'.

#### 2.5 Provisions, contingent liabilities and assets

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. For potential obligations whose likelihood is not remote or probable (i.e. not 'more likely than not'), a contingent liability is disclosed.

Contingent assets are not recognised in the financial statements, but are disclosed if it is likely that resources embodying economic benefits will flow to the Company.

#### 2.6 Events after the reporting period

New and material information on the group's financial position at the end of the reporting period, which becomes known after the end of the reporting period, is recorded in the annual accounts. Events after the reporting period that do not affect the group's financial position at the end of the reporting period, but which will affect the financial position in the future, are disclosed if significant.

#### 2.7 Other significant accounting policies

Other significant accounting policies are presented and described in other notes to the financial statements, together with the more expanded disclosures for that particular area. This is done to make the disclosures more relevant to the users and make it easier to get an overview of the relevant note.

The following table includes other significant accounting policies that are described in other notes to the financial statements, including the number of the note:

Accounting policy	Note
Technical result	6
Technical provisions	6
Insurance related expenses	7
Non-technical items	8
Tax	9
Intangible assets	10
Property, plant and equipment	11
Investments in subsidiaries	13
Financial Investments	14
Financial derivatives	16
Cash and cash equivalents	19
Pensions	20

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 3 - Intra-group transactions

#### Reinsurance agreements

Gard P. & I. (Bermuda) Ltd. and Gard Norway have entered into mutual reinsurance agreements. The Company reinsures a proportion amounting to 25 per cent of Gard Norway's insurance

portfolio after taking the external reinsurance into account. The Company cedes to Gard Norway by way of reinsurance 2 per cent of the Company's insurance portion after taking the external reinsurance into account.

Amounts in USD 000's	Received from Gard Norway		Ceded to Gard Norway	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Reinsurance	27,323	24,819	4,488	4,397
Reinsurers' share of gross settled claims	17,472	50,725	3,179	4,017
Reinsurance commission	8,352	5,870	1,381	1,298

Amounts in USD 000's	Received from Gard Norway		Ceded to Gard Norway	
	As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
Reinsurers' share of gross claims reserve	70,992	85,939	10,913	10,560

Both the Company and Gard M&E have entered into reinsurance agreements with Gard Re, where the two direct insurers are ceding 50 per cent of their insurance portfolio after taking the external reinsurance into account.

Amounts in USD 000's	Ceded to Gard Re	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Reinsurance	123,610	120,141
Reinsurers' share of gross settled claims	85,123	106,226
Reinsurance commission	38,444	34,509

Amounts in USD 000's	Received from Gard Re	
	As at 20.02.19	As at 20.02.18
Reinsurers' share of gross claims reserve	307,415	276,291

The Company and Gard Norway have entered into a reinsurance agreement with Hydra, which is a segregated accounts company. The Company's segregated account (cell) in Hydra is covering the former companies' liability to layers of the International Group (IG) Pool and retention in the 1st market excess layer.

Amounts in USD 000's	Ceded to Hydra	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Ceded reinsurance	33,623	30,519

#### Insurance management agreement

The Company, Gard M&E, Gard Re and Safeguard have appointed Lingard as their insurance manager and principal representative in Bermuda. The services provided by Lingard are governed by individual insurance management agreements entered into

between each of the above four companies and Lingard. The Company and Gard M&E have entered into an insurance services agreement with Gard (Singapore) Pte. Ltd. where Gard (Singapore) Pte. Ltd. is performing certain day-to-day operational functions for the companies' branches in Singapore.

Amounts in USD 000's	Insurance services invoiced	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Lingard	66,057	60,493
Gard (Singapore) Pte. Ltd.	3,246	3,075



# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 3 - Intra-group transactions continued

#### Insurance agency agreements

Lingard in its capacity as insurance manager of the Company and Gard M&E has entered into insurance agency agreements with Gard AS and its subsidiaries. Gard AS is the general agent of the Norwegian branches of the Company and Gard M&E, whereby Gard AS is delegated authority as an agent and insurance intermediary to perform claims handling and underwriting functions on behalf of the two Bermuda based risk carriers.

A similar agency agreement has been entered into between Gard Norway and Gard M&E Europe as the principal and Gard AS as the agent.

Insurance agency agreements have been concluded between Lingard and each of the subsidiaries of Gard AS for the purpose of sub-delegating certain insurance intermediary functions to regional offices in Finland, Greece, Hong Kong, Singapore, Japan, the United Kingdom and the United States of America.

#### Loan agreement

The Company has entered into loan agreements with AS Assuransegården and Gard AS.

Amounts in USD 000's	Loan balance	
	As at 20.02.19	As at 20.02.18
AS Assuransegården (borrower)	12,332	13,520
Gard AS (borrower)	46,635	27,981
	Interest received	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18
AS Assuransegården	200	186
Gard AS	958	347

#### Dividends and capital contributions

Amounts in USD 000's	Dividends received	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Gard M&E	45,000	0
Lingard	4,750	3,000
Hydra	9,162	52,172
Safeguard	512	0
	Repayment of capital contribution	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Safeguard	1,995	0

### Note 4 - Gross written premium by geographical areas

Amounts in USD 000's	Parent company		Consolidated accounts	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18
EEA	138,499	145,574	378,827	324,608
Norway	105,847	96,537	117,200	114,253
Other areas	109,010	102,924	263,808	257,594
<b>Total gross written premium</b>	<b>353,356</b>	<b>345,035</b>	<b>759,835</b>	<b>696,455</b>

The geographical split is made based on the location of the individual Member or client.

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 5 - Estimated deferred call/last instalment

These accounts are prepared on the basis of a Board of Directors' resolution of calling a deferred call of 12.5 per cent in respect of the 2018 policy year (financial year ending 20 February 2019). The original estimated deferred call was 25 per cent. The deferred call for the 2017 policy year (financial year ending 20 February 2018) was reduced to nil per cent from 25 per cent.

The reduction in deferred call for gross written premium amounts to USD 38.4 million (financial year ending 20 February 2018 USD 78.8 million).

On an estimated total call basis (ETC) the gross written premium for the financial year ending 20 February 2019 is USD 797.9 million (financial year ending 20 February 2018 USD 775.2 million).

From 21 February 2019 Gard has changed the terminology from deferred call to last instalment to better explain the effect of a

reduction. If this had been implemented in 2018 the above note description would change to:

*"These accounts are prepared on the basis of a Board of Directors' resolution of a 10 per cent reduction in agreed estimated total call (ETC) in respect of the 2018 policy year (financial year ending 20 February 2019). The original estimated last instalment of 20 per cent will be reduced to 10 per cent. The last instalment for the 2017 policy year (financial year ending 20 February 2018) was reduced to nil per cent from 20 per cent."*

*The reduction in last instalment amounts to USD 38.4 million (financial year ending 20 February 2018 USD 78.8 million). On ETC basis the gross written premium for the financial year ending 20 February 2019 is USD 797.9 million (financial year ending 20 February 2018 USD 775.2 million)."*

### Note 6 - Technical result and technical provisions

#### Accounting policy

##### Premiums

Premiums are based on the insurance contracts where one party (the insurer) has accepted a significant risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Premiums are recognised over the insurance policy period. A deferred call/last instalment for P&I business for the accounting year is subject to approval by the Board of Directors in the following year, but is included as revenue in the accounts for the current year. Supplementary calls for P&I business may be charged to Members for previous policy years.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date.

Unearned premiums are calculated on a daily pro-rata basis. The proportion attributable to subsequent periods is deferred as gross premium reserve.

##### Reinsurance premiums

Reinsurance premiums are recognised as an expense over the underlying policy period.

##### Claims expenses

Expenses regarding incurred claims and other administrative expenses are recognised in the period they are incurred. Paid claims include an allocated portion of both direct and indirect claims handling cost.

Amounts in USD 000's	Parent company			Consolidated accounts		
	P&I	M&E	Total	P&I	M&E	Total
			21.02.18 to 20.02.19			21.02.18 to 20.02.19
<b>Technical result</b>						
Gross written premium	353,356	0	353,356	481,129	278,707	759,835
Gross earned premium	353,358	0	353,358	481,130	253,786	734,916
Ceded reinsurance	(229,740)	0	(229,740)	(102,296)	(51,412)	(153,708)
<b>Earned premium for own account</b>	<b>123,618</b>	<b>0</b>	<b>123,618</b>	<b>378,834</b>	<b>202,374</b>	<b>581,208</b>
<b>Claims incurred, gross</b>						
Incurred this year	392,540	0	392,540	486,423	262,507	748,930
Incurred previous years	(41,081)	0	(41,081)	(101,438)	(56,130)	(157,568)
<b>Total claims incurred, gross</b>	<b>351,460</b>	<b>0</b>	<b>351,460</b>	<b>384,985</b>	<b>206,377</b>	<b>591,362</b>
Reinsurers' share of gross incurred claims	(196,795)	0	(196,795)	(46,447)	(7,822)	(54,269)
<b>Claims incurred for own account</b>	<b>154,665</b>	<b>0</b>	<b>154,665</b>	<b>338,538</b>	<b>198,555</b>	<b>537,093</b>

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 6 - Technical result and technical provisions continued

#### Accounting policy

Technical provisions are calculated in accordance with the regulations for annual accounts for insurance companies.

#### Gross premium reserve

The gross premium reserve is amortised over the risk period and is calculated and accounted for in the balance sheet as a provision for the part of premium written that exceeds the end of the financial year. Changes in the provision are charged to the income statement.

#### Gross claims reserve

The gross claims reserve comprises estimates of the expected remaining exposure from claims that have been reported to the Company (RBNS), and from claims that have been incurred, but which have not yet been reported (IBNR).

Provisions for reported claims are made by assessing the liability of each claim. Actuarial methods are used in estimating the total cost

of outstanding claims. The claim provisions have not been discounted.

In accordance with the Norwegian regulations for insurance companies provisions for internal claims handling expenses (unallocated loss adjustment expenses, or ULAE) and binary events are included in the 'Gross claims reserve'.

#### Insurance contract liabilities

Insurance contract liabilities are the main items in the balance sheet based upon judgements and estimates. Estimates have to be made both for the expected total cost of claims reported and for the expected total cost of claims incurred, but not reported, at the balance sheet date. Standard actuarial methods are used in estimating the total cost of outstanding claims. The actuarial method uses historical data as one of the elements in the model to estimate future claims costs. It can take a significant period of time before the ultimate claims cost can be established with certainty.

Amounts in USD 000's	P&I	Parent company As at 20.02.19		P&I	Consolidated accounts As at 20.02.19	
		M&E	Total		M&E	Total
<b>Technical provisions gross</b>						
Provisions, at the beginning of the year	769,979	0	769,979	1,038,912	299,355	1,338,266
Claims paid	(274,493)	0	(274,493)	(344,800)	(175,182)	(519,982)
Claims incurred - gross this year	392,540	0	392,540	486,423	262,507	748,930
Claims incurred - gross previous years	(41,081)	0	(41,081)	(101,438)	(56,130)	(157,568)
Foreign currency adjustment	0	0	0	0	0	0
<b>Provisions, at the end of the year</b>	<b>846,945</b>	<b>0</b>	<b>846,945</b>	<b>1,079,096</b>	<b>330,550</b>	<b>1,409,646</b>
Reinsurers' share of claims provision	(492,279)	0	(492,279)	(195,450)	(62,084)	(257,535)
<b>Provisions net, at the end of the year</b>	<b>354,667</b>	<b>0</b>	<b>354,667</b>	<b>883,646</b>	<b>268,465</b>	<b>1,152,111</b>
Provision for unearned premiums, gross	29	0	29	125	140,715	140,840
Reinsurers' share of premium provision	(41)	0	(41)	(62)	(15,003)	(15,065)
<b>Provision for unearned premiums, net</b>	<b>(12)</b>	<b>0</b>	<b>(12)</b>	<b>63</b>	<b>125,712</b>	<b>125,775</b>
The Company is a member of the International Group of P&I Clubs.						
Gross technical provision regarding Pooling Agreement	(116,591)	0	(116,591)	(141,308)	0	(141,308)
Net technical provision regarding Pooling Agreement	(54,346)	0	(54,346)	(87,026)	0	(87,026)
<b>Provision for outstanding claims</b>						
Technical provision gross	846,945	0	846,945	1,079,096	330,550	1,409,646
Technical provision net	354,667	0	354,667	883,646	268,465	1,152,111

Provided guarantees outside cover, not recognised in the balance sheet, amount to USD 4.0 million as at 20 February 2019 (USD 4.5 million as at 20 February 2018).

Sensitivity analysis has been performed in order to evaluate how sensitive gross claims reserve is dependent on the actuarial methods applied. The Company applied the following methods:

Development factor method, Bornhuetter Ferguson, Apriori reduced method and Benktander. Based on these methodologies the gross claim reserve for the group ranges between USD 1,402 million and USD 1,417 million. The claim reserves for the parent company ranges between USD 843 million and USD 851 million.

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 7 - Insurance related expenses and number of staff

#### Accounting policy

Insurance related expenses for own account consist of broker and agent commissions, sales and administrative expenses, less commission received on ceded reinsurance premiums. Sales expenses are recognised in the period in which they are incurred.

The administrative expenses and commission received are expensed over the underlying policy period.

Insurance related expenses are accounted for in the period they are incurred.

Amounts in USD 000's	Parent company		Consolidated accounts	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18
<b>Acquisition costs and commissions</b>				
Sales related salaries and wages	0	0	26,300	22,815
Other acquisition costs	0	0	17,458	17,928
Insurance intermediary	22,767	20,091	0	0
Agents' commission	22,986	21,267	48,281	46,491
Commission received	(43,463)	(38,789)	(10,820)	(7,797)
<b>Insurance related expenses for own account</b>	<b>2,291</b>	<b>2,569</b>	<b>81,218</b>	<b>79,437</b>
<b>Number of staff</b>	<b>0</b>	<b>0</b>	<b>520</b>	<b>485</b>

#### Remuneration to Group Leadership Team, Board of Directors and Committees

Amounts in USD 000's	Salary * inc. bonus*	Benefits in kind*	Total	Loan balance
<b>Group Leadership Team</b>				
Rolf Thore Roppestad (CEO)	796	82	879	24
Svein Buvik	318	22	340	0
Bjørnar Andresen	417	45	462	345
Steinar Bye	415	19	434	0
Kristian Dalene	335	2	337	82
Kjetil Eivindstad	385	40	424	36
Christen Guddal	355	33	388	0
Line Dahle	265	2	267	199
Hildegunn Danielsen	219	19	238	0
Lars Lislegard-Bækken	170	3	173	165
Torunn Biller White	75	1	76	0
Christopher Mackrill	211	2	213	0
<b>Total</b>	<b>3,960</b>	<b>269</b>	<b>4,229</b>	<b>850</b>

\* All figures are excluding social security costs.

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 7 - Insurance related expenses and number of staff continued

The table below provides information regarding payments made in the financial year 2019 to members of the Board of Directors within the group. Remuneration relating to the financial year 2019, but not yet paid, is accrued for in the accounts.

Amounts in USD 000's	Consolidated accounts			Total remuneration
	Board remuneration	Board committee remuneration	Board remuneration other group companies	
<b>Members of the Board of Directors</b>				
Morten W. Høegh (Chairman from 21.6.2018)	25	15	5	45
Michael Lykiardopulo (Deputy Chariman from 21.6.2018)	20			20
Bengt Hermelin (Chairman to 21.6.2018)	30	8	20	58
Kenneth Hvid (Deputy Chairman to 21.6.2018)	20	0	0	20
Ian Beveridge (Member)	20	38	30	88
K. C. Chang (Member)	20			20
Trond Eilertsen	20	30	83	133
Herbjørn Hansson (Member)	20	5		25
Hans Peter Jebsen (Member)	20	5		25
Timothy C. Faries	20		5	25
Carl-Johan Hagman (Member)	20	15		35
Halvor Ribe (Member)	20	10		30
Jane Sy (Member)	20	15	52	87
Jan-Eyvin Wang (Member)	20	5		25
Konstaninos Gerapetritis (Member)	20			20
Yngvild Asheim (Member)	20	23	30	73
Nils Aden (Member)	20	15	42	77
Stephen Knudtzon	20	10		30
Ian Blackley (Member)	20			20
Rajalingam Subramaniam (Member)	20			20
Takaya Uchida (Member)	20			20
Are Solum (Employee representative)			12	12
Anne Glestad Lech (Employee representative)			12	12
Erika Markussen (Employee representative)			12	12
<b>Total</b>	<b>435</b>	<b>193</b>	<b>303</b>	<b>931</b>

Some of the insurance intermediaries offer their employees (minimum 50 per cent position) mortgage loans, secured by real estate. The loans have a rate of interest according to the interest set by the Tax Ministry in Norway and the repayment period is before retirement age.

The CEO has a remuneration guarantee that comes into force if the Board should ask him to leave his position. The remuneration guarantee gives him 12 months' salary in addition to a contractual six months' notice period.

The majority of the Group Leadership Team (GLT) and certain key personnel have a pension scheme that gives them the right to retire at 60 years of age and covers income included and above 12 times the base amount (see note 20 for definition of base amount). The full pension requires a thirty year accrual period in Gard, or it will be reduced accordingly. The accounting expense for the pension benefits earned in the period are for Roppestad (USD 0.5 million), Buvik (USD 0.2 million), Andresen (USD 0.3 million), Bye

(USD 0.3 million), Dalene (USD 71 thousand), Guddal (USD 0.2 million), Dahle (USD 21 thousand), Mackrill (USD 21 thousand), Danielsen (USD 21 thousand), Lislegard-Bækken (USD 21 thousand) and White (USD 21 thousand).

Gard P. & I. (Bermuda) Ltd. has given a collective bonus promise to all employees within the group including the CEO. A bonus will be paid if predefined targets are met. Members for GLT and other Key Employees, as defined in the legislation, are participating in the collective bonus scheme subject to certain adjustments required in the new Finance Institution Act of 2015 (Finansforetaksloven). The bonus will be paid through the companies where the employees work and refunded by Gard P. & I. (Bermuda) Ltd. A maximum possible bonus is 20 per cent of gross salary. For all employees, excluding GLT and other Key Employees, no bonus is expected to be paid for the year to 20 February 2019.



# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 7 - Insurance related expenses and number of staff continued

The key features of the special terms for members of GLT and Key Employees can be summarized as follows:

1. The maximum bonus payable to members of GLT and other Key Employees shall be reduced to 80 per cent of the bonus payable to employees in general under the collective scheme as outlined above.
2. The payment of a proportion of the bonus triggered by the collective scheme under (1) above shall be deferred for a

period of 39 months from the expiry of the financial year the bonus is linked. The payment after three years of the deferred component is subject to some further terms and conditions, including defined financial performance target for the three years period.

3. An individual component based on an individual assessment conducted by the CEO in consultation with the Chairman of the Executive Committee of Gard P. & I. (Bermuda) Ltd.

Amounts in USD 000's	Parent company		Consolidated accounts	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18

#### Remuneration auditor

Auditing fee	385	281	1,206	921
Tax advising	0	0	170	133
Non audit services	0	0	107	75
<b>Total auditors' fee</b>	<b>385</b>	<b>281</b>	<b>1,483</b>	<b>1,129</b>

Amounts in USD 000's	Parent company		Consolidated accounts	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18

#### Remuneration to related parties

Wikborg, Rein & Co.	0	0	260	236
Advokatfirmaet Thommesen AS	0	0	131	13
Appleby (Bermuda) Limited	15	20	28	21
<b>Total remuneration related parties</b>	<b>15</b>	<b>20</b>	<b>418</b>	<b>269</b>

Partners in the companies Wikborg, Rein & Co, Advokatfirmaet Thommesen AS and Appleby are Board members of the group. VAT is included in the fees specified above.

Amounts in USD 000's	Parent company		Consolidated accounts	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18

#### Net operating expenses

Bad debt	33,743	531	807	1,424
Service cost	69,304	63,568	0	0
Allocated to claims handling and acquisition costs	(70,012)	(62,845)	0	0
Other operating expenses	21,673	2,657	62,670	8,680
<b>Other insurance related expenses</b>	<b>54,708</b>	<b>3,911</b>	<b>63,477</b>	<b>10,103</b>

Included in other operating expenses are also revenues related to non-insurance activities.

The Executive Committee of the parent company Gard P. & I. (Bermuda) Ltd. has in its power resolved to waive a loan granted to finance an IT project. In the loan agreement, Gard P. & I. (Bermuda) Ltd. has agreed to waive the loan given to Gard AS if the contract with the software vendor should be terminated. The contract with the software vendor has been terminated after the balance sheet date and it has further been concluded that a provision should be made to reflect impaired project costs capitalized up until the termination date and the estimated cost of termination.

The loan given covers both the capitalized cost of the project up to the balance sheet date and the provision for capitalized costs and terminations costs incurred after the balance sheet date. As a result, a provision for bad debt has been made for the entire outstanding loan balance as at 20 February 2019 of USD 32.7 million. In addition, a provision of USD 19.1 million has been made to provide for increase in loan balance post balance sheet date. The provision is included in Other operating expenses above.

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 8 - Non-technical items

#### Accounting policy

Other income and expenses are accounted for in the period they are incurred.

Amounts in USD 000's	Parent company		Consolidated accounts	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18
<b>Interest and similar income</b>				
Interest income	(3)	71	1,741	651
Income financial investments held for trading (portfolio investments)	1,010	12,597	2,327	35,832
Foreign exchange gain/(loss)	(4,171)	328	(7,681)	6,442
<b>Total interest and similar income/(expenses)</b>	<b>(3,163)</b>	<b>12,995</b>	<b>(3,613)</b>	<b>42,924</b>

### Note 9 - Tax

#### Accounting policy

The tax expense consists of tax payable and changes in deferred tax.

Deferred tax/tax asset of the subsidiaries is calculated on all differences between the book value and the tax value of assets and liabilities. Deferred tax is calculated at the nominal tax rate of temporary differences and the tax effect of tax losses carried forward at the tax rate at the end of the accounting year. Changes in tax rates are accounted for when the new rate has been

approved and changes are presented as part of the tax expense in the period the change has been made. A deferred tax asset is recorded in the balance sheet, when it is more likely than not that the tax asset will be utilised.

Based on changes in tax regulations approved by the Norwegian Ministry of Finance 20 December 2018, the Norwegian branches have changed their basis for tax calculation to ordinary corporate tax. For previous years the Norwegian branches were liable to pay income tax based on gross earned premiums.

#### Taxes are calculated as follows

Amounts in USD 000's	Parent company		Consolidated accounts	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18
<b>Basis for income tax expense, changes in deferred tax and tax payable</b>				
Gross earned premiums as basis for taxable income (3 per cent of revenue)	0	8,319	0	12,180
Total result as basis for tax calculation	(54,614)	0	(84,663)	18,504
<b>Basis for calculating tax</b>	<b>(54,614)</b>	<b>8,319</b>	<b>(84,663)</b>	<b>30,684</b>
Permanent differences	(3,741)	0	774	(11,904)
Pension charged directly to equity	0	0	(295)	(3,179)
<b>Basis for the tax expense for the year</b>	<b>(58,356)</b>	<b>8,319</b>	<b>(84,184)</b>	<b>15,601</b>
Change in temporary differences	1,694	0	(35,829)	(3,158)
<b>Basis for payable taxes in the income statement</b>	<b>(56,662)</b>	<b>8,319</b>	<b>(120,013)</b>	<b>12,443</b>
Change in (utilisation of) tax losses carried forward	56,662	0	39,166	3,232
<b>Taxable income (basis for payable taxes in the balance sheet)</b>	<b>0</b>	<b>8,319</b>	<b>(80,847)</b>	<b>15,675</b>

#### Income tax expenses

Tax payable	0	2,172	5,413	6,260
Tax correction earlier year	(4)	(27)	(515)	1,840
Change in deferred tax	(14,589)	0	(23,631)	645
Paid foreign withheld tax	0	0	74	174
<b>Tax expenses ordinary result</b>	<b>(14,593)</b>	<b>2,145</b>	<b>(18,659)</b>	<b>8,918</b>

#### Income tax payable

Tax at the beginning of the year	3,186	4,409	4,567	6,613
Tax payable related to the year	0	2,172	5,363	3,605
Tax paid during the year	(2,018)	(3,537)	(2,790)	(8,177)
Tax correction earlier year	0	0	(63)	2,331
Exchange adjustments	(178)	142	(174)	195
<b>Tax payable at the end of the year</b>	<b>991</b>	<b>3,186</b>	<b>6,903</b>	<b>4,567</b>

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 9 - Tax continued

Amounts in USD 000's	Parent company		Consolidated accounts	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18
<b>Deferred tax/tax asset</b>				
<b>Specification of tax effect resulting from temporary differences</b>				
Pension obligations	0	0	34,131	36,786
Portfolio investments	0	0	(5,319)	2,067
Equipment	0	0	41,259	1,904
Tax loss carried forward	56,662	0	114,827	88,592
Retained earnings	0	0	(101,659)	(123,905)
Other temporary differences	1,694	0	17,781	1,571
<b>Total temporary differences</b>	<b>58,356</b>	<b>0</b>	<b>101,020</b>	<b>7,015</b>
<b>Deferred tax asset, 25 per cent of total temporary differences</b>	<b>14,589</b>	<b>0</b>	<b>25,255</b>	<b>1,763</b>

As a company organised under the laws of Bermuda, the Company is not subject to taxation in Bermuda, as Bermuda does not impose taxation on receipts, dividends, capital gains, gifts or net income.

In the event that such taxes are levied, the Company has received an assurance from the Bermuda government to be exempted from all such taxes until 28 March 2035.

Amounts in USD 000's	Parent company		Consolidated accounts	
	21.02.18 to 20.02.19	21.02.17 to 20.02.18	21.02.18 to 20.02.19	21.02.17 to 20.02.18
<b>Reconciliation of the tax expense</b>				
Basis for calculating tax	(54,614)	8,319	(36,178)	15,675
<b>Calculated tax 25 per cent</b>	<b>(13,654)</b>	<b>2,080</b>	<b>(9,045)</b>	<b>3,919</b>
Tax expense	(14,593)	2,145	(18,659)	8,918
<b>Difference</b>	<b>939</b>	<b>(65)</b>	<b>9,614</b>	<b>(4,999)</b>
<b>The difference consists of:</b>				
Changes in temporary differences not subject to deferred tax	935	0	12,632	(96)
Tax regarding tax audit earlier year	4	0	(486)	(2,471)
Differences related to different tax rates within the group	0	0	(760)	(2,445)
Other differences	0	(65)	(1,772)	13
<b>Sum explained differences</b>	<b>939</b>	<b>(65)</b>	<b>9,614</b>	<b>(4,999)</b>

### Note 10 - Intangible assets

#### Accounting policy

Intangible assets relate to key software used in the group's operation. External cost of acquiring and implementing software as well as employee costs directly attributable to implementation are

capitalized. Amortisation is charged to comprehensive income on a straight-line basis over the estimated useful life of each intangible asset, starting from the point at which the asset is ready for use.

Amounts in USD 000's	Consolidated accounts	
	As at 20.02.19	As at 20.02.18
<b>Developed software at cost</b>		
Costs at the beginning of the year	28,186	8,220
Net additions/(disposals)	23,039	19,452
Exchange adjustments	(2,404)	514
<b>Costs at the end of the year</b>	<b>48,822</b>	<b>28,186</b>
Depreciation and impairment at the beginning of the year	7,611	6,296
Depreciation	196	921
Impairment	42,085	0
Exchange adjustments	(2,349)	394
<b>Depreciation at the end of the year</b>	<b>47,543</b>	<b>7,611</b>
<b>Net book value at the end of the year</b>	<b>1,279</b>	<b>20,575</b>
Amortisation period		3-5 years
Amortisation type		linear

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 10 - Intangible assets continued

In April 2019, a decision was made to terminate the contract with a software vendor for an IT project. Following the decision to terminate, the capitalized costs related to that IT project no longer meet the recognition criteria for intangible assets. Consequently, intangible assets amounting to USD 42 million as at 20 February 2019 were deemed to be impaired. As circumstances leading up to the decision to terminate existed on or before 20 February 2019, a provision has been made to reflect impaired project costs capitalized up until the termination date and the estimated cost of

termination, amounting to USD 12 million. The total charge made to the income statement related to impairment and provision amounted to USD 54 million. The net charge after tax is USD 40 million due to a deferred tax. This deferred tax will be reversed in the next financial year as Gard P. & I. (Bermuda) Ltd. has agreed to waive the repayment of a loan given to finance the IT project. The loan amount match the impairment and the provision made related to the project.

### Note 11 - Property and plant used in operation

#### Accounting policy

Property, plant and equipment, notes 11 and 12, is capitalised and depreciated linearly over its estimated useful life. Costs for maintenance are expensed as incurred, whereas costs for improving and upgrading property plant and equipment are

added to the acquisition cost and are depreciated with the related asset. If the carrying value of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount.

Amounts in USD 000's	Real estate	Property, plant	Consolidated accounts
	As at 20.02.19	As at 20.02.19	Total As at 20.02.19
Costs at the beginning of the year	22,344	16,839	39,183
Net additions/(disposals)	(664)	819	155
Exchange adjustments	(1,920)	(1,475)	(3,395)
<b>Costs at the end of the year</b>	<b>19,760</b>	<b>16,183</b>	<b>35,943</b>
Depreciation at the beginning of the year	10,649	3,560	14,208
Depreciation charge for the year	147	180	327
Exchange adjustments	(914)	(308)	(1,222)
<b>Depreciation at the end of the year</b>	<b>9,882</b>	<b>3,432</b>	<b>13,313</b>
<b>Net book value at the end of the year</b>	<b>9,879</b>	<b>12,751</b>	<b>22,630</b>

Amounts in USD 000's	Real estate	Property, plant	Consolidated accounts
	As at 20.02.18	As at 20.02.18	Total As at 20.02.18
Costs at the beginning of the year	20,984	16,562	37,547
Net additions/(disposals)	720	(773)	(53)
Exchange adjustments	640	1,049	1,689
<b>Costs at the end of the year</b>	<b>22,344</b>	<b>16,839</b>	<b>39,183</b>
Depreciation at the beginning of the year	6,311	3,541	9,852
Depreciation charge for the year	372	150	522
Impairment	3,579	(363)	3,216
Exchange adjustments	387	232	619
<b>Depreciation at the end of the year</b>	<b>10,649</b>	<b>3,560</b>	<b>14,208</b>
<b>Net book value at the end of the year</b>	<b>11,696</b>	<b>13,279</b>	<b>24,975</b>
Amortisation period	67 years	5-20 years	
Amortisation type	linear	linear	

Rent included in the consolidated accounts is charged to Comprehensive income in the period the offices are used. Any remaining rental liabilities are not included in the balance sheet. Rental liabilities amount to USD 18.1 million as at the balance

sheet date (USD 6.9 million as at 20 February 2018). Total costs regarding rent in the consolidated account amount to USD 4.6 million (USD 4.0 million as at 20 February 2018).

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 12 - Equipment

Amounts in USD 000's	Parent company		Consolidated accounts	
	Art As at 20.02.19	Art	Equipment	Total As at 20.02.19
Acquisition costs at the beginning of the year	1,356	4,411	15,126	19,537
Net additions/(disposals)	0	(41)	1,692	1,651
Exchange adjustments	0	7	(1,159)	(1,152)
<b>Costs at the end of the year</b>	<b>1,356</b>	<b>4,377</b>	<b>15,659</b>	<b>20,036</b>
Depreciation at the beginning of the year	695	1,462	11,915	13,377
Depreciation charge for the year	0	0	(37)	(37)
Impairment	0	0	0	0
Exchange adjustments	0	12	(941)	(929)
<b>Depreciation at the end of the year</b>	<b>695</b>	<b>1,474</b>	<b>10,937</b>	<b>12,411</b>
<b>Net book value at the end of the year</b>	<b>661</b>	<b>2,903</b>	<b>4,722</b>	<b>7,624</b>

Amounts in USD 000's	Parent company		Consolidated accounts	
	Art As at 20.02.18	Art	Equipment	Total As at 20.02.18
Acquisition costs at the beginning of the year	1,356	4,383	13,669	18,052
Net additions/(disposals)	0	0	578	578
Exchange adjustments	0	28	880	907
<b>Costs at the end of the year</b>	<b>1,356</b>	<b>4,411</b>	<b>15,126</b>	<b>19,537</b>
Depreciation at the beginning of the year	695	1,439	10,451	11,889
Depreciation charge for the year	0	0	779	779
Impairment	0	0	0	0
Exchange adjustments	0	23	686	709
<b>Depreciation at the end of the year</b>	<b>695</b>	<b>1,462</b>	<b>11,915</b>	<b>13,377</b>
<b>Net book value at the end of the year</b>	<b>661</b>	<b>2,949</b>	<b>3,211</b>	<b>6,159</b>

Amortisation period 3-5 years  
Amortisation type linear

### Note 13 - Investments in subsidiaries

#### Accounting policy

Investments in the subsidiaries are valued at the lower of cost and fair value in the parent company accounts. The investments are valued as cost of the shares in the subsidiary, less any impairment

losses. An impairment loss is recognised if the impairment is not considered temporary. Impairment losses are reversed if the reason for the impairment loss disappears in a later period.

Amounts in USD 000's	Ownership	Voting share	Place of office	Share capital	Cost price USD As at 20.02.19	
AS Assuransegården	100%	100%	Norway	NOK	22,220	21,095
Gard AS	100%	100%	Norway	NOK	30,000	70,932
Gard Marine & Energy Limited	100%	100%	Bermuda	USD	190,000	197,737
Gard Reinsurance Co Ltd	100%	100%	Bermuda	USD	150,000	295,000
Hydra Insurance Company Ltd. (Gard's cell)	100%	100%	Bermuda	USD	7,698	7,698
Lingard Limited	100%	100%	Bermuda	USD	900	900
Safeguard Guarantee Company Ltd.	100%	100%	Bermuda	USD	5	1,931
<b>Total</b>						<b>595,294</b>



# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 14 - Financial investments at fair value through profit or loss

#### Accounting policy

##### Classification

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and held to maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets at initial recognition.

##### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivative financial investments are also categorised as held for trading.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as receivables and payables in the balance sheet.

##### *Held-to-maturity financial assets*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity, other than:

- Those that the group upon initial recognition designates as at fair value through profit or loss;
- Those that meet the definition of loans and receivables.

##### Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans, receivables and held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Unrealised gains or losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'Change in unrealised gain/loss on investments' in the period in which they arise. Realised gains or losses are presented within 'Gains on realisation of investments'. Dividends and interest income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of 'Interest and similar income' when the right to receive payments is established. Dividends from investments are recognised when the Company has an unconditional right to receive the dividend.

Dividend paid is recognised as a liability at the time when the General Meeting approves the payment of the dividend.

Interest on held-to-maturity investments is included in the consolidated statement of comprehensive income and reported

as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the consolidated statement of comprehensive income.

##### Offsetting financial investments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

##### Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the 'loans and receivables' category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Company may measure impairment on the basis of an investment's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

##### Determination of fair value

The following describes the methodologies and assumptions used to determine fair values.

##### Financial investments at fair value through profit or loss

The fair value of financial assets classified as financial investments at fair value through profit or loss and the fair value of interest-bearing securities included is determined by reference to published price quotations in an active market. For unquoted financial assets the fair value has been estimated using a valuation technique based on assumptions that are supported by observable market prices.

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 14 - Financial investments at fair value through profit or loss continued

#### Assets for which fair value approximates carrying value

For financial assets and liabilities that have a short-term maturity, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

#### Fair value hierarchy

The Gard group uses the following hierarchy for determining and disclosing the fair value of financial investments by valuation technique.

#### Financial investments in Level 1

The fair value of financial investments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the last trade price (these investments are included in Level 1). US government bonds and other financial investments have been classified on Level 1 in the pricing hierarchy.

#### Financial investments in Level 2

The fair value of financial investments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an investment are observable, the investment is included in Level 2.

Investments listed in the following have been classified on Level 2 in the pricing hierarchy:

- Equity funds and interest-bearing securities and funds where fair values are determined by using quoted market prices of the assets where the funds are invested.
- Equity futures, interest futures, currency futures, currency forwards and interest rate swaps where fair values are determined on the basis of the price development on an underlying asset or instrument. All derivatives are priced by standard and well recognized methods.

If one or more of the significant inputs is not based on observable market data, the investment is included in Level 3.

Specific valuation techniques used to value financial investments include:

- Quoted market prices or dealer quotes for similar investments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial investments.

Note that all of the resulting fair value estimates are included in Level 2 except for financial investments explained below.

#### Financial investments in Level 3

Level 3 includes securitised debt investments and investments in less liquid fund structures.

	Parent company As at 20.02.19				Parent company As at 20.02.18			
	Quoted market prices Level 1	Observable market data Level 2	Non observable market data Level 3	Total	Quoted market prices Level 1	Observable market data Level 2	Non observable market data Level 3	Total
Amounts in USD 000's								
<b>Financial investments</b>								
Equities and investment funds	0	193,648	32,379	226,027	0	229,275	1,482	230,758
Interest-bearing securities and funds	38,280	352,574	4,800	395,654	41,061	332,714	0	373,775
Financial derivative assets	0	0	0	0	0	812	0	812
Cash incl. in other financial investments	3	0	0	3	5,204	0	0	5,204
Other financial investments	0	0	0	0	8,111	0	0	8,111
<b>Total financial investments</b>	<b>38,282</b>	<b>546,222</b>	<b>37,179</b>	<b>621,683</b>	<b>54,376</b>	<b>562,801</b>	<b>1,482</b>	<b>618,660</b>
<b>Financial liabilities</b>								
Financial derivative liabilities	0	0	0	0	0	6,310	0	6,310
Financial liabilities incl. in other payables	0	0	0	0	0	0	0	0
<b>Total financial liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,310</b>	<b>0</b>	<b>6,310</b>

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 14 - Financial investments at fair value through profit or loss continued

Amounts in USD 000's	Consolidated accounts As at 20.02.19					Consolidated accounts As at 20.02.18			
	Quoted market prices	Observable market data	Non observable market data	Total	Quoted market prices	Observable market data	Non observable market data	Total	
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3		
<b>Financial investments</b>									
Equities and investment funds	0	499,908	105,128	605,036	0	606,970	47,625	654,595	
Interest-bearing securities and funds	114,520	1,355,673	9,600	1,479,793	94,307	1,356,831	0	1,451,139	
Financial derivative assets	0	0	0	0	0	3,186	0	3,186	
Cash incl. in other financial investments	8	0	0	8	37,038	0	0	37,038	
Other financial investments	111	0	0	111	14,240	0	0	14,240	
<b>Total financial investments</b>	<b>114,639</b>	<b>1,855,581</b>	<b>114,728</b>	<b>2,084,949</b>	<b>145,585</b>	<b>1,966,988</b>	<b>47,625</b>	<b>2,160,198</b>	
<b>Financial liabilities</b>									
Financial derivative liabilities	0	0	0	0	0	20,945	0	20,945	
Financial liabilities incl. in other payables	0	0	0	0	0	0	0	0	
<b>Total financial liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20,945</b>	<b>0</b>	<b>20,945</b>	

The majority of investments held are subfunds of the newly established Gard Unit Trust Fund, a legal fund structure established in Ireland. Holdings have moved from Gard Common Contractual Fund to Gard Unit Trust Fund during the year by redeeming and simultaneously subscribing into the new structure. Unrealised gains and losses of units held in the old fund structure have been realised and the new fund structure was launched with fresh cost values. Otherwise, no material changes to the investment profile or mandates managed within the Unit Trust Fund.

#### Equities and investment funds

Each subfund holds well diversified portfolios with different investment objectives, and the underlying holdings are common

stocks traded on regional stock exchanges. The group possesses only minority interests in quoted companies.

The group also has funds other than the Gard Unit Trust Fund that hold investments in direct property, alternatives and private debt.

#### Interest-bearing securities and funds

Funds classified as Interest-bearing securities and funds are predominantly invested in fixed income securities and money markets. There is also some exposure to floating rate loans and private debt.

Amounts in USD 000's	Investment profile	Currency	Parent company As at 20.02.19
<b>Equity funds</b>			
Gard Global Equity Fund II	Global equity	USD	33,019
Aberdeen Frontier Equity Fund	Frontier equity	USD	19,370
Gard Global Multifactor Equity Fund	Global equity	USD	11,978
Gard Global Impact Equity Fund	Global equity	USD	13,148
Gard Emerging Markets Equity Fund	Emerging market equity	USD	15,207
Specialized Investment Fund	Volatility option strategy	USD	100,926
CBRE Global Real Estate Fund	Global real estate	USD	30,430
Phoenix Global Real Estate Fund I	Global real estate	USD	1,949
<b>Total Equity funds</b>			<b>226,027</b>
<b>Total Equities and investment funds</b>			<b>226,027</b>
The part of Equity fund invested in quoted shares			92,722

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 14 - Financial investments at fair value through profit or loss continued

Amounts in USD 000's	Investment profile	Currency	Parent company As at 20.02.19
<b>Interest-bearing securities</b>			
US Treasury Bills	US Treasury bond	USD	19,267
<b>Total Interest-bearing securities</b>			<b>19,267</b>
<b>Interest-bearing funds</b>			
Gard Global Credit Bond Fund I	Global corporate bonds	USD	72,806
Gard Global Treasury Fund	Government debt	USD	54,826
CQS Credit Fund	Global multi asset credit	USD	51,922
Northern Trust Cash Fund	Money market US Dollar	USD	19,013
Gard Emerging Market Debt Fund	Emerging market debt	USD	44,512
Gard Global Bond Fund I	Global aggregate bonds	USD	128,508
Gard Private Debt Fund	Global Private debt	USD	4,800
<b>Total Interest-bearing funds</b>			<b>376,387</b>
<b>Total Interest-bearing securities and funds</b>			<b>395,654</b>

The group has an equity exposure of 15.9 per cent of its total investments.

Amounts in USD 000's	Investment profile	Currency	Consolidated accounts As at 20.02.19
<b>Equity funds</b>			
Gard Global Equity Fund II	Global equity	USD	86,171
Aberdeen Frontier Equity Fund	Frontier equity	USD	19,370
Bridgewater Pure Alpha Fund	Global tactical asset allocation	USD	112,471
Phoenix Global Real Estate Fund II	Global real estate	USD	42,319
Gard Global Multifactor Equity Fund	Global equity	USD	74,310
Gard Global Impact Equity Fund	Global equity	USD	44,692
Gard Emerging Markets Equity Fund	Emerging market equity	USD	61,969
Specialized Investment Fund	Volatility option strategy	USD	100,926
CBRE Global Real Estate Fund	Global real estate	USD	60,860
Phoenix Global Real Estate Fund I	Global real estate	USD	1,949
<b>Total Equity funds</b>			<b>605,036</b>
<b>Total Equities and investment funds</b>			<b>605,036</b>

The part of Equity fund invested in quoted shares 286,511

Amounts in USD 000's	Investment profile	Currency	Consolidated accounts As at 20.02.19
<b>Interest-bearing securities</b>			
US Treasury Bills	US Treasury bond	USD	42,039
<b>Total Interest-bearing securities</b>			<b>42,039</b>
<b>Interest-bearing funds</b>			
Gard Global Credit Bond Fund I	Global corporate bonds	USD	225,253
Gard Global Treasury Fund	Government debt	USD	346,169
CQS Credit Fund	Global multi asset credit	USD	188,224
Northern Trust Cash Fund	Money market US Dollar	USD	72,481
Gard Emerging Market Debt Fund	Emerging market debt	USD	111,807
Gard Global Bond Fund I	Global aggregate bonds	USD	484,221
Gard Private Debt Fund	Global Private debt		9,600
<b>Total Interest-bearing funds</b>			<b>1,437,754</b>
<b>Total Interest-bearing securities and funds</b>			<b>1,479,793</b>

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 15 - Financial risk

#### Risk management framework

The purpose of the risk management system is to ensure that material risks are managed in accordance with the Company's corporate objectives and risk-bearing capacity. The risk management system consists of the following components:

*Risk appetite and limits:* Overall Risk Appetite and Comfort Zone (target range for capitalisation) are defined in accordance with risk-bearing capacity and corporate objectives. This cascades into limits by risk type and legal entities. This forms the basis for all risk management, monitoring and reporting.

*Risk policies:* There are group policies describing the processes and procedures for managing material risk exposures. The purpose of the policies is to ensure consistent and adequate risk and capital management.

*Risk management cycle:* Material risks are identified, assessed regularly, managed proactively, monitored regularly and reported to the relevant responsible body.

#### Main financial risks

##### Market risk

Market risk arises from the investment activities and the sensitivity of liabilities to changes in market price. The sensitivity analysis of investments assets aims to illustrate the risk of economic losses resulting from deviations in the value of assets caused by changes in observable market prices differing from expected values. The five main market risks selected for testing of sensitivity due to price changes are;

##### Equity risk

The risk of economic losses resulting from deviations of market values of equities from expected values. The equity portfolio is well diversified, although with skewedness towards emerging markets and smaller companies compared to a global market capitalised benchmark. This is expected to generate a slightly higher return combined with higher volatility over time. The equity portfolio is being managed by a selection of specialist fund managers in which portfolios are partly hedged through a rolling equity index futures program. The sensitivity analysis for equity risk includes equities net of equity index derivatives.

##### Interest rate risk

The risk of economic losses resulting from deviations in actual interest rates from expected interest rates. The term structure of interest-bearing assets is broadly matched to the expected duration of the liabilities. The sensitivity analysis for interest-bearing securities instruments is testing the portfolio's interest rate sensitivity with a weighted average duration approach. Interest sensitive liabilities are not part of the analysis.

##### Alternatives risk

The risk that the actual return or performance relative to benchmark of investments due to active management decisions will be lower than expected. The sensitivity analysis for alternative risk is assigned to a global alternative fund which aims to generate excess return by tactically adjusting asset allocation across a variety of asset classes.

##### Real estate risk

The risk of economic losses resulting from deviations of actual values and/or income from real estate from those expected. The sensitivity analysis for real estate risk is performed on funds which represent the part that is strategically allocated to real estate.

##### Currency risk

The risk of economic losses resulting from actual foreign exchange rates differing from expected foreign exchange rates. Foreign currency exposures are assumed to be tightly matched across the balance sheet and managed with an emphasis on major currency exposures. Currency forward derivatives may also serve as an effective tool for mismatch adjustments. The sensitivity analysis for foreign currencies only applies to investments assets and illustrates the impact on values given changes in exchange rates against USD.

The table below splits the balance sheet into the major currencies USD, EUR and GBP, and remaining currencies are grouped into Other. Note that investments held as shares/units in various fund structures are reported in base currency. The split deviates from underlying currency exposure that is used as input in the enterprise risk models.



# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 15 - Financial risk continued

#### Currency split balance sheet

Amounts in USD 000's	Parent company		Consolidated accounts	
	As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
<b>Assets</b>				
USD	1,679,898	1,647,899	2,492,400	2,525,876
EUR	30,610	26,764	74,753	71,222
GBP	18,384	11,649	35,945	23,088
Other	153,037	144,238	255,660	246,940
<b>Total assets</b>	<b>1,881,928</b>	<b>1,830,550</b>	<b>2,858,758</b>	<b>2,867,126</b>
<b>Equity and liabilities</b>				
USD	1,560,474	1,547,221	2,149,084	2,170,367
EUR	155,632	131,040	270,491	222,859
GBP	113,254	103,235	145,289	158,405
Other	52,567	49,053	293,895	315,496
<b>Total equity and liabilities</b>	<b>1,881,928</b>	<b>1,830,550</b>	<b>2,858,758</b>	<b>2,867,126</b>
<b>Net asset exposure</b>				
USD	119,423	100,678	343,317	355,509
EUR	(125,022)	(104,276)	(195,738)	(151,637)
GBP	(94,870)	(91,586)	(109,344)	(135,316)
Other	100,469	95,185	(38,234)	(68,556)

#### Financial investments - sensitivity analysis

The analysis below is performed for reasonably possible movements in key market variables with all other variables held constant.

Amounts in USD 000's	Parent company		Consolidated accounts	
	As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
Impact on fixed income portfolio investments given an increase of 50 basis points	(5,128)	(4,304)	(20,066)	(16,389)
Impact on equity portfolio given a 10 per cent drop in quoted market prices	(12,855)	(11,196)	(31,941)	(34,258)
Impact on total investment portfolio given a change of 10 per cent in foreign exchange rates against USD	(15,078)	(16,421)	(48,290)	(41,812)
Impact on real estate portfolio given a 10 per cent drop in NAV	(3,238)	(1,586)	(10,513)	(6,144)
Impact on alternatives portfolio given a 10 per cent drop NAV	0	0	(11,247)	(10,859)

The sensitivity analysis assumes no correlation between equity price, property market and foreign currency rate risk. It also assumes that all other receivables and payables remain unchanged and that no management action is taken. The Gard group has no significant risk concentrations which are not in line with the overall investment guidelines set by the Company's Board of Directors. Any impact from risk tested in the table above is not, due to tax regulations, assumed to have any taxable impact.

#### Credit risk

The risk of economic losses resulting from the default of third parties, split into:

##### Credit default risk

The risk that actual credit losses will be higher than expected due to the failure of counterparties to meet their contractual debt obligation.

##### Credit spread risk

The risk of economic losses due to the difference in yield between a defined rating class bucket and treasury bills/bonds with the same duration.

##### Credit migration risk

The risk that a portfolio's credit quality will materially deteriorate over time, without allowing a re-pricing of the constituent loans to compensate the creditor for the higher default risk being undertaken.

##### Counterparty default risk

The main sources of counterparty default risk are reinsurers, cash deposits at banks, derivative counterparties, and receivables from policyholders.

The credit exposure on the reinsurance program is in line with the guidelines of only accepting reinsurers with an A- or higher rating. The group is, however, faced with BBB rating exposure through the IG Pooling agreement. Among the thirteen clubs, four have ratings of BBB or lower.

Banks and custodians are in line with the guidelines with a credit rating of at least A/stable.

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 15 - Financial risk continued

The group also has counterparty default risk over-the-counter (OTC) financial derivative positions. However, common risk mitigation techniques are exercised to minimise the default risk towards counterparties. The credit risk in respect of receivables is handled by policies and by close follow up. Outstanding receivables can be netted off against outstanding claims payments to reduce the risk of doubtful debts.

The tables below show the credit risk exposure as at 20 February 2019. Assets are classified according to the median rating amongst the three market leading providers, Standard & Poor's, Moody's and Fitch. Top rated assets are denoted with AAA rating and US long-term sovereign credit rating is equivalent to a AAA rating due to an applied median approach.

#### Credit risk exposure in balance sheet

Amounts in USD 000's	Parent company		Consolidated accounts	
	As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
<b>Interest-bearing securities and funds</b>				
AA	19,267	41,061	42,040	94,307
A	19,013	12,694	72,481	57,901
Not rated	357,374	320,020	1,365,273	1,298,930
<b>Total interest-bearing securities and funds</b>	<b>395,654</b>	<b>373,775</b>	<b>1,479,794</b>	<b>1,451,139</b>
<b>Financial derivative assets</b>				
A	0	812	0	3,186
<b>Total financial derivative assets</b>	<b>0</b>	<b>812</b>	<b>0</b>	<b>3,186</b>
<b>Other financial investments</b>				
A	3	13,316	119	51,277
<b>Total other financial investments</b>	<b>3</b>	<b>13,316</b>	<b>119</b>	<b>51,277</b>
<b>Reinsurers' share of gross claims reserve</b>				
AA	16,716	16,499	31,771	76,164
A	463,064	412,575	187,601	142,805
B	0	0	3,372	0
BBB	12,445	6,152	33,586	28,868
Not rated	54	0	1,205	3,215
<b>Total reinsurers' share of gross claims reserve</b>	<b>492,279</b>	<b>435,226</b>	<b>257,535</b>	<b>251,052</b>
<b>Receivables</b>				
AA	0	0	1,408	0
A	28,046	37,337	41,426	8,686
BBB	15	1,163	135	1,240
Not rated	34,789	10,452	195,241	165,614
<b>Total receivables</b>	<b>62,851</b>	<b>48,952</b>	<b>238,210</b>	<b>175,541</b>
<b>Cash and cash equivalents</b>				
AA	52,235	72,979	114,319	134,306
A	0	0	37,827	37,381
B	0	0	104	80
Not rated	0	0	15	13
<b>Total cash and cash equivalents</b>	<b>52,235</b>	<b>72,979</b>	<b>152,265</b>	<b>171,780</b>

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 15 - Financial risk continued

	Parent company		Consolidated accounts	
	As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
<b>Other financial assets presented in balance sheet*</b>				
A	11,899	9,779	24,944	23,605
Not rated	26,292	41,501	0	0
<b>Total other financial assets presented in balance sheet</b>	<b>38,191</b>	<b>51,280</b>	<b>24,944</b>	<b>23,605</b>

\* Includes loan to subsidiaries and other financial assets.

### Age analysis of receivables after provision for bad debt

Amounts in USD 000's	Parent company		Consolidated accounts	
	As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
Not due	57,478	43,775	211,502	136,488
0-60 days	1,343	1,834	12,806	28,896
61-90 days	825	460	2,630	1,701
Above 90 days	5,208	4,178	17,586	14,812
Provision for bad debt	(2,002)	(1,296)	(6,313)	(6,356)
<b>Total receivables</b>	<b>62,851</b>	<b>48,952</b>	<b>238,210</b>	<b>175,541</b>

### Impaired receivables

As at 20 February 2019 there are impaired receivables in the parent company of USD 2.0 million (20 February 2018 USD 1.3 million) and there are impaired receivables in the consolidated accounts of USD 6.6 million (20 February 2018 USD 6.6 million),

related to past due. No collateral is held as security for the impaired receivables, but the receivables can be deducted from future claim payments if any. Impairment allowance is included in net operating expenses.

### Analysis of provision for bad debt

Amounts in USD 000's	Parent company		Consolidated accounts	
	As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
Balance as at the beginning of the period	1,296	1,760	6,356	7,269
Provision for receivables impairment	1,213	745	1,397	1,433
Provision for loan impairment *	32,674	0	0	0
Receivables written off during the year as uncollectable	(362)	(996)	(624)	(2,064)
Unused amounts reversed	(144)	(230)	(805)	(320)
Exchange adjustment	0	16	(11)	38
<b>Balance as at the end of the period</b>	<b>34,677</b>	<b>1,296</b>	<b>6,313</b>	<b>6,356</b>

The creation and release of provisions for impaired receivables has been included in 'Other insurance related expenses' in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

\* See note 7 for further description of Provision for loan impairment.

### Liquidity risk

The risk that cash and other liquid assets are insufficient to meet financial obligations when they fall due. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries. Liquidity risk arises primarily due to the unpredictability of the timing of payment of insurance liabilities and the illiquidity of the assets held or when market depth is insufficient to absorb the required volumes of assets to be sold, resulting in asset sale at a discount. The risk is mitigated through a credit facility with Nordea Bank Abp filial i Norge and a cash pool agreement between Gard P. & I. (Bermuda) Ltd., Gard Marine & Energy

Limited, Gard AS and AS Assuransegården improves access to liquidity across the legal entities.

### Maturity profile

The following tables set out the maturity profile of liabilities combining amounts expected to be recovered within one year, between one and five years and more than five years.

The Gard group maintains highly marketable financial investments and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. This, combined with the credit facility and cash pool to meet liquidity needs, gives a presentation of how assets and liabilities have been matched.

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 15 - Financial risk continued

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Parent company	
				No maturity date	As at 20.02.19 Total
Gross claims reserve	276,132	487,384	83,430	0	846,945
Income tax payable	991	0	0	0	991
Payables and accruals	75,779	0	0	0	75,779
Other payables	67	0	0	0	67

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Parent company	
				No maturity date	As at 20.02.18 Total
Gross claims reserve	226,952	487,001	56,026	0	769,979
Income tax payable	3,186	0	0	0	3,186
Payables and accruals	72,638	0	0	0	72,638
Other payables	100	0	0	0	100

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Consolidated accounts	
				No maturity date	As at 20.02.19 Total
Gross claims reserve	486,294	808,776	114,575	0	1,409,646
Income tax payable	6,903	0	0	0	6,903
Payables and accruals	94,449	0	0	0	94,449
Other payables	11,272	0	0	0	11,272

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Consolidated accounts	
				No maturity date	As at 20.02.18 Total
Gross claims reserve	426,386	828,498	83,382	0	1,338,266
Income tax payable	4,567	0	0	0	4,567
Payables and accruals	92,664	0	0	0	92,664
Other payables	6,800	0	0	0	6,800

### Note 16 - Financial derivatives at fair value through profit or loss

#### Accounting policy

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Company does not practice hedge accounting.

#### Financial derivatives

Financial derivatives are integrated components in the investment philosophies and strategies of the Gard group's fund management. They are used for risk management, liquidity improvement, cost reduction and to optimise return within the guidelines set for the Gard group's investment management. The Gard group has implemented a derivative overlay programme whereby regional equity specialists are employed with mandates which have historically provided value creation from active management. The market exposure is then hedged out through equity futures contracts in order to maintain total equity market exposure within the allowed range, and simultaneously fixed income exposure is gained through interest rate swap contracts. The program was terminated during the year.

#### Investment guidelines

The key features of the Gard group's derivative guidelines are as follows:

The aggregate economic exposure of the group's investment portfolio may not exceed 100 per cent of the portfolio's market value, i.e., there must be no leverage or gearing of the portfolio.

#### Compliance monitoring

Compliance with the guidelines is monitored on an ongoing basis through the use of both internal and external resources. Even though the investment managers have internal risk analysis and compliance monitoring processes there is independent verification based on alternative sources of data. The global custodian is responsible for compliance monitoring and reporting both at the overall fund level and the individual portfolio level. The investment managers are also subject to a bi-annual independent assessment of investment processes and skills to ensure that, inter alia, risk management and compliance monitoring routines are satisfactory.

#### Valuation and reporting

All derivative investments are carried at independently sourced market values. Underlying contract values represent the value of the underlying gross commitments of all open contracts.

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 16 - Financial derivatives at fair value through profit or loss continued

#### Types of financial derivatives used during the financial year

##### Forward exchange contracts

A forward exchange contract is a contract between two parties whereby one party contracts to sell and the other party contracts to buy one currency for another, at an agreed future date, at a rate of exchange which is fixed at the time the contract is entered into.

##### Interest rate options

An option is a contract in which the writer of the option grants the buyer of the option the right to purchase from or sell to the writer a designated investment at a specific price within a specified period of time. An interest rate option can be written on cash investments or futures, and is used to manage the interest rate and volatility exposure of the portfolio. Written options generate gains in stable rate environments, but may create obligations to buy or sell underlying securities under greater rate movements. Purchased options are used to generate gains based on interest rate forecasts.

##### Interest rate futures

An interest rate futures contract is a standardised agreement between a buyer (seller) and an established exchange or its

clearing house in which the buyer (seller) agrees to take (make) delivery of a financial rate investment at a specified price at the end of a designated period of time.

##### Interest rate swaps

An interest rate swap is an agreement between two parties to exchange periodic interest payments. In the most common type of swap, one party agrees to pay the other party fixed-interest payments at designated dates for the life of the contract. This instrument is used to change interest rate risk by changing the cash flow of fixed rate bonds to adjustable rate bonds or vice versa.

##### Equity index futures

An equity index future contract is a standardised agreement between a buyer (seller) and an established exchange or its clearing house in which the buyer (seller) agrees to take (make) delivery of an amount based on an equity index at designated point in time.

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Total Notional 20.02.19	Parent company Fair value 20.02.19
<b>Type of derivatives</b>					
<b>Interest rate related</b>					
Futures	0	0	0	0	0
Swaps	0	0	0	0	0
<b>Net interest rate related</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity related contracts</b>					
Futures	0	0	0	0	0
<b>Net equity related</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Foreign currency related</b>					
Forward foreign exchange contracts	0	0	0	0	0
<b>Net foreign currency related</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net financial derivative liabilities</b>					<b>0</b>
Financial derivative assets					0
Financial derivative liabilities					0
<b>Net financial derivative liabilities</b>					<b>0</b>



# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 16 - Financial derivatives at fair value through profit or loss continued

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Total Notional 20.02.18	Parent company
					Fair value 20.02.18
<b>Type of derivatives</b>					
<b>Interest rate related</b>					
Futures	50,536	48,639	68,926	168,102	0
Swaps	56,232	42,232	16,334	114,798	(618)
<b>Net interest rate related</b>	<b>106,768</b>	<b>90,871</b>	<b>85,260</b>	<b>282,900</b>	<b>(618)</b>
<b>Equity related contracts</b>					
Futures	155,383	0	0	155,383	0
<b>Net equity related</b>	<b>155,383</b>	<b>0</b>	<b>0</b>	<b>155,383</b>	<b>0</b>
<b>Foreign currency related</b>					
Forward foreign exchange contracts	169,571	0	0	169,571	(4,881)
<b>Net foreign currency related</b>	<b>169,571</b>	<b>0</b>	<b>0</b>	<b>169,571</b>	<b>(4,881)</b>
<b>Net financial derivative liabilities</b>					<b>(5,499)</b>
Financial derivative assets					812
Financial derivative liabilities					(6,310)
<b>Net financial derivative liabilities</b>					<b>(5,499)</b>

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Total Notional 20.02.19	Consolidated accounts
					Fair value 20.02.19
<b>Type of derivatives</b>					
<b>Interest rate related</b>					
Futures	0	0	0	0	0
Swaps	0	0	0	0	0
<b>Net interest rate related</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity related contracts</b>					
Futures	0	0	0	0	0
<b>Net equity related</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Foreign currency related</b>					
Forward foreign exchange contracts	0	0	0	0	0
<b>Net foreign currency related</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net financial derivative liabilities</b>					<b>0</b>
Financial derivative assets					0
Financial derivative liabilities					0
<b>Net financial derivative liabilities</b>					<b>0</b>

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 16 - Financial derivatives at fair value through profit or loss continued

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Consolidated accounts	
				Total Notional 20.02.18	Fair value 20.02.18
<b>Type of derivatives</b>					
<b>Interest rate related</b>					
Futures	126,018	99,958	111,888	337,864	0
Swaps	137,227	108,355	46,334	291,916	(2,859)
<b>Net interest rate related</b>	<b>263,245</b>	<b>208,313</b>	<b>158,222</b>	<b>629,780</b>	<b>(2,859)</b>
<b>Equity related contracts</b>					
Futures	231,758	0	0	231,758	0
<b>Net equity related</b>	<b>231,758</b>	<b>0</b>	<b>0</b>	<b>231,758</b>	<b>0</b>
<b>Foreign currency related</b>					
Forward foreign exchange contracts	510,257	0	0	510,257	(14,899)
<b>Net foreign currency related</b>	<b>510,257</b>	<b>0</b>	<b>0</b>	<b>510,257</b>	<b>(14,899)</b>
<b>Net financial derivative liabilities</b>					<b>(17,758)</b>
Financial derivative assets					3,186
Financial derivative liabilities					(20,945)
<b>Net financial derivative liabilities</b>					<b>(17,758)</b>

### Note 17 - Receivables from direct insurance operations

Amounts in USD 000's	Parent company		Consolidated accounts	
	As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
Direct and received premium	11,066	22,506	20,685	32,122
Direct and received premium through broker	0	0	87,186	67,313
Accrued last instalment	24,590	7	38,045	6
Not closed premium	123	0	36,963	35,960
Claims related debtors, co-insurers	0	0	27,316	18,357
Provision for bad debts	(2,002)	(1,296)	(3,465)	(3,481)
<b>Receivables from direct insurance operations</b>	<b>33,778</b>	<b>21,218</b>	<b>206,730</b>	<b>150,277</b>

### Note 18 - Other receivables and other payables

Amounts in USD 000's	Parent company		Consolidated accounts	
	As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
<b>Other receivables</b>				
Other receivables	1	0	1,520	1,423
Other receivables from subsidiaries	0	238	0	0
Loan to employees	0	0	21,538	23,632
<b>Total other receivables</b>	<b>1</b>	<b>238</b>	<b>23,058</b>	<b>25,055</b>
<b>Other payables</b>				
Other payables	67	100	11,272	6,800
<b>Total other payables</b>	<b>67</b>	<b>100</b>	<b>11,272</b>	<b>6,800</b>

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 19 - Cash and cash equivalents

#### Accounting policy

Cash and cash equivalents include cash in hand and deposits held at call with banks, brokers and fund managers. In the balance sheet, cash and cash equivalents that relate to investment management is presented as other financial investments. All other cash is presented as cash and cash equivalents. In the cash flow statement, cash and cash equivalents do not include cash and cash equivalents presented as other financial investments.

#### Cash and cash equivalents

Cash and cash equivalents include restricted cash amounting to USD 26.9 million as at 20 February 2019 (USD 26.7 million as at 20 February 2018). The Company has a group account agreement and participates in a cash pool agreement. Both agreements are made with the Company's main bank, Nordea Bank Abp filial i Norge.

### Note 20 - Pensions

#### Accounting policy

The Gard group operates various pension schemes and employees are covered by pension plans, which comply with local laws and regulations in each country in which the group operates. The companies have a defined contribution plan and a closed defined benefit plan.

#### Pension obligations

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using a straight-line earnings method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in technical result.

For defined contribution plans, the companies pay contributions to privately administered pension insurance plans on a contractual basis. The companies have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### Pensions

The companies have entered into pension contracts with some former and current employees. These contracts are mainly financed directly through the companies operations. The subsidiaries have entered into various pension plans with both former and present employees.

The companies have collective pension agreements in place in accordance with the Norwegian Pension Act. As of 31 December 2015 the defined benefit plan was terminated for active

The group account agreement implies that the Company can make overdrafts on individual bank accounts as long as the Company's total bank deposit is positive.

The Company has an overdraft facility with Nordea Bank Abp filial i Norge for an amount of USD 40 million (USD 40 million as at 20 February 2018). Through the cash pool agreement, all the participating companies can make use of this overdraft facility. The cash pool agreement secures efficient use of the operating bank deposits through the companies' opportunities to make use of the overdraft facility on individual bank accounts accumulating up to USD 40 million in aggregate for the companies participating in the agreement. Each company participating in the cash pool agreement is jointly liable for the overdraft facility through unsecured guarantees.

employees, with the option for employees born in or before 1954 to remain in the previous defined benefit plan. All other active employees have been transferred to a defined contribution plan with effect of 1 January 2016, with contribution levels of 7 per cent from 0 – 12 G, and an additional 18.1 per cent from 7.1 – 12 G. G is a base rate used as the basis for calculating benefits. G is adjusted annually and is approved each year by the Norwegian parliament. The last time G was updated was in May 2018. As of 20 February 2019 G equals NOK 96,883 (USD 11,271). Retired and disabled employees were not subject to change and remain in the defined benefit plan. All employees hired after February 2009 are covered by the new levels in the defined contribution scheme.

The contribution plan as of 1 January covers a total of 340 employees, including four of the employees who made the active choice to be transferred. In the defined contribution plan one employee is disabled.

In relation to the defined benefit plan, 16 employees born in 1954 or earlier remain active members, 11 are partly or wholly disabled and 75 are retired.

In addition to the collective agreement, all employees can apply for a tariff based lifelong retirement pension (AFP) which the employee may start to draw from the age of 62. The AFP pension is partially financed by Gard AS.

The closed pension scheme for part of the Group Leadership Team, which provides coverage for an amount above 12 G as well as early retirement, is secured by an agreement with Norsk Tillitsmann Pensjon/Nordic Trustee. The obligation is secured through a pledge deposit on a bank account owned by Gard AS. The same solution is in place with respect to a compensation agreement for GLT members being transferred from the defined benefit plan to the defined contribution plan with effect from 1 January 2016.

For the defined benefit pension plan actuarial calculations are made with regard to pension commitments and funds at year end and resulting changes in pension obligations are charged to the income statement and other comprehensive income. Pension costs and pension liabilities have been accounted for in accordance with IAS19.

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 20 - Pensions continued

Pension cost and pension liability has been accounted for in accordance with IAS19.

Amounts in USD 000's	Parent company		Consolidated accounts	
	As at 20.02.19	As at 20.02.18	As at 20.02.19	As at 20.02.18
<b>Pension cost</b>				
<b>Defined benefit pension plans</b>				
Pension benefits earned during the year	53	87	1,707	1,887
Interest expense on earned pension	17	20	1,468	1,672
Settlement/curtailment	0	0	0	(956)
Yield on pension funds	0	0	(644)	(780)
Past service cost	0	0	0	0
<b>Net pension cost earning related plan</b>	<b>71</b>	<b>106</b>	<b>2,531</b>	<b>1,823</b>
<b>Defined contribution pension plan</b>	<b>0</b>	<b>0</b>	<b>6,216</b>	<b>6,674</b>
<b>Total pension cost charged to the Statement of comprehensive income</b>	<b>71</b>	<b>106</b>	<b>8,747</b>	<b>8,497</b>
<b>Changes in pension assumptions charged to Other comprehensive income</b>				
Change in pension assumptions	(23)	(66)	(420)	(3,447)
Income tax related to change in pension assumptions	0	0	99	827
<b>Liabilities according to the actuarial calculations</b>				
Pension obligation gross	(1,231)	(1,271)	(64,098)	(69,479)
Pension funds at market value	0	0	27,829	30,544
<b>Net pension obligation at the end of the year</b>	<b>(1,231)</b>	<b>(1,271)</b>	<b>(36,270)</b>	<b>(38,935)</b>
<b>Changes in pension funds at market value</b>				
Fair value of assets at the beginning of the year	0	0	30,544	28,286
Exchange differences	0	0	0	2,773
Expected return on plan assets	0	0	644	780
Settlement	0	0	0	(735)
Actuarial gains or losses	0	0	(554)	(21)
Employer contribution	0	0	1,220	1,052
Benefits paid	0	0	(1,341)	(1,591)
<b>Fair value of assets at the end of the year</b>	<b>0</b>	<b>0</b>	<b>30,513</b>	<b>30,544</b>
<b>Financial assumptions</b>				
	Per cent	Per cent	Per cent	Per cent
Discount rate	2.60	2.40	2.60	2.40
Assumed annual salary regulation	2.75	2.50	2.75	2.50
Assumed pension increase	1.50	1.50	1.50	1.50
Assumed regulations of public pensions	2.50	2.25	2.50	2.25
Assumed yield on funds	2.60	2.40	2.60	2.40
Actual yield on funds	0.90	5.70	0.90	5.70

### Note 21 - Statutory reserve

Gard P. & I. (Bermuda) Ltd. is registered under and regulated by the Insurance Act 1978 and the regulations. Under these regulations the Company is required to maintain USD 250,000 in statutory capital and surplus. The Company is under the supervision of the Bermuda Monetary Authority (BMA) and has

to be in compliance with a set of regulatory requirements. Gard P. & I. (Bermuda) Ltd. maintained a statutory reserve of USD 462,500 and all regulatory requirements are complied with as at 20 February 2019.

# GARD P. & I. (BERMUDA) LTD.

## NOTES TO THE ACCOUNTS

### Note 22 - Statutory and regulatory requirement

Gard P. & I. (Bermuda) Ltd. including subsidiaries have operations which are subject to laws and regulations in the jurisdictions in which they operate, of which the most significant ones are

Bermuda and Norway. The statutory capital and surplus in Bermuda and Norway as at 20 February 2019 and 2018 was as follows:

Amounts in USD 000's	As at	Parent	As at	Regulated by	As at	Regulated by
	20.02.19	Bermuda (a)	20.02.18	Bermuda (b)	20.02.19	Norway (c)
Required statutory capital and surplus	250	250	83,835	221,284	331,262	339,990
Actual capital and surplus	956,885	977,035	631,938	710,287	467,041	424,745

(

a) As a Class 2 company, Gard P. & I. (Bermuda) Ltd. is required to maintain minimum statutory capital and surplus equal to the Minimum Solvency Margin ("MSM").

(b) The Company's Bermuda based insurance subsidiaries are required to maintain minimum statutory capital and surplus equal to the greater of a Minimum Solvency Margin ("MSM") and the Enhanced Capital Requirement ("ECR"). The ECR is equal to the higher of each insurers' MSM or the Bermuda Solvency Capital Requirement ("BSCR") model or approved internal capital model. The BSCR for the relevant insurers for the year ended 20 February 2019 will not be filed with the BMA until June 2019. As a result, the required statutory capital and surplus as at 20 February 2019, as set out above, is based on the MSM of all relevant insurers, whereas the required statutory capital and surplus as at 20 February 2018 is based on the MSM and ECR where applicable for all relevant insurers. Required statutory capital and surplus includes Gard P. & I. (Bermuda) Ltd., Gard Marine & Energy Limited, Gard Re, Safeguard Guarantee Company Ltd. and Hydra Gard Cell.

(c) Gard P. & I. (Bermuda) Ltd., Norwegian branch, Gard Marine & Energy Limited, Norwegian branch, Assuranceforeningen Gard - gjensidig - and Gard Marine & Energy Insurance (Europe) AS are required to maintain minimum capital and surplus equal to the Solvency Capital Requirement ("SCR") under Solvency II. The statutory capital and surplus for Gard P. & I. (Bermuda) Ltd., Norwegian branch and Assuranceforeningen Gard - gjensidig - include supplementary calls based on gross written premium for the last three open policy years. The SCR, which is part of the Solvency II reporting package, will not be filed with the Norwegian Financial Services Authority (Finanstilsynet) until May 2019. As a result, preliminary figures are included as at 20 February 2019.

Statutory capital and surplus and actual capital and surplus for Gard P. & I. (Bermuda) Ltd., Norwegian branch and Gard Marine & Energy Limited, Norwegian branch are included in both (a) and (c).



# GARD P. & I. (BERMUDA) LTD.

## AUDITOR'S REPORT

To the Members of Gard P. & I. (Bermuda) Ltd.

### Independent Auditor's Report

#### Report on the Audit of the Financial Statements

##### Opinion

We have audited the financial statements of Gard P. & I. (Bermuda) Ltd., which comprise:

- The financial statements of the parent company Gard P. & I. (Bermuda) Ltd., (the "Company"), which comprise the balance sheet as at February 20, 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the accounts, including a summary of significant accounting policies, and
- The consolidated financial statements of Gard P. & I. (Bermuda) Ltd., and its subsidiaries (together the "Group"), which comprise the balance sheet as at February 20, 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the accounts, including a summary of significant accounting policies.

In our opinion:

- The accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at February 20, 2019, and of its financial performance and its cash flows for the year then ended in accordance with "Regulations for Annual Accounts for Insurance Companies" approved by the Norwegian Ministry of Finance.
- The accompanying consolidated financial statements of the Group give a true and fair view of the financial position of the Group as at February 20, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with "Regulations for Annual Accounts for Insurance Companies" approved by the Norwegian Ministry of Finance.

##### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Independence

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements of the Company and the consolidated financial statements of the Group in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

##### Other information

Management is responsible for the other information. The other information comprises information in the annual report (but does not include the financial statements of the Company and the consolidated financial statements of the Group and our auditor's report thereon.)

Our opinion on the financial statements of the Company and the consolidated financial statements of the Group does not cover the other information identified above and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company and the consolidated financial statements of the Group, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or the consolidated financial statements of the Group or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

##### Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (together "Management") are responsible for the preparation of the financial statements of the Company and the consolidated financial statements of the Group that give a true and fair view in accordance with "Regulations for Annual Accounts for Insurance Companies" approved by the Norwegian Ministry of Finance, and for such internal control as Management determines is necessary to enable the preparation of financial statements of the Company and the consolidated financial statements of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company and the consolidated financial statements of the Group, Management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company and/or the Group or to cease operations, or has no realistic alternative but to do so.

##### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company and the consolidated financial statements of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements, both the Company's and the Group's.

# GARD P. & I. (BERMUDA) LTD.

## AUDITOR'S REPORT CONTINUED

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Company and the consolidated financial statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of the Company and the consolidated financial statements of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Company and the consolidated financial statements of the Group, including the disclosures, and whether the financial statements of the Company and the consolidated financial statements of the Group represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Ltd.  
Chartered Professional Accountants

Hamilton, Bermuda  
May 13, 2019

# KEY FINANCIALS GARD GROUP

2010 – 2019

Amounts in USD millions, ETC basis	2010	2011	2012	2013	2014	2015	2016	2017	20 February	
									2018	2019
Gross written premium	812	792	855	884	959	991	911	824	775	798
Earned premium for own account	701	678	700	712	764	842	764	707	626	619
Claims incurred for own account	-527	-533	-595	-600	-643	-631	-532	-493	-479	-537
Operating expenses net	-121	-101	-92	-122	-97	-110	-99	-94	-90	-145
<b>Result on technical account</b>	<b>54</b>	<b>44</b>	<b>13</b>	<b>-10</b>	<b>24</b>	<b>101</b>	<b>133</b>	<b>120</b>	<b>59</b>	<b>-61</b>
<b>Result on non-technical account</b>	<b>195</b>	<b>141</b>	<b>49</b>	<b>113</b>	<b>76</b>	<b>23</b>	<b>-54</b>	<b>104</b>	<b>144</b>	<b>-9</b>
Net result before tax	249	185	62	103	100	124	79	224	203	-70
Tax	-9	-9	-11	-5	-11	-6	-8	-8	-9	19
<b>Total comprehensive income</b>	<b>240</b>	<b>176</b>	<b>51</b>	<b>98</b>	<b>89</b>	<b>87</b>	<b>86</b>	<b>215</b>	<b>193</b>	<b>-53</b>
Changes in deferred call*	-41	-28	-14	-31	-35	-37	-37	-89	-79	-37
Combined ratio (ETC-basis)	92%	94%	98%	101%	97%	88%	83%	83%	91%	110%
Equity	638	790	826	895	920	969	1,017	1,135	1,249	1,159

\* Net of commission.

# GARD P. & I. (BERMUDA) LTD.

## POLICY YEAR ACCOUNTS

Amounts in USD 000's Policy year	Consolidated accounts		
	2018	2017	2016
<b>Premiums and calls</b>			
Premiums	439,983	462,182	529,630
Additional calls debited	3,319	2,552	(145)
Estimated deferred call	38,661	0	0
<b>Total premiums and last instalment</b>	<b>481,963</b>	<b>464,734</b>	<b>529,485</b>
Reinsurance premiums	(105,944)	(105,515)	(126,231)
<b>Net premium earned</b>	<b>376,019</b>	<b>359,219</b>	<b>403,254</b>
<b>Incurred claims net</b>			
Claims paid	104,634	202,381	210,511
Estimates on outstanding claims	223,670	122,746	97,910
IBNRs	76,912	9,726	4,157
Unallocated Loss Adjustment Expenses	9,766	3,246	3,601
<b>Incurred claims net</b>	<b>414,982</b>	<b>338,099</b>	<b>316,179</b>
Acquisition cost and net operating expenses	102,190	45,490	50,752
<b>Technical result</b>	<b>(141,153)</b>	<b>(24,370)</b>	<b>36,322</b>

### Notes to the consolidated policy year accounts

- Premiums, supplementary calls, reinsurances and claims are credited/charged to the policy year to which they relate. Operating expenses are charged/credited to the same policy year as the financial year in which they are brought to account.
- The annual accounts include 12.5 per cent call deferred call levied for the 2018 policy year. The original estimate for the year was 25 per cent.
- The approximate additional premium of 10 per cent from a supplementary call on the open policy years would be:
  - 2016 policy year USD 36.0 million
  - 2017 policy year USD 31.5 million
  - 2018 policy year USD 30.7 million
- Incurred claims net comprises claims paid net of reinsurance recoveries, together with contributions to other P&I associations under the Group Pooling arrangement and net estimates for outstanding and unreported claims. Estimates on outstanding claims refer to those incidents which have been notified to the Association (RBNS) and on which estimates of the expected exposure have been placed. Incurred but not reported claims (IBNRs) have been calculated on a basis approved by the Company's actuary.
 

Due to the characteristics of P&I claims, both RBNS and IBNR, in particular in respect of the more recent years, may change substantially.
- Provision for outstanding and unreported claims for closed years before policy year 2016, USD 337.4 million, consists of estimated outstanding claims in the amount of USD 289.1 million and estimates for IBNR claims of USD 48.3 million.

## AVERAGE EXPENSE RATIO (AER) – P&I

In accordance with Schedule 3 of the International Group Agreement 1999 the group is required to disclose the AER for the group's P&I business for the five years ended 20 February 2019. The ratio of 13.04 per cent (11.21 per cent last year) has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant financial statements.

The five year AER for the group's P&I business expresses the operating costs on a consolidated basis as a percentage of the relevant premiums and investment income earned. Operating costs of the P&I business exclude all claims handling costs. Investment income earned is stated after deducting all investment management costs. Internal claims handling and internal investment management costs include a reasonable allocation for general overhead expenses.

# GARD P. & I. (BERMUDA) LTD.

## NOTICE OF AGM

To: The Members of Gard P. & I. (Bermuda) Ltd.

**NOTICE IS HEREBY GIVEN** that the 2019 Annual General Meeting of Gard P. & I. (Bermuda) Ltd. (the "Company") will be held on Thursday, 20 June 2019 at the Company's registered office at the Trott & Duncan Building, 17A Brunswick Street, Hamilton HM 10, Bermuda at 12:00 noon or as soon thereafter as possible, for the following purposes:

### AGENDA

1. To appoint a Chairman and a Secretary of the Meeting.
2. To read the Notice calling the Meeting and to confirm that a quorum is present.
3. To consider the Minutes of the 2018 Annual General Meeting of the Company held on 21 June 2018.
4. To approve amendments to the Company's Bye-Laws as recommended by the Board of Directors.
5. To receive the Auditor's report and Financial Statements for the year ended 20 February 2019.

6. a) To elect Directors and Alternate Directors;  
b) To authorise the Directors to fill any vacancies on the Board;  
c) To authorise the Directors to appoint Alternate Directors; and  
d) To determine the remuneration of the Directors and the Alternate Directors.
7. To elect the members of the Election & Governance Committee.
8. To appoint Auditors for the financial year to 20 February 2020.
9. To ratify and confirm the actions of the Directors and Officers of the company in relation to the Company duties.

By order of the Board of Directors

13 May 2019

**Graham W. Everard**  
Secretary

## MEETING DATES

### AGM

Thursday 21 June 2018, Bermuda

### Board of Directors

Saturday 5 May 2018, Geneva

Monday 7 May 2018, Geneva

Thursday 21 June 2018, Bermuda

Tuesday 30 October 2018, Copenhagen

Wednesday 31 October 2018, Copenhagen

### Executive Committee

Thursday 25 January 2018, London

Wednesday 18 and Thursday 19 and

Friday 20 April, 2018, Copenhagen

Saturday 5 May 2018, Geneva

Thursday 21 June 2018, telephone

Thursday 6 September 2018, Arendal

Wednesday 10 October 2018, Hamburg

Tuesday 30 October 2018, Copenhagen

### Audit Committee

Wednesday 24 January 2018, London

Thursday 12 April 2018, Copenhagen

Friday 4 May 2018, Geneva

Thursday 21 June 2018, telephone

Monday 24 September 2018, telephone

Monday 29 October 2018, Copenhagen

Thursday 20 December 2018, telephone

# GARD P. & I. (BERMUDA) LTD.

## BOARD OF DIRECTORS AND COMMITTEES

### Board of Directors

Morten W. Høegh, Chairman	Leif Høegh (UK) Ltd., London
Michael Lykiardopulo, Deputy Chairman	Neda Maritime Agency Co Ltd, Piraeus
Nils Aden	E.R. Schiffahrt GmbH & Cie. KG, Hamburg
Yngvil Åsheim	BW Maritime, Singapore/Oslo
Ian Beveridge	Bernhard Schulte GmbH & Co. KG, Hamburg
Ian Blackley	International Seaways Inc., New York
K. C. Chang	Evergreen Marine Corp. (Taiwan) Ltd., Taipei
Trond Eilertsen	Oslo
Timothy C. Faries	Bermuda
Costas Gerapetritis	Navios Shipmanagement Inc., Piraeus
Carl Johan Hagman	Stena Rederi AB, Gothenburg
Herbjørn Hansson	Nordic American Tankers Limited, Bermuda
Kenneth Hvid	Teekay Shipping (Canada) Ltd., Vancouver
Craig Jasienski	Wallenius Wilhelmsen Logistics ASA, Oslo
Hans Peter Jebsen	Kristian Gerhard Jebsen Skipsrederi AS, Bergen
Stephen Knudtzon	Oslo
Halvor Ribe	J.J. Ugland Companies, Grimstad
Callum Sinclair	Berge Bulk, Singapore
Rajalingam Subramaniam	AET Group, Singapore
Jane Sy	Stolt Tankers B.V., Rotterdam
Takaya Uchida	Meiji Shipping Co. Ltd., Tokyo
Rolf Thore Roppestad, President	Arendal

### Executive Committee

Trond Eilertsen, Chairman	Oslo
Yngvil Åsheim	BW Maritime, Singapore/Oslo
Nils Aden	E.R. Schiffahrt GmbH & Cie. KG, Hamburg
Jane Sy	Stolt Tankers B.V., Rotterdam
Ian Beveridge	Bernhard Schulte GmbH & Co. KG, Hamburg
Carl Johan Hagman	Stena Rederi AB, Gothenburg
Rolf Thore Roppestad, President	Arendal

### Election and Governance Committee

Morten W. Høegh, Chairman	Leif Høegh (UK) Ltd., London
Kenneth Hvid	Teekay Shipping (Canada) Ltd., Vancouver
Herbjørn Hansson	Nordic American Tanker Limited, Bermuda
Michael Lykiardopulo	Neda Maritime Agency Co Ltd, Piraeus

### Audit Committee

Ian Beveridge, Chairman	Bernhard Schulte GmbH & Co. KG, Hamburg
Halvor Ribe	J.J. Ugland Companies, Grimstad
Stephen Knudtzon	Oslo

### Risk Committee

Morten W. Høegh, Chairman	Leif Høegh (UK) Ltd., London
Ian Beveridge,	Bernhard Schulte GmbH & Co. KG, Hamburg
Yngvil Åsheim	BW Maritime, Singapore/Oslo

### Remuneration Committee

Trond Eilertsen, Chairman	Oslo
Craig Jasienski	Wallenius Wilhelmsen Logistics ASA, Oslo
Costas Gerapetritis	Navios Shipmanagement Inc., Piraeus





[WWW.GARD.NO](http://WWW.GARD.NO)