

The image features a light blue background covered with numerous water droplets of various sizes. In the center, the word "CAPRI" is written in large, three-dimensional letters that appear to be made of water, with highlights and shadows that give them a liquid, glass-like appearance. The letters are slightly tilted and have a soft, ethereal quality.


# CAPRI

Managing risk and its consequences

Management Report  
20 February 2008



## Managing risk and its consequences



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\$721m

Gross written premium

\$580m

General contingency reserve

\$1.93bn

Total assets

109%

Combined net ratio

\$69m

Surplus

A+

Rating





Defending the interests of our  
Members and clients



## Chairman's statement

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2007 was the fourth consecutive year in which the world merchant fleet saw high capacity utilisation, responding to a vigorous growth in the world economy and global trade. This resulted in strong demand for seaborne transportation and a rapid expansion in the world fleet: in 2006 and 2007 by around 8%, and an estimated 9% in 2008, with order books now stretching out to 2011 and 2012. This is despite the equally rapid expansion in shipbuilding capacity, particularly in China, in the last few years. This unparalleled expansion is putting severe pressures on both the maritime infrastructure and the marine insurance market, and it is likely that the impact will be significant for several years to come.

### Feeling the effects

The P&I industry experienced one of its worst years on record in 2007 and there has already been an adverse development of pool claims for the year. Pool claims for 2006 are estimated to be around USD 560 million, more than three times the average for the preceding eight years. CEFOR, the Scandinavian marine insurance association, indicated in its latest report that there is a sharp increase in the cost of hull claims, which have risen by an average of 86% over the last five years. Escalating costs for repairs due to capacity shortage in yards and price increases for raw materials, particularly steel, have had a major effect on the severity of these claims.

Human error continues to be a significant cause of accidents, and there is increasing concern about both the quality and quantity of crew available – although solutions seem to be harder to find. This problem can only become more acute as new deliveries become more technically sophisticated and the requirement for properly trained and experienced personnel becomes more critical – both on board and ashore.

The signs are that 2008 will bring a slowdown. The credit crunch has already taken its toll in a number of markets, and high oil and food prices are fuelling inflation around the world. All of this will take its toll on the shipping market but the questions as always will be "when" and "how will it manifest itself."

### A strong performance

Despite the challenges faced by our industry in the past several years, I am delighted to report that 2007 saw another strong performance from Gard. The group's overall surplus was USD 69 million and our free reserves increased by 13.5% to USD 580 million. Combined total assets are now USD 1.93 billion. The Gard group was created to help the industry by offering a wide range of solutions to its many needs, and through diversification to smooth results over the medium term. I am pleased to say that since our acquisition of the marine and energy portfolio in 2004 we have been successful in doing just that, and these were not benign times for insurers in our markets.

## The right levels of support

These are markets and times in which standing still is not an option. We will always be looking over the horizon to identify the next need, challenge or opportunity, but this will be within the parameters of our core purpose of helping Members and clients in the marine industries to manage risk and its consequences. By serving a wide variety of different clients within this sector we are achieving a healthy level of diversification within our business as well as building core skills for the future.

While our core purpose sets natural limits for what we do, it should not be viewed as a straitjacket. Our thinking on the future will be underpinned by the three pillars of excellence which will help us to retain and develop our position in the marine insurance industry. These centre on:

- Maintaining our strong financial foundations and balance sheet through right pricing and astute investment management. Businesses that cannot price their products correctly tend not to survive.
- Building relationships with Members and clients by applying an in-depth understanding of their business and its risks to solve both their coverage and claims problems.
- Developing our knowledge and expertise by employing and educating talented people. It is not just about having the skills and experience, but the synergistic creative energy of those people working together that delivers today's solutions to tomorrow's problems.

All of the above helps us to focus our energy on the things we should be doing to make a meaningful contribution to the various businesses we serve, for example supporting the people who are most directly affected by marine casualties, mitigating damage to the environment, taking a leading role in improving industry standards and actively participating in public discussions on the issues that affect us all.

## Corporate governance

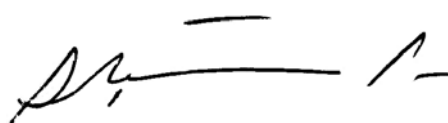
For many years the Members of Assuranceforeningen Gard have automatically been Members of the sister association in Bermuda, Gard P. & I. (Bermuda) Ltd. With the bulk of the assets of the two associations now being held by Gard P. & I. (Bermuda) Ltd., a review of the governance structure of the Gard group was undertaken during 2007. As a result, at the Extraordinary General Meetings of both associations in September, 2007 a number of changes were adopted.

On the 20 February 2008, the Committee of Assuranceforeningen Gard ceased to exist, leaving the key operating decisions to its Board of Directors – composed of between five to eight members. Gard P. & I. (Bermuda) Ltd., which is the principal reinsurer of Assuranceforeningen Gard, and thus the major risk carrier in the group, established a two-tier governance structure with many features similar to those of Assuranceforeningen Gard in the past. The new, enlarged Board of Directors of Gard P. & I. (Bermuda) Ltd., will retain the functions that were given to the Committee, while a sub-committee (called the Executive Committee) will perform the day-to-day 'Board functions'.

The new Board of Directors of Gard P. & I. (Bermuda) Ltd. consists of those who were members of the Committee and the Executive Committee of Assuranceforeningen Gard at the expiry of the 2007 policy year, as well as two local representatives from Bermuda who have been involved with Gard for many years.

Both Assuranceforeningen Gard and Gard P. & I. (Bermuda) Ltd., are recorded as parties to the International Group of P&I Clubs' Pooling Agreement, securing them access to the Pool and the International Group's collective excess loss reinsurance programme. Both are also signatories to the International Group Agreement.

I would like to take this opportunity to thank all of the members of our Committees and Boards for their time and support over the last 12 months. It is the hard work and commitment of the management and staff that are crucial to a successful business and, after another very busy year, I know I speak for all our Members and clients in offering our thanks for the service and support they provide. Finally, I would like to thank all our Members and clients, both old and new, for their loyalty and contribution – our shared sense of purpose and mutual co-operation makes the group what it is today.



Stephen Pan  
Chairman



## CEO's statement

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Our core purpose is to help our Members and clients in the marine industries to manage risk and its consequences. Creating financial stability is a key part of that purpose, and I am pleased to report that, since the Gard group began consolidated operations four years ago, there has been an unbroken trend of reporting healthy surpluses and an increasingly strong balance sheet. Again this year we are able to report excellent financial results, despite the challenges of increased claims and high levels of volatility in the investment markets.

Five years ago we took a strategic decision to create a different business model: one that diversified the products we offered and delivered a genuinely global service – retaining the best of our Scandinavian heritage while offering local help and expertise around the world and around the clock. We believe that our results this year are powerful evidence that both the proposition and its execution are proving to be successful and attractive.

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### A successful year

At a group level our combined net ratio (CNR) for 2007 was 109%, an improvement from 111% in 2006. It is our stated strategy to give money back to our Members through an underwriting deficit on our mutual P&I business – for 2007 this meant our target was a CNR of 105%. The deteriorating 2006 policy year throughout 2007 and an elevated level of pool claims on the 2007 policy year were also contributory factors.

As a significant member of the International Group we expect to see our fair share of pool claims and the ebb and flow of each Club's contribution to the Pool. We are convinced that the pooling system remains the most effective and efficient method of sharing claims across the world merchant fleet, and we are committing time and resources to the International Group to ensure that it continues to deliver the right benefits in an equitable manner to all owners.

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### An attractive market proposition

In 2007 we saw increased volumes across all business areas, with gross written premiums totalling USD 721 million, an increase of 11%. P&I entered tonnage is now in excess of 170 million gt and marine and energy have also seen increased levels of income, achieving USD 223 million and USD 92 million of gross written premium respectively.

The movement of tonnage across the industry has been much greater in the last two years than for some considerable time previously. In P&I, the strength of our balance sheet, coupled with our consistent attitude to general increases over the years, meant that we saw a very high retention rate this year. Many owners are also moving their entire fleet to Gard, rather than splitting it between several clubs, looking to develop much deeper relationships with one provider. Marine and energy also had a successful year – our marine business now insures over 6,400 vessels and the continued boom in the rig and new building sectors made for a very positive environment in both energy and builders' risks.

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### External validation

Financial strength has always been one of the foundations of our business, and we are delighted to have the highest rating from Standard & Poor's of any marine mutual. In addition, this year we have undergone an even deeper level of scrutiny as, for the first time, our Enterprise Risk Management (ERM) programme was part of the ratings' review. Our ERM was assessed as "strong" overall, placing us amongst the top European insurers. These types of risk management practices are becoming increasingly important both as a way of optimising the capital base of insurers but also in the run-up to the EU's Solvency II project, which aims to bring regulatory capital requirements for insurance companies more in line with their true risks.



PERFORM

Our deep understanding of the group's risk profile allows us to realise significant synergies in areas such as reinsurance purchasing. This year we undertook a major review of our needs in this area to look at different possible structures that could reduce our costs. This exercise, combined with our own in-house expertise, delivered a highly innovative programme and significant double digit reductions in costs, while also improving our cover.

### Stability in an unstable world

The turbulence in the global financial markets in the past year has been well-documented and inevitably it has had a negative effect on some insurers' results. We are pleased to say that our investment managers have delivered very strong results, realising an investment return in 2007 of 8.8%, contributing to a USD 123 million non-technical result. This is a real tribute to the processes we have put in place to manage our investments.

### Excellence in execution

Having the right structure is only a part of the equation, excellence in operational execution is also crucial. We have invested considerable effort to ensure we have the right people in the right place. We have strengthened our overseas offices and all business areas to ensure we are offering the best service possible. We are also concentrating on having the skills and tools in place to keep delivering the right solutions for our customers. We have always prided ourselves that our workforce possesses a unique mix of experience. Recent recruitment has strengthened our skills base even further – with our expertise ranging from oil pollution to reinsurance and engineering to risk-based modelling.

People are a vital part of our business, and I would like to take this opportunity to thank all our staff for their hard work and energy in the last year. Our business is not without its challenges but their commitment is a fundamental part of our success.

### The challenge of the future

2007 was a good year but we are not complacent – our eyes are firmly focused on the future. We will explore all the options available to make sure we deliver an ever-improving service to our Members and clients, develop products and services to meet their changing needs and create a financially stable platform for the long-term.



Claes Isacson  
Chief Executive Officer



Creative and  
pragmatic solutions

SSO





## P&I

Overall, 2007 was a good year for P&I. We saw steady growth throughout, culminating in a renewal at 20 February 2008 that was one of the best ever for Gard. Gross written premium for the policy year was USD 401 million, an increase of 19% on the previous year, and owners' tonnage increased by just over 14%.

The non-mutual business saw strong growth, particularly for MOUs' and charterers' tonnage. However, these sectors have also seen a deteriorating claims environment over the past year, being affected by the same pressures of high usage and human error as other parts of the market.

### An inflow of new tonnage

The year has been notable for not only the very low loss of tonnage, but also for the high inflow of business. By the time the renewal was over Gard had entered tonnage in excess of 170 million gt and 98.5 % of existing tonnage was renewed. Of the new business, 94% came from owners who were already Members. This year has seen a pronounced trend for owners to move their entire, or the major part of, fleet to Gard, as they look to develop much deeper relationships with one provider. All of this is very clear evidence of client loyalty and satisfaction and a testament to teamwork across the organisation.

Stability, predictability and financial strength also appear to remain key factors for new tonnage being attracted to Gard. The current claims environment has been well-documented and legislation like the recent Bunkers Convention make for an increasingly complex world. Owners want to be sure that their insurers have both the financial and human resources to meet their needs. The affirmation by Standard & Poor's of our A+ rating is good third-party validation of our strength.

### Getting the right balance

Last year we decided to review our portfolio to ensure that our premium levels and mix of vessels were correct, and that we had Members with the right attitude to paying their share of mutuality. In terms of premium increases, we found that most of the Members and brokers understood the need to raise rates. They also knew that, while our 10% general increase was lower than the majority of other Clubs, it was not a starting point for negotiation, but rather an agreed target.

The average size of vessels in our fleet has increased during the year and, of the 22 million gt acquired in the past 12 months, 12 million is in excess of 50,000gt and 6.5 million is over 100,00gt. Newbuildings remains a very competitive market, and there is a noticeable trend of low pricing to attract these vessels. Our policy is not to be driven by growth at any cost, but rather to rate these risks as accurately as the rest of our portfolio.

Geographically the business continues to be well-distributed across the world markets. Asia has seen positive development and we are pleased that the investments of time and resources we have made in this region are being rewarded – throughout the policy year, and also at renewal.

### Providing a first-class service

We continue to focus on areas where we are able to add value through technical information or practical assistance. For example, in October 2007 we held the first-ever seminar to discuss the issues surrounding the use of 'onload' lifeboat release hooks. It was attended by an unprecedented number of industry participants and there was considerable debate about how injuries and deaths involving these hooks (which occur mainly during mandatory drills) could be avoided.

In the coming months, we will be focusing on continuous efforts to ensure fair underwriting for the P&I business area, as well as continuing to develop our extensive range of additional products to reinforce our position as a market leader for charterers, offshore, energy and special products.

*“This year has seen a trend for owners to move their entire fleet, or the major part of it, to Gard.”*

# Pravagn

## Marine

In a difficult market, the marine business performed relatively well. 2007 saw an increase in both premium income and the number of vessels we insure. Gross written premium increased by 14% to USD 223 million, with a total of 6,415 vessels in the portfolio at 20 February 2008.

The team has worked very hard to develop the business in the right way – improving the terms on which business is renewed and maintaining underwriting discipline by being willing to walk away from a risk if we cannot get the right price.

### A changing market

The marine market as a whole is experiencing poor underwriting results, and much has been written about the increasing severity of claims across the sector. The 2006/7 underwriting year has been hit by a number of major losses, estimated to total USD 600 million on a global basis. We have been fortunate not to see our fair share of these, but there is no room for complacency.

CEFOR, Scandinavia's marine insurance association, published its latest statistics earlier this year and revealed an average claim cost of USD 386,000 last year compared to USD 210,000 for the period 1995-2003. While the types of incidents do not appear to be changing, market factors such as lack of repair capacity and spare parts/raw material inflation are all playing their part in driving up the bills. The good news is that the frequency of losses has remained stable.

This high severity, stable frequency claims picture is causing a considerable shift in the way in which an underwriting business needs to look at its marine book of business. The fact is that under this claims scenario, most owners will have a good loss record – leading them to feel that they can look for reductions in premiums. However, from the underwriter's perspective, the very high cost of the claims that do occur means that profits are marginal or non-existent, making premium reductions very hard to deliver.

This situation is complicated by the fact that claims seem to be increasingly random. Risk selection is, of course, still a key component in underwriting. However, it now has less of an effect on profitability because statistics indicate that an expensive accident can happen almost anywhere to anyone.

*“We are maintaining underwriting discipline by being willing to walk away from a risk if we cannot get the right price.”*

### Creating long-term partnerships

In order to succeed in this market, we need to be first-class in certain key areas. The first is to continue actively managing our portfolio so that we can understand and handle its various components effectively.

The second is to ensure that we offer a proposition that is about much more than just price. We focus on the long-term stability that comes from proper financial security, and a claims organisation that helps reduce unnecessary costs and gets businesses back on course as quickly as possible.

While it is not easy to monitor the exact results and performance of our competitors, we believe that our marine business is performing well compared to its peers. Nevertheless, despite the loss profile of the market, there is an ongoing battle for market share in the underwriting community, which can make it hard to always adjust pricing to take account of the deteriorating claims picture. However, improving profitability is one of the key areas of focus for the coming year.





## Energy

2007 was another good year for the energy business, with ongoing oil price rises and high levels of activity continuing in the shipbuilding sector. As a result, we achieved premium income 15% ahead of budget at USD 92 million in energy and builders' risks, with both areas performing as expected.

Asset values for rigs and platforms remain very high, increasing demand and sustaining the price of cover. However, this is balanced by the market becoming more competitive as new entrants look to the opportunities that it can offer – inevitably creating downward pressure on pricing.

### A challenging claims environment

Although the claims environment has – in general – been very benign there is no doubt that when claims do occur they tend to be expensive and complex. There are a number of reasons for this – including escalating prices for oil and gas, the fact that many businesses operate in places that present challenges in terms of accessibility and issues around the availability of spares and capacity.

The continuing high price of oil causes business interruption and loss of hire claims, on rigs in particular, to be significant. This is largely because of the huge demand we are seeing for limited repair/replacement facilities, equipment and personnel – causing major delays when it comes to inspecting any damage and making the necessary repairs. This lack of resources results in long waiting periods when things go wrong, and means an increase in the severity of even small casualties.

*“Our strategy of concentrating on certain terms and jurisdictions has been implemented successfully.”*

### Focusing the portfolio

Our strategy of concentrating our underwriting on certain terms and in certain jurisdictions has been successfully implemented, and we are pleased to say that we are able to continue with a transparent and balanced energy portfolio as a result. This is a testament to our long-term commitment to the industry and the strength of the relationships that we have built. Gard remains the only insurer in the Scandinavian market providing extensive capacity for the upstream oil and gas industry, and with a 35-year history in the market is a committed, long-term partner for its clients.

### Marine builders' risks

The marine builders' risks book is also performing well. Order books for newbuildings are still stretching out three or four years, however, there are the first signs that demand for new tonnage may have peaked. Nevertheless, these exceptional levels of activity have encouraged more underwriters to look at this market. It is, however, a specialised business with high volatility and is historically well-known for its loss potential. The clients are used to dealing with specialist underwriters and brokers and are much less keen to deal with new (and potentially less knowledgeable) entrants to the market. Gard's track record and expertise in this area stands us in good stead even as market conditions change.





World class in-house expertise

## P&I

Increased tonnage, continuously buoyant market conditions in most shipping segments and high prices for most cost-driving factors, e.g. cargo, fuel, salvage services and crew benefits, have caused claims to increase both in number and value in 2007. Net reported claims for owners, charterers and FD&T for the 12 months totalled USD 146.7 million, up from USD 142.7 million, with 10,244 claims in all.

There were, however, fewer large claims than usual in the fourth quarter from November to February. The one Pool claim reported by Gard for 2007 occurred in the first quarter of the year, when a ro-ro vessel capsized at berth in Antwerp, Belgium. This resulted in a major salvage operation including pollution prevention, followed by wreck removal and cargo claim issues. This compares to three Pool claims for the 2006 underwriting year. There was also deterioration in certain large claims for the 2005 and 2006 underwriting years, illustrating the 'long tail' nature of P&I claims, and highlights the importance of a continued focus on reserve adequacy.

### Casualty response capabilities

There were several cases that put our casualty response and handling capabilities to the test last year. The capsized ro-ro vessel mentioned above gave rise to challenging salvage and wreck removal considerations in the interface between the P&I and H&M insurances.

The tragic loss of eight lives and an anchor handling vessel off Shetland in April 2007 required extensive assistance to, and cooperation with, the Member in relation to the bereaved families of the missing crew as well as the crew survivors. All of which took place in the spotlight of both international and local media. It is our ambition to be able to provide the right resources to help and support our Members when they most need it in areas such as these.

### Unpredictable regimes

Changes in international legislation governing the different types of liability arising from the operation of a ship will undoubtedly increase the liability exposure of shipowners and charterers. While some changes are carefully planned and therefore predictable, there can be several unpredictable factors affecting the liability exposure in individual cases, such as overreaching acts of either local authorities and/or local powerful companies

*“ We are very pleased to have attracted new staff with highly specialised skills in their fields, such as US law and oil pollution.”*

in 'rogue' jurisdictions, aimed to recover losses that are unsubstantiated and/or highly inflated. This is not a new phenomenon, but high freight rates and buoyant market conditions has made time lost all the more precious for those concerned, and therefore unwarranted detentions effectively 'extort' money. The P&I cover applies globally and without excluded or conditional areas, but disponent owners are encouraged to make use of the information contained in Gard News and our Loss Prevention Circulars in their trade risk assessment when discussing charter terms.

### Increasing resources

The claims resources have increased in line with business needs. We now have about 150 claims staff from more than 25 different countries in nine offices. With Gard offices in the US, Europe and Asia plus a global correspondent network, we are able to offer round the clock claims services. We are pleased that we have managed to attract new staff with high level specialist skills in their fields, such as US law and pollution.

### Defence

The number of Defence entries has increased from 1,600 to 1,800 ships (7.7 million gt). While Defence cover provides Members with balance sheet protection against potential costs incurred in large, complex legal disputes, the everyday legal advice provided by our 20-strong staff of in-house, international lawyers is often just as important. Our focus is on adapting the service to what the Members need in the circumstances - whether a 'quick tip' on the telephone, a written legal opinion or litigation/arbitration counselling. An added benefit of a strong legal team is that other claim areas can obtain in-house advice and guidance on litigation and arbitration aspects.





*“There has been significant strengthening of the team in the last year, with staff joining in Oslo, Bergen and Gothenburg.”*

## Marine

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Overall the market trend for a higher severity and lower frequency of claims continued through the 2007 policy year. We were fortunate in that the claims picture was 'normal' for the last half of the year and Gard was not involved with any of the really big market losses.

Nevertheless, the trends that we have seen in the past year – including inflated repair costs, delays on deliveries of spare parts and a severe capacity shortage in repair yards, have not improved. In addition to these issues, the price of steel in particular has been rising sharply and a new and worrying trend has emerged in that the quality of newbuildings is not always up to standard. With costs still escalating, the issue of whether or not premium levels are sufficient to meet the rising costs of these claims remains a very real one.

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### The problem of scarce resources

The lack of capacity in ship yards for repairs – and the subsequent delays and costs that result – were the primary issue in marine claims. Although the fact that some owners are selling on their newbuilding contracts might suggest that this market is at its peak, the fact is that order books still stretch out for two or three years so this is not an issue that is likely to decrease in the near future. We have therefore been focusing our efforts on helping owners to tackle this capacity problem. For example, earlier this year we were able to secure time in a yard in Bergen for an owner, to get the vessel back in operation as soon as possible we recruited additional labour from Romania and agreed an incentive scheme with everyone involved to meet an aggressive timetable.

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### Human error

The cause of many of these claims still appears to be navigational errors. In particular in areas such as the Straits of Malacca, Chinese harbours and the English Channel, where the density of traffic is very high, the combination of increased pressure and less experienced crews increases the likelihood of a casualty. While shipowners have woken up to the fact that crewing is a problem that needs an urgent solution, there is no short-term fix to this problem. As a result of the industry not making sufficient investment in its people for almost a whole generation, there is a significant personnel shortage, and it will take some time for the quantity and quality of crews to reach the desired levels. Due to this situation an increasing number of operators are using a variety of incentives to attract crews and officers to their vessels.

There has been a significant strengthening of the team in the last year, with staff joining in Oslo, Bergen and Gothenburg. With over 6,400 ships insured in the marine business area and we have the claims lead on 60% of the premium, these resources are vital to be able to offer a first-class service. We do this partly by ensuring that team members have very high levels of technical education, for example, we recently recruited a claims handler whose previous job was in the design of ships and offshore constructions, and increasingly by sharing of resources with our P&I colleagues – all of which means that we can offer real strength and depth of expertise.

## Energy

2007 was generally an uneventful year. Although there were some losses in the market, overall we saw few new claims and, despite the ongoing lack of repair yard capacity and concern about loss of hire deductibles, overall results have been good.

We have been encouraging the early reporting of incidents, since it is our experience that this is key to managing both the size of the loss and the speed of its resolution. In current market conditions, with oil prices and the cost of spare parts and raw materials rising inexorably, time is literally money. So, early reporting makes sound economic sense for all involved.

### Repair facilities

There are, however, significant constraints in repair facility availabilities for MOUs. It is not unexpected that a unit can wait six to ten weeks to be taken into a yard for repairs and, if drydocking is required, the waiting time can be up to a year in certain areas. This means that if loss of hire is insured, deductible periods of 45 to 60 days will have elapsed before repairs will have commenced, and in the worst case the whole indemnity period has passed before the unit can be returned to operations.

There are signs, however, that some of the resources and equipment that have been tied up in the Gulf of Mexico since the hurricanes of two years ago are now starting to come free. This is having a positive effect on delays and the cost of repairs, and it is hoped that this improvement will continue.

### Robust reserving

The 2007 hurricane season passed without incident, although the fact that two force 5 storms made landfall and Hurricane Dean only just missed the Pemex offshore facilities by a narrow margin, did cause some anxiety on the way. The claims from Katrina and Rita are still working their way through the system, and we are still actively involved in resolving different issues – especially where claimants who are members of Oil Insurance Limited (OIL) are only recently settling on the aggregate limits for their claims with the mutual. We are pleased that our reserving after these events has proved very robust. The combination of our in-depth experience and clients working with adjusters to reach accurate assessments of losses, have meant that our reserving has moved very little.

### North Sea issues

During the winter season, damage to subsea equipment in the North Sea meant that there were often significant delays waiting for a suitable window in the weather to recover and repair the damaged equipment and then reinstall it. This caused a considerable increase in damage repair costs and loss of hire or loss of production income. Some incidents on ageing platforms in the North Sea last year have also raised some concerns about the age and condition of some structures and equipment there.

## Loss Prevention and Risk Assessment

The strong flow of new entries on the P&I side means that the risk assessment team has been working on a large number of entry surveys. As a result, LPRA has seen another year of record breaking figures – more than 450 survey cases were opened, and over 200 in-house risk assessments were delivered on fleets that were either up for renewal or consideration.

The department also gave almost 100 presentations last year at events such as Gard seminars, crew conferences and in-house seminars at our clients' offices. This is a significant increase compared to previous years, and this closer client interaction helps us to create an environment in which we can share information and market intelligence.

For example, the department has had a strong focus on claims that may have an effect on sister ships or vessels of a similar design and, working closely with claims executives, it aims to spot these early in the process. A current case involves engine damage that has a total exposure of USD 4.1 million, and the early signs are that the damage is related to faulty design. With 157 of these engines worldwide, such proactivity could help to prevent further substantial claims in the future.

Loss prevention circulars continue to be our most important product, and we regularly receive very positive feedback on these from our clients. More and more of our clients are relying on them as their sole source of loss prevention information and have even implemented them in their safety management systems. In 2008, priority will be given to increase efforts on 'experience transfer' and we will evaluate how we can involve our claims executives further to make this happen.

Last year also saw the completion of a revised crisis management plan for Gard. The experience gained in high profile cases such as the ROCKNES, SERVER and BOURBON DOLPHIN have been built into the new processes, and it also reflects the fact that more claims handling is performed from our regional offices.



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First class financial strength

Strength

## Auditor's Report

### To Gard AS

We have audited the accompanying combined consolidated financial statements prepared from the consolidated accounts of Assuranceforeningen Gard – gjensidig – and the accounts of Gard P&I (Bermuda) Limited for the year ended February 20 2008. We have also audited the consolidated accounts of Assuranceforeningen Gard – gjensidig – and the accounts of Gard P&I (Bermuda) Limited. The preparation and presentation of the combined financial statements is the responsibility of Gard AS. Our responsibility is to express an opinion on the combined consolidated financial statements.

We conducted our audit in accordance with International Standards of Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined consolidated financial statements present fairly, in all material respects, the financial position of the two Associations as of February 20 2008 and their revenues and expenses for the year then ended, in accordance with the basis of accounting described in the notes to the combined consolidated financial statements.

Arendal, May 26, 2008  
Ernst & Young AS

Jan Dønvik

## Gard P&I and M&E

### - Combined consolidated income and expenditure accounts

(All amounts are stated in USD 000's)

For the year to 20 February	Notes	"Parent company" Gard P&I		Gard M&E		Combined consolidated accounts		
		2008	2007	2008	2007	2008	2007	
<b>Technical account – general business</b>								
<i>Income</i>								
Premiums earned gross	2	351 336	299 470	313 014	291 240	664 350	590 710	
Estimated deferred calls on ETC basis	2	54 759	47 033	0	0	54 759	47 033	
Reduction in estimated deferred call net of commission		0	(9 407)	0	0	0	(9 407)	
Premiums earned gross		406 095	337 096	313 014	291 240	719 109	628 336	
Reinsurance premiums earned		(59 084)	(56 057)	(36 618)	(36 585)	(95 702)	(92 642)	
Premiums earned net	A	347 011	281 039	276 396	254 655	623 407	535 694	
<i>Expenditure</i>								
Claims costs net*	3, 5	371 535	298 270	208 149	219 581	579 684	517 851	
Operating expenses net	5	36 394	32 279	61 887	55 783	98 281	88 062	
	B	407 929	330 549	270 036	275 364	677 965	605 913	
Balance on general business technical account	4	A-B=C	(60 918)	(49 510)	6 360	(20 709)	(54 558)	(70 219)
<b>Non-technical account</b>								
Investment income	6	101 279	81 648	42 438	40 772	143 717	122 420	
Exchange (loss)/gain		(330)	13 973	(8 704)	2 694	(9 034)	16 667	
Investment management expenses	5	(5 586)	(3 389)	(3 743)	(2 342)	(9 329)	(5 731)	
Taxation	7	(2 071)	10 875	(221)	(441)	(2 292)	10 434	
Balance on non-technical account	D	93 292	103 107	29 770	40 683	123 062	143 790	
Excess of income over expenditure	C+D=E	32 374	53 597	36 130	19 974	68 504	73 571	
General contingency reserve at beginning of period	F	483 241	429 644	28 740	8 766	511 981	438 410	
General contingency reserve at end of period	E+F=G	515 615	483 241	64 870	28 740	580 485	511 981	
Combined Net Ratio (CNR) on ETC basis		118%	114%	98%	108%	109%	111%	

\* Claims handling costs share of Operating expenses net are included in Claims costs net

## Gard P&I and M&E - Combined consolidated balance sheet

(All amounts are stated in USD 000's)

As at 20 February	Notes	"Parent company" Gard P&I		Gard M&E		Combined Consolidated accounts	
		2008	2007	2008	2007	2008	2007
<b>Assets</b>							
Intangible assets	7	28 768	25 426	0	0	28 768	25 426
Goodwill	7	0	175	3 930	8 123	3 930	8 298
Investments	8, 14	788 653	802 317	538 362	530 054	1 327 015	1 332 371
Due from Members		6 812	4 896	162 432	119 164	169 244	124 060
Accrued deferred call	9	54 759	37 626	0	0	54 759	37 626
Sundry debtors	10	33 637	7 265	0	1 645	29 553	5 639
Investments in subsidiary	11	190 000	190 000	0	0	0	0
Real property and fixed assets	12	35 294	28 410	0	0	35 294	28 410
Bank balances		183 224	93 925	75 513	43 384	258 737	137 309
Accrued income		6 551	15 802	18 866	16 307	23 400	32 109
<b>Total assets</b>		<b>1 327 698</b>	<b>1 205 842</b>	<b>799 103</b>	<b>718 677</b>	<b>1 930 700</b>	<b>1 731 248</b>
<b>Equity and Liabilities</b>							
<b>Owner's equity</b>							
Shares				190 000	190 000		
Profit and loss account				64 870	28 740		
<b>Total equity</b>				<b>254 870</b>	<b>218 740</b>		
<b>Technical reserves</b>							
Unearned premium reserve for own account		0	0	154 607	147 391	154 607	147 391
Provision for outstanding and unreported claims		720 787	632 013	379 819	346 403	1 100 606	978 416
General contingency reserve		515 615	483 241	0	0	580 485	511 981
Balance available for outstanding and unreported claims		1 236 402	1 115 254	534 426	493 794	1 835 698	1 637 788
Bank overdraft		5 419	0	0	0	5 419	0
Sundry creditors	13	85 877	90 588	9 807	6 143	89 583	93 460
<b>Total equity and liabilities</b>		<b>1 327 698</b>	<b>1 205 842</b>	<b>799 103</b>	<b>718 677</b>	<b>1 930 700</b>	<b>1 731 248</b>

## Reconciliation of excess of income over expenditure from net cash flow from operating activities

(All amounts are stated in USD 000's)

For the year to 20 February	"Parent Company" – P&I		Gard M&E		Consolidated accounts	
	2008	2007	2008	2007	2008	2007
Excess of income over expenditure before taxation	34 445	42 722	36 351	20 415	70 796	63 137
Depreciation of tangible and intangible assets	3 039	3 630	4 193	4 192	7 232	7 822
(Increase) in accrued deferred call	(17 133)	(4 445)			(17 133)	(4 445)
(Increase)/Decrease in debtors	(29 380)	6 267	(43 268)	(44 110)	(72 648)	(37 843)
Decrease/(Increase) in accrued income	9 251	(5 896)	(2 559)	(244)	6 692	(6 140)
Increase in technical provisions	88 774	95 245	40 632	38 780	129 406	134 025
(Decrease)/Increase in creditors	(6 357)	12 696	3 664	(15 677)	(2 693)	(2 981)
<b>Net cash flow from operating activities</b>	<b>82 639</b>	<b>150 219</b>	<b>39 013</b>	<b>3 356</b>	<b>121 652</b>	<b>153 575</b>
<i>Cash flow statement</i>						
Net cash flow from operating activities	82 639	150 219	39 013	3 356	121 652	153 575
Taxation paid	(1 681)	(1 525)	(221)	(441)	(1 902)	(1 966)
	80 958	148 694	38 792	2 915	119 750	151 609
<i>Cash flows were invested as follows</i>						
Increase/(Decrease) in cash holding	83 880	40 583	32 129	(4 668)	116 009	35 915
(Decrease)/Increase in portfolio investments	(16 402)	94 514	6 663	7 583	(9 739)	102 097
Increase in real property, fixed and intangible assets	13 480	13 597	0	0	13 480	13 597
	80 958	148 694	38 792	2 915	119 750	151 609

## Notes to the combined consolidated accounts

### Note 1 – Accounting policies

#### *(I) Basis of preparation of the Accounts*

The accounts of the "parent company" presented here combine the consolidated accounts of Assuranceforeningen Gard ("the Association"), prepared in US dollars, with the accounts of Gard P.É.I (Bermuda) Limited ("the Bermuda Association"). In combining the accounts the same conventions have been observed as would have been adopted in preparing consolidated accounts for the two entities were the two Associations under common ownership. These accounts have no formal legal standing, but they aim to provide an easily assimilated summary of the combined financial position of the Associations.

#### *(II) Consolidated accounts*

The Associations' consolidated accounts incorporate the accounts of the wholly owned:

- Subsidiary A/S Assuransgård, owner of the Association's properties
- Subsidiary Gard AS, the Management Company for the Association
- Subsidiary Lingard Ltd, the Management Company for the Bermuda Association and Gard Marine & Energy Ltd.
- Subsidiary Hydra (Gard Cell), a reinsurance company established by the parties to the International Group of P&I Clubs' Pooling Agreement pursuant to the Bermuda Segregated Accounts Companies Act 2000 as amended for the purpose of reinsuring certain layers of risks retained by the insurers being parties to the said Pooling Agreement.

The Association owns 15.8 per cent of the shares in Gard Marine & Energy Ltd. ("Gard M&E") and the Bermuda Association owns the remaining 84.2 per cent. In the combined consolidated accounts Gard M&E is consolidated as a wholly-owned subsidiary by the two Associations.

For preparation of the consolidated accounts the "parent company's" shares in the subsidiaries are being replaced with the assets and liabilities of the subsidiaries. Internal transactions between the consolidating companies including any unrealised gain and intercompany receivables and liabilities are eliminated as a result of the consolidation.

#### *(III) Closing of policy years*

In determining the appropriate deferred/supplementary call with which to close an open policy year the Association takes into account the results for that year and all prior years.

The Associations consider it necessary to maintain an adequate general contingency reserve to meet regulatory requirements and unanticipated demands on the Associations' funds.

#### *(IV) Portfolio investments*

Portfolio investments are reported at market value and reported investment income takes into account unrealised gains and losses.

#### *(V) Financial derivatives*

Financial derivatives are integrated components in the investment philosophies and processes of the fund management organisations employed by the Associations. They are used only for risk management, liquidity improvement, cost reduction and to optimise return within the guidelines set for the Associations' fund management. These uses contribute to reducing the risk of the assets not being able to cover the Associations' liabilities.

*(VI) Currencies other than US dollars*

Assets and liabilities, including derivatives denominated in currencies other than USD, are translated into USD at rates of exchange prevailing at the balance sheet date. Investments are stated at market value in the currency in which they are denominated and translated into USD at rates of exchange prevailing at the balance sheet date. Revenue transactions in currencies other than USD are translated into USD at daily standard exchange rates. For consolidation purposes revenue transactions in the Accounts of the subsidiary companies are translated into USD at the rate of exchange prevailing at the balance sheet date.

Exchange rates used for currencies in which the Associations held material positions are:

As at 20 February		2008 USD 1 equals	2007 USD 1 equals
AUD	Australian Dollar	1.0940	1.2728
CNY	Chinese Yuan Renminbi	7.1436	7.7426
EUR	Euro Currency Unit	0.6827	0.7603
GBP	Pound Sterling	0.5153	0.5109
HKD	Hong Kong Dollar	7.8011	7.81395
JPY	Japanese Yen	108.0350	120.1050
NOK	Norwegian Krone	5.3893	6.1292
SEK	Swedish Krone	6.3668	7.0467
SGD	Singapore Dollar	1.4105	1.5346

*(VII) Basis of accounting*

All items of income and expenditure are accounted for on an accrual basis and reflect any adjustments relating to earlier years. Deferred/supplementary calls are brought into account when charged to Members except that the deferred call approved by the Committee at their meeting in May for the policy year just ended is brought into account in the financial year ending on the same date as the policy year.

In premiums earned gross are those deferred calls recognised on Estimated Total Call basis (ETC basis). The difference between ETC and proposed deferred call is presented as reduction in estimated deferred call.

*(VIII) Technical reserves*

The Provision for unearned premium comprises the unearned portion of premiums relating to the period after the end of the financial year.

The Provision for outstanding and unreported claims comprises an estimate of the expected exposure which has been placed on (i) claims that have been reported to the Association and (ii) claims that have been incurred but not reported ("IBNRs"). The estimate of IBNR claims is calculated on a basis approved by the Association's consulting actuaries. Both sets of estimates include the Association's own claims and its share of claims under the International Group's Pooling arrangement. Provision has been included for future claims management costs.

The general contingency reserve is retained to meet:

(i) losses which may fall outside the Association's reinsurance programme; for example failure of a "first class" bank or hull insurer to honour a collision guarantee; (ii) unforeseen fluctuations in the Association's claims exposure and; (iii) a possible catastrophe claim. The Association is liable for its proportionate share of an overspill claim regardless of whether the claim originates from an entered vessel or from a vessel insured on a mutual basis by any of the other Associations comprising the International Group of P&I Associations.



*(IX) Related party disclosure*

No single transaction, or series of transactions, with related parties (including the Members of the Associations) is of such materiality and nature as to require disclosure.

*(X) Designated reserves*

Given the level of Pool retentions and the participation of the International Group in the general excess loss reinsurance contract, all parties to the Pooling Agreement have entered into arrangements, under an agreement dated 20 February 1996, to provide security by way of letters of credit or security bonds to other Pooling members to cover a significant proportion of their potential liabilities under the Pooling Agreement. Such letters of credit/security bonds can only be drawn upon in the event that an Association fails to meet a call upon it in relation to its obligations under the Pooling Agreement. The Association currently has a contingent liability under a bank guarantee in the amount of USD 29.4 million relating to its participation in this arrangement. The bank guarantee does not constitute a formal charge on the assets of the Association as no counter security has been required.

*(XI) Fixed assets, goodwill and depreciation*

Fixed assets and goodwill are stated at historical cost after depreciation. The depreciation rate is calculated on the basis of historical cost and the estimated economical lifetime of the asset.

*(XII) Taxation and deferred tax assets*

Taxation in the income and expenditure accounts comprises tax paid and changes in deferred tax. Deferred tax asset is included in intangible assets in the balance sheet, and is mainly derived from deferred tax benefits arising from the Norwegian operation. Deferred tax benefit has been recognised in the balance sheet as it is deemed probable that the tax benefit can be utilised.

## NOTE 2 – Premiums earned gross on ETC basis

(All amounts are stated in USD 000's)

For the year to 20 February	"Parent company" – P&I		Gard M&E		Consolidated accounts		
	2008	2007	2008	2007	2008	2007	
<b>Mutual premiums</b>							
Owners' entries							
Premiums	227 450	195 145	0	0	227 450	195 145	
Additional calls	2 254	6	0	0	2 254	6	
Estimated deferred call	52 759	45 450	0	0	52 759	45 450	
Defence entries							
Premiums	8 195	6 373	0	0	8 195	6 373	
Additional calls	107	91	0	0	107	91	
Estimated deferred call	2 000	1 526	0	0	2 000	1 526	
	A	292 765	248 591	0	0	292 765	248 591
<b>Fixed premiums</b>							
Mobile offshore unit entries	37 696	31 788	0	0	37 696	31 788	
Charterers' entries	63 725	54 010	0	0	63 725	54 010	
US oil pollution premiums	5 458	7 392	0	0	5 458	7 392	
Defence entries	6 451	4 722	0	0	6 451	4 722	
Marine	0	0	210 644	183 104	210 644	183 104	
Energy	0	0	102 370	108 136	102 370	108 136	
	B	113 330	97 912	313 014	291 240	426 344	389 152
Total on ETC basis	A+B=C	406 095	346 503	313 014	291 240	719 109	637 743
Reduction in estimated deferred call	D	0	(9 407)	0	0	0	(9 407)
Total	C+D=E	406 095	337 096	313 014	291 240	719 109	628 336

### NOTE 3 – Claims costs net\*

(All amounts are stated in USD 000's)

For the year to 20 February	"Parent Company" – P&I		Gard M&E		Consolidated accounts		
	2008	2007	2008	2007	2008	2007	
<i>Claims paid gross</i>							
Claims	297 913	214 260	227 306	319 872	525 219	534 132	
Other Clubs' Pool claims	39 295	22 940	0	0	39 295	22 940	
	A	337 208	237 200	227 306	319 872	564 514	557 072
<i>Reinsurers' share</i>							
From the Pool	42 344	21 494	0	0	42 344	21 494	
Market underwriters	8 920	11 050	46 582	118 846	55 502	129 896	
Other P&I Associations	3 183	1 631	0	0	3 183	1 631	
	B	54 447	34 175	46 582	118 846	101 029	153 021
Claims paid net	A-B=C	282 761	203 025	180 724	201 026	463 485	404 051
<i>Change in provision for gross claims</i>							
Provision carried forward	664 089	576 888	487 807	491 073	1 151 896	1 067 961	
Provision carried forward – other Clubs Pool Claims	94 673	97 383	0	0	94 673	97 383	
Provision brought forward	(576 888)	(486 247)	(491 073)	(580 855)	(1 067 961)	(1 067 102)	
Provision brought forward – other Clubs Pool Claims	(97 383)	(82 729)	0	0	(97 383)	(82 729)	
	D	84 491	105 295	(3 266)	(89 782)	81 225	15 513
<i>Less movement in provision for reinsurers' share</i>							
Provision carried forward	(64 003)	(65 897)	(107 988)	(146 416)	(171 991)	(212 313)	
Provision brought forward	65 897	52 621	146 416	254 753	212 313	307 374	
	E	1 894	(13 276)	38 428	108 337	40 322	95 061
Change in provision for claims management costs	F	2 389	3 226	0	0	2 389	3 226
Currency valuation – Reserves	G	0	0	(7 737)	0	(7 737)	0
Changes in claims provision net	D+E+F+G=H	88 774	95 245	27 425	18 555	116 199	113 800
Claims costs net*	C+H=I	371 535	298 270	208 149	219 581	579 684	517 851

\* Claims handling costs share of Operating expenses net are included in Claims costs net

#### NOTE 4 – Balance on general business technical account on lines of business

(All amounts are stated in USD 000's)

For the year to 20 February		2008	P&I 2007	2008	Marine 2007	2008	Energy 2007
Premiums written gross on ETC basis		406 095	346 503	223 344	194 752	91 621	105 548
Premiums earned gross on ETC basis		406 095	346 503	210 645	183 104	102 370	108 136
Reduction in estimated deferred call net		0	(9 407)	0	0	0	0
Premiums earned net	A	347 011	281 039	190 248	163 518	87 883	91 137
Claims incurred net		338 284	275 570	164 596	158 067	38 894	60 118
Claims handling costs*		33 251	22 700	3 073	645	1 586	751
Claims costs net	B	371 535	298 270	167 669	158 712	40 480	60 869
Acquisition costs allocated		8 124	6 265	5 718	4 112	3 459	1 935
Internal expenses allocated		14 675	15 891	16 769	14 174	4 766	5 826
Commission earned net		13 595	10 123	16 040	14 178	11 118	11 366
Operating expenses net – excl. claims handling costs	C	36 394	32 279	38 527	32 464	19 343	19 127
Balance on general business technical account**	A-B-C	(60 918)	(49 510)	(15 948)	(27 658)	28 060	11 141
Claims ratio net on ETC basis		107%	103%	88%	97%	46%	67%
Expense ratio net on ETC basis		10%	11%	20%	20%	22%	21%
Combined net ratio on ETC basis		118%	114%	108%	117%	68%	88%

\* Claims handling costs share of Operating expenses net are included in Claims costs net

\*\*Depreciation on goodwill USD 4.2 million and clash cover USD 1.6 million are not allocated to business areas Marine & Energy.

## NOTE 5 – Operating expenses

(All amounts are stated in USD 000's)

For the year to 20 February	"Parent Company" – P&I		Gard M&E		Consolidated accounts	
	2008	2007	2008	2007	2008	2007
Acquisition costs allocated	8 124	6 265	9 177	6 047	17 301	12 312
Administrative expenses allocated	14 675	15 891	25 725	24 192	40 400	40 083
Commission earned net	13 595	10 123	26 985	25 544	40 580	35 667
Operating expenses net	36 394	32 279	61 887	55 783	98 281	88 062
Claims handling costs	33 251	22 700	4 659	1 396	37 910	24 096
Investment management expenses	5 586	3 389	3 743	2 342	9 329	5 731
<b>Operating expenses total</b>	<b>75 231</b>	<b>58 368</b>	<b>70 289</b>	<b>59 521</b>	<b>145 520</b>	<b>117 889</b>
a) Operating expenses include :						
Wages and salaries	38 912	31 207	0	0	38 912	31 207
Social security costs	6 434	6 062	0	0	6 434	6 062
Remuneration of Committee and Executive Committee	643	448	0	0	643	448
Pension contributions	11 754	9 036	0	0	11 754	9 036
Auditors' fees – audit services	214	214	96	96	310	310
Auditors' fees – non audit services	73	0	20	0	93	0
Depreciation	3 040	3 631	4 192	4 192	7 232	7 823

### Average Expense Ratio (AER) – P&I

In accordance with Schedule 3 of the International Group Agreement 1999 the Association is required to disclose the AER for the Association's P&I business for the five years ended 20 February 2008. The Ratio of 7.9 per cent (7.8 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 Association's P&I business expresses the operating costs on a combined 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 so deducted include a reasonable allocation of general overhead expenses.

## NOTE 6 – Investment income

(All amounts are stated in USD 000's)

For the years to 20 February	"Parent Company" – P&I		Gard M&E		Consolidated accounts	
	2008	2007	2008	2007	2008	2007
Interest earned	6 996	17 168	12 403	5 720	19 399	22 888
Dividends	11 102	9 021	5 812	7 181	16 914	16 202
Profits less losses on realisation of investments	98 030	46 873	83 150	(448)	181 180	46 425
Change in difference between cost and market value of investments	(14 849)	8 586	(58 927)	28 319	(73 776)	36 905
<b>Total</b>	<b>101 279</b>	<b>81 648</b>	<b>42 438</b>	<b>40 772</b>	<b>143 717</b>	<b>122 420</b>

Profits less losses on realisation of investments reflect the difference between cost and sale price in the currency of investment.

**NOTE 7 – Intangible fixed assets, deferred tax benefit and goodwill**

(All amounts are stated in USD 000's)

	"Parent Company" – P&I	Gard M&E	Consolidated accounts
<i>Specification of goodwill</i>			
Cost as at 20 February 2007	1 351	8 123	9 474
Change in cost due to exchange rates	186	0	186
Accumulated depreciation and write down	1 176	0	1 176
Change in depreciation due to exchange rates	162	0	162
Charge for the year	199	4 193	4 392
Net book value as at 20 February 2008	0	3 930	3 930
<i>Specification of intangible fixed assets</i>			
Cost as at 20 February 2007	20 151	0	20 151
Change in cost due to exchange rates	2 767	0	2 767
Net purchases in the year	2 890	0	2 890
Accumulated depreciation and write down	11 147	0	11 147
Change in depreciation due to exchange rates	1 530	0	1 530
Charge for the year	394	0	394
Net book value as at 20 February 2008	12 737	0	12 737
The company applies a linear depreciation plan of five years			
<i>Deferred tax benefit</i>			
Opening balance as at 21 February 2007	16 421	0	16 421
Change in the period	(390)	0	(390)
Closing balance as at 20 February 2008	16 031	0	16 031
<i>Taxation expenses</i>			
Income taxes paid	(1 681)	(221)	(1 902)
Changes in deferred tax benefit	(390)	0	(390)
Taxation expenses	(2 071)	(221)	(2 292)

## NOTE 8 – Investments

(All amounts are stated in USD 000's)

As at 20 February	"Parent Company" – P&I		Gard M&E		Consolidated accounts		
	2008	2007	2008	2007	2008	2007	
<i>Portfolio investments</i>							
Net equities at market value	245 394	225 751	162 335	181 452	407 729	407 203	
Net bonds at market value	456 510	539 389	361 150	288 940	817 660	828 329	
Hedge fund	74 657	0	0	0	74 657	0	
Unit trusts	0	16 803	0	30 152	0	46 955	
	A	776 561	781 943	523 485	500 544	1 300 046	1 282 487
<i>Other investments</i>							
Property mortgages	20 833	17 186	0	0	20 833	17 186	
Miscellaneous investments	3 259	3 188	14 877	29 510	18 136	32 698	
Loan from Merrill Lynch (margin account)	(12 000)	0	0	0	(12 000)	0	
	B	12 092	20 374	14 877	29 510	26 969	49 884
Total	A + B=C	788 653	802 317	538 362	530 054	1 327 015	1 332 371

## NOTE 9 – Accrued deferred call – parent company Gard P&I

The Committee has decided to levy a 25 per cent deferred call in respect of the 2007 policy year, payable in 2008, in accordance with the original estimate for the year.

## NOTE 10 – Sundry debtors

(All amounts are stated in USD 000's)

As at 20 February	"Parent Company" – P&I		Gard M&E		Consolidated accounts	
	2008	2007	2008	2007	2008	2007
Investment transactions in progress	12 556	1 092	0	1 645	12 556	2 737
Sundry debtors	21 081	6 173	0	0	16 997	2 902
Total	33 637	7 265	0	1 645	29 553	5 639

"Investment transactions in progress" refers to net sales of investments at the balance sheet date, where settlements were executed after the balance sheet date.

**NOTE 11 – Shares in subsidiary company**

(All amounts are stated in USD 000's)

As at 20 February 2008	Combined ownership	Share capital	Cost price	Share of total equity	Share of profit
Gard Marine & Energy Ltd.	100 %	USD 190 000	190 000	254 870	64 870
<b>Total</b>			190 000	254 870	64 870

**NOTE 12 – Real property and fixed assets**

(All amounts are stated in USD 000's)

		2007 Real property and fixed assets	2006 Real property and fixed assets
<i>Cost</i>			
Opening balance		47 242	38 460
Currency gain		5 509	2 492
Purchases in the year		5 422	7 171
Sales in the year		(52)	(1 064)
Closing balance	A	58 121	47 059
<i>Depreciation</i>			
Opening balance		18 649	16 224
Currency gain		2 380	1 442
Depreciation on sold assets		(648)	(768)
Charge for the year		2 446	1 751
Closing balance	B	22 827	18 649
<b>Net book value</b>			
Opening balance		28 593	22 236
Closing balance	A-B=C	35 294	28 410

**NOTE 13 – Sundry creditors**

(All amounts are stated in USD 000's)

As at 20 February	"Parent Company" – P&I		Gard M&E		Consolidated accounts	
	2008	2007	2008	2007	2008	2007
Creditors: direct insurance	580	8 159	173	369	753	8 528
Creditors: reinsurance operations	0	886	0	0	0	886
Investment transactions in progress	3 033	31 828	2 370	1 866	5 403	33 694
Accrued taxes	334	123	0	0	334	123
Pension liabilities	22 553	13 334	0	0	22 553	13 334
Sundry creditors	32 648	12 421	4 127	2 401	30 674	11 551
Mortgages	12 664	11 135	0	0	12 664	11 135
Deferred income	442	0	0	0	442	0
Accrued expenses	13 623	12 702	3 137	1 507	16 760	14 209
<b>Total</b>	<b>85 877</b>	<b>90 588</b>	<b>9 807</b>	<b>6 143</b>	<b>89 583</b>	<b>93 460</b>

"Investment transactions in progress" refers to net purchases of investments at the balance sheet date, where settlements were executed after the balance sheet date.



## Note 14 - Financial investments by currencies

(All amounts are stated in 000's)

### "Parent company" - P&I

Currency	Net assets	Forward exchange contracts	Net exposure in currency	USD
USD	316 103	(45 943)	270 161	270 161
GBP	46 911	0	46 911	91 036
AUD	97 512	0	97 512	89 131
CNY	0	476 711	476 711	68 848
NOK	207 345	151 157	358 502	66 272
SGD	25 698	45 520	71 218	50 648
EUR	88 333	(58 018)	30 315	44 888
HKD	311 068	0	311 068	39 875
JPY	1 466 494	88 942	1 555 436	14 399
KRW	10 569 428	859 043	11 428 470	12 074
CHF	21 150	(11 391)	9 760	8 842
TWD	248 716	1 124	249 840	7 897
BRL	10 797	1 472	12 269	7 050
ZAR	42 919	0	42 919	5 435
THB	145 793	0	145 793	4 491
ILS	10 631	0	10 631	2 932
SEK	14 622	0	14 622	2 297
MXN	20 376	0	20 376	1 887
RUB	0	35 386	35 386	1 422
TRY	1 294	0	1 294	1 066
IDR	7 143 075	0	7 143 075	777
PLN	1 425	124	1 549	634
MYR	1 345	0	1 345	417
PHP	16 056	0	16 056	393
INR	0	6 954	6 954	174
NZD	115	0	115	91
CLP	0	35 116	35 116	73
DKK	10	0	10	2
Total financial liquid assets including net forward exchange contracts				793 209
Net forward exchange contracts allocated to sundry creditors				(4 556)
Total financial liquid assets				788 653

## Consolidated accounts

Currency	Net assets	Forward exchange contracts	Net exposure in currency	USD
USD	678 369	(47 332)	631 037	631 037
GBP	56 135	0	56 135	108 935
AUD	107 775	0	107 775	98 511
NOK	209 493	262 463	471 956	87 139
CNY	0	506 862	506 862	73 315
JPY	6 558 879	88 942	6 647 821	61 535
EUR	108 649	(68 786)	39 863	58 898
SGD	27 883	45 781	73 664	52 383
HKD	376 701	0	376 701	48 288
BRL	24 737	3 919	28 656	16 460
KRW	13 253 699	2 287 265	15 540 964	16 416
CHF	24 299	(10 660)	13 639	12 365
TWD	266 644	2 993	269 637	8 523
INR	311 741	18 515	330 256	8 216
ZAR	56 784	(1 865)	54 920	6 955
DKK	31 996	0	31 996	6 289
MXN	59 252	0	59 252	5 487
THB	145 793	0	145 793	4 491
RUB	0	94 218	94 218	3 787
SEK	19 877	0	19 877	3 122
ILS	10 631	0	10 631	2 932
MYR	8 598	0	8 598	2 666
IDR	23 077 883	0	23 077 883	2 511
EGP	13 745	0	13 745	2 504
TRY	2 998	0	2 998	2 469
PLN	5 244	(2 008)	3 236	1 328
CLP	411 408	93 500	504 908	1 070
PHP	26 820	(110)	26 711	654
NZD	645	0	645	513
CAD	1 155	(748)	407	400
Total financial liquid assets including net forward exchange contracts				1 329 201
Net forward exchange contracts allocated to sundry creditors				(2 186)
Total financial liquid assets				1 327 015

## Gard P&I Policy year accounts

### A. Development of open policy years

(All amounts are stated in USD 000's)

Policy year	2007	2006	2005	Total	
<i>Premiums and calls:</i>					
Invoiced in prior years	0	298,420	255,338		
Invoiced in current year	345,236	0	0		
	345,236	298,420	255,338		
Additional calls debited	1,186	39,133	33,830		
Estimated deferred call	54,759	0	0		
Total premiums and deferred calls	401,181	337,553	289,168		
Reinsurance premiums	(61,343)	(55,694)	(51,969)		
	A	339,838	281,859	237,199	
<i>Incurred claims net:</i>					
Claims paid	56,648	143,900	129,701		
Estimates on outstanding claims	139,199	137,940	73,249		
IBNRs	105,427	41,800	14,233		
Future claims management costs	8,726	6,526	3,459		
	310,000	330,166	220,642		
Operating expenses	71,716	44,104	45,774		
	B	381,716	374,270	266,416	
Investment income	C	95,363	92,232	59,325	
Surplus on open policy years	A-B+C=D	53,485	(179)	30,108	83,414
<i>Closed policy years:</i>					
Surplus in respect of 2003 and prior years as at 20 February 2007				401,083	
Transfer on closure of 2004 policy year				24,302	
Changes to policy years prior to 2004				6,816	
General contingency reserve as at 20 February 2008				515,615	

## Gard P&I

### Notes to the policy year accounts

#### B. Analysis of balance available for outstanding and unreported claims for open and closed policy years

(All amounts are stated in USD 000's)

Policy year	2007	2006	2005	Closed years	Total
<i>Gross estimated outstanding and unreported claims:</i>					
Own claims	191 618	211 170	92 636	162 931	658 355
Pool claims	50 503	25 588	4 617	27 470	108 178
<i>Estimated reinsurance recoveries due from:</i>					
The Pool	(2 505)	42 873	9 771	19 490	69 629
The Group excess loss reinsurance contract	0	0	0	(16 162)	(16 162)
Others	0	14 144	0	4 162	18 306
Net estimated outstanding and unreported claims	244 626	179 741	87 482	182 911	694 760
Future claims management costs	8 726	6 526	3 459	7 316	26 027
Provision for outstanding and unreported claims	253 352	186 267	90 941	190 227	720 787
General contingency reserve	53 485	(179)	30 108	432 201	515 615
Balance available for outstanding and unreported claims as at 20 February 2008	306 837	186 088	121 049	622 428	1 236 402

## Gard P&I

### Notes to the policy year accounts

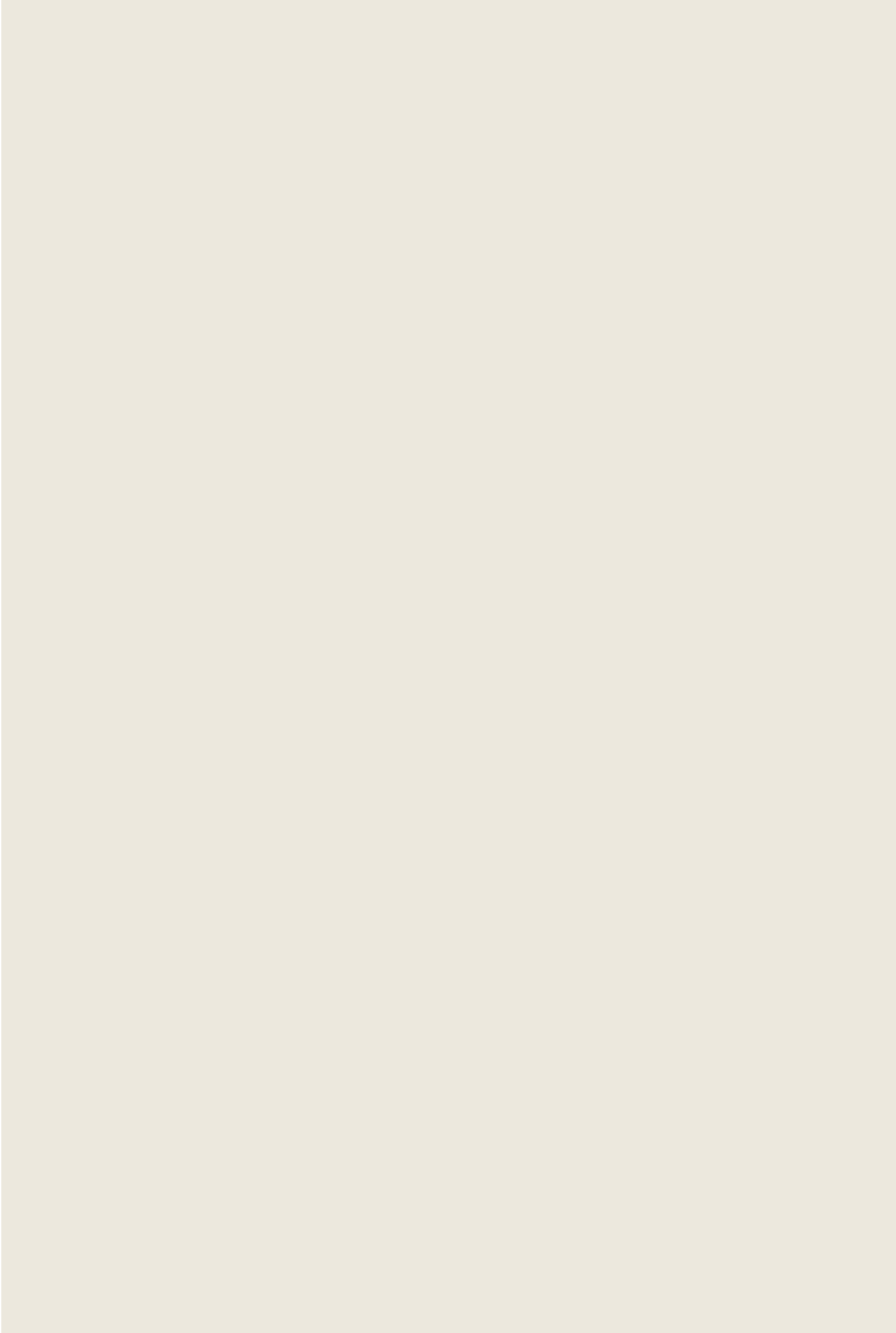
1. Premiums, supplementary calls, reinsurances and claims are credited/charged to the policy year to which they relate. Operating expenses and investment income are charged/credited to the same policy year as the financial year in which they are brought to account.
2. The annual accounts includes the 25 percent deferred call levied for the 2007 policy year. The original estimate for the year was set to 25 percent.
3. The approximate yield of a 10 percent supplementary call on the open policy years would be:  
2005 policy year USD 16 million  
2006 policy year USD 18 million  
2007 policy year USD 21 million

4. "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 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 Association's consulting actuaries.

Due to the characteristics of P&I claims, both sets of estimates, in particular in respect of the more recent years, may change substantially.

5. Provision for outstanding and unreported claims for closed years, USD 190.2 million, consists of estimated outstanding claims in the amount of USD 146 million, estimates for IBNR claims of USD 36.9 million and provision for future claims management costs of USD 7.3 million.



## Members of the Board and Committees in the Gard Group, June 2008

Gard P. & I. (Bermuda) Ltd.

### The Board of Directors

**Stephen Pan**, *Chairman*

World-Wide Shipping Agency Limited, Hong Kong

**Alain Bernard**, *Deputy Chairman*

Olympic Shipping and Management S.A., Monaco

**Basil A. Abul-hamayel**

Saudi Aramco, Dhahran

**Ian Beveridge**

Bernhard Schulte, Hamburg

**Robert Gerald Buchanan**

Genco Shipping & Trading Inc., New York

**K. C. Chang**

Evergreen Marine Corp. (Taiwan) Ltd., Taipei

**Trond Eilertsen**

Oslo

**Axel C. Eitzen**

Camillo Eitzen & Co ASA, Oslo

**Timothy C. Faries**

Bermuda

**Rafael M. Ferrada**

Compañía Sud Americana de Vapores S.A. (CSAV), Valparaíso

**Nicolas Frangistas**

Franco Compania Naviera, Kifissia

**Sir David Gibbons**

Bermuda

**Hannu Haapanen**

Neste Oil OY, Espoo

**Herbjørn Hansson**

Nordic American Tanker Shipping Ltd, Sandefjord

**Bengt Hermelin**

Saudi Maritime Holding Company (SAMCO), London

**Morten Høegh**

Leif Høegh & Co. AS, Oslo/London

**Kenneth Hvid**

Teekay Norway AS, Stavanger

**Hans Peter Jebsen**

Kristian Gerhard Jebsen Skipsrederi AS, Bergen

**Robert E. Johnston**

OSG Ship Management, New York/Newcastle

**Tom Erik Klaveness**

Klaveness Maritime Logistics AS, Oslo

**George P. Kynigos**

Agelef Shipping Co. (London) Ltd., London

**Jan Lissow**

Interorient Navigation Co. Ltd, Limassol

**Sergio Machado**

Petroleo Brasileiro S.A. - Petrobras, Rio de Janeiro

**Takeshi Matsui**

The Sanko Steamship Co. Ltd., Tokyo

**Magne Morken**

Solvang ASA, Stavanger

**Tadeusz Niszczota**

Polish Steamship Co., Szczecin

**Nicolas Pateras**

Pacific & Atlantic Corporation, Piraeus

**Michael Say**

Aug. Bolten Wm. Miller's Nachfolger (GmbH & Co.) KG, Hamburg

**Ingar Skaug**

Wilh. Wilhelmsen ASA, Oslo

**Jane Sy**

Stolt-Nielsen Transportation Group Ltd., Rotterdam

**Kazuya Uchida**

Meiji Shipping Co. Ltd., Tokyo

**Hans Ivar Vigen**

JJ Ugland Companies, Grimstad

**Claes Isacson**, President

### The Executive Committee

**Axel C. Eitzen**, *Chairman*

Camillo Eitzen & Co. ASA, Oslo

**Bengt Hermelin**, *Deputy Chairman*

Saudi Maritime Holding Company, London

**Trond Eilertsen**,

Oslo

**Jan Lissow**

Interorient Navigation Co. Ltd, Limassol

**Michael Say**

Aug. Bolten Wm. Miller's Nachfolger (GmbH & Co.) KG, Hamburg

**Claes Isacson**

President

### The Election Committee

**Stephen Pan**, *Chairman*

World-Wide Shipping Agency Limited, Hong Kong

**Alain Bernard**

Olympic Shipping and Management SA, Monaco

**Herbjørn Hansson**

Nordic American Tanker Shipping Ltd, Sandefjord

### Gard Marine & Energy Limited

#### The Board of Directors

**Axel C. Eitzen**, *Chairman*

Camillo Eitzen & Co. ASA, Oslo

**Trond Eilertsen**,

Oslo

**Bengt Hermelin**

Saudi Maritime Holding Company, London

**Claes Isacson**

Arendal

**Timothy Faries**

Bermuda

**Lingard Limited****The Board of Directors****Stephen Pan, *Chairman***

World-Wide Shipping Agency Limited, Hong Kong

**Timothy Faries**

Bermuda

**David Comer**

Bermuda

**Claes Isacson, *President*****Assuranceforeningen Gard - gjensidig****The Board of Directors****Axel C. Eitzen, *Chairman***

Camillo Eitzen & Co. ASA, Oslo

**Bengt Hermelin, *Deputy Chairman***

Saudi Maritime Holding Company, London

**Trond Eilertsen,**

Oslo

**Jan Lissow**

Interorient Navigation Co. Ltd, Limassol

**Michael Say**

Aug. Bolten Wm. Miller's Nachfolger (GmbH & Co.) KG, Hamburg

**Claes Isacson, *Managing Director*****The Supervisory Committee****Stephen Knudtzon, *Chairman***

Thommesen Krefting Greve Lund AS

Advokatfirma, Oslo

**Skule Adolfsen**

Høegh Fleet Services AS, Oslo

**Claus Mørch**

Anders Wilhelmsen & Co AS, Oslo

**Arne Falkanger Thorsen**

Bergesen Worldwide Gas ASA, Oslo

**The Election Committee****Axel C. Eitzen, *Chairman***

Camillo Eitzen & Co. ASA, Oslo

**Bengt Hermelin, *Deputy Chairman***

Saudi Maritime Holding Company, London

**Alain Bernard**

Olympic Shipping and Management SA, Monaco

**Herbjørn Hansson**

Nordic American Tanker Shipping Ltd, Sandefjord

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**Trond Eilertsen**

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Arendal

**Andreas Brachel**

Employee representative, Arendal

**Reidar Ebbesvik**

Employee representative, Bergen



## The Gard Group Meeting Dates for Committees, Boards 2007

### Assuranceforeningen Gard

#### The Annual General Meeting

Friday 24 August 2007 Arendal

#### The Extraordinary General Meeting

Wednesday 19 September 2007 Arendal

#### The Committee

Friday 25 May 2007 London  
Monday 27 August 2007 Arendal

#### The Executive Committee

Thursday 19 April 2007 Arendal  
Friday 25 May 2007 London  
Thursday 23 August 2007 Arendal  
Thursday 25 October 2007 Copenhagen  
Thursday 31 January 2008 Copenhagen

#### The Supervisory Committee

Thursday 19 April 2007 Arendal  
Friday 2 November 2007 Oslo

### Gard P. & I. (Bermuda) Ltd.

#### The Annual General Meeting

Tuesday 24 April 2007 Bermuda

#### The Extraordinary General Meeting

Tuesday 25 September 2007 Bermuda

#### Board of Directors

Tuesday 24 April 2007 Bermuda  
Wednesday 11 July 2007 Bermuda  
Tuesday 25 September 2007 Bermuda

#### The Executive Committee

Thursday 25 October 2007 Copenhagen  
Thursday 31 January 2008 Copenhagen

### Gard Marine & Energy Limited

#### The Annual General Meeting

Tuesday 24 April Bermuda

#### The Board of Directors

Tuesday 24 April Bermuda  
Thursday 25 October Copenhagen  
Thursday 31 January 2008 Copenhagen

### Lingard Limited

#### The Annual General Meeting

Tuesday 24 April Bermuda

#### Board of Directors

Tuesday 24 April 2007 Bermuda  
Thursday 25 October 2007 Copenhagen  
Thursday 31 January 2008 Copenhagen

### Gard AS

#### The Annual General Meeting

Thursday 19 April 2007 Arendal

#### The Board of Directors

Thursday 19 April 2007 Arendal  
Thursday 23 August 2007 Arendal  
Thursday 25 October 2007 Copenhagen  
Thursday 31 January 2008 Copenhagen

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This report, apart from the statement by the Chairman, has been prepared by Gard AS, managers of Assuranceforeningen Gard (the Association), from data and accounts provided by the Association and by its 'sister' company, Gard P&I (Bermuda) Limited (the Bermuda Association). The Bermuda Association's principal activity is as reinsurer of thirty per cent of the Association's retained risks. The report combines the activities of the two Associations in accordance with standard principles of consolidation. It has no formal legal significance, but is provided with the aim of giving Members an easily assimilated summary of the overall financial position of their P&I insurer. The report and accounts of the Association prepared in the Norwegian language have been filed with the relevant authorities, as required by Norwegian law. Those accounts, which are available to Members on request, will be submitted for approval to the Association's Annual General meeting in Arendal on 15 August 2008. The accounts of the Bermuda Association have already been approved in General Meeting.

