FINANCIAL STATEMENTS 2018

Assuranceforeningen Gard -gjensidig-

for the year to 20 February 2018

Assuranceforeningen Gard -gjensidig-

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The Board of Directors

Trond Eilertsen, Chairman, Norway

Jane Sy, Deputy Chairman, Stolt Tankers B.V., Netherlands

Yngvil Eriksson Åsheim, BW Maritime, Norway

Nils Aden, E. R. Schiffahrt GmbH & Cie, Germany

Ian Beveridge, Bernhard Schulte GmbH & Co. KG, Germany

Assuranceforeningen Gard -gjensidig-

Board of Directors' Report

INTRODUCTION

The Board of Directors hereby submits the report and accounts of Assuranceforeningen Gard - gjensidig - (the "Association") for the 2017 financial year, covering the 12-month period to 20 February 2018. This is the Association's 110th year of business.

In the opinion of the Board of Directors this report and accounts for the year to 20 February 2018 gives a true and fair view of the Association's assets, liabilities, financial position and result.

Statutory requirements with regard to solvency and capital are complied with.

Beyond what has been dealt with in this report, and the risks and uncertainties the marine insurance industry in general are faced with, the Board of Directors does not consider there to be any special risks or uncertainties connected to the business activities of the Association.

The Associations is a part of the Gard group (group) where Gard P. & I. (Bermuda) Ltd. is the ultimate owner.

THE ASSOCIATION - MEMBERSHIP RIGHTS

The Association is a Norwegian mutual insurance association founded in Arendal in 1907. The Association provides Protection and Indemnity ("P&I") insurance and related insurance products to its members being owners, operators, charterers or other direct insurers of ships entered in the Association. As a mutual insurance association, its members own the Association. There are no external capital owners.

The members of the Association are also members of Gard P. & I. (Bermuda) Ltd and *vice versa*. The membership rights in the Association are exercised through the parent company, Gard P. & I. (Bermuda) Ltd. which is also a member of the Association. The parent company shall then exercise the membership rights on behalf of the entire membership at the General Meeting of the Association. Against this background the Association is treated as a subsidiary of Gard P. & I. (Bermuda) Ltd for accounting purposes.

THE OPERATION IN GENERAL

P&I insurance

Protection and Indemnity ("P&I") insurance is the name of the insurance covering the shipowner's liability towards a third party. The insurance covers both liability for property damage and personal injuries arisen in connection with the operation of the insured ship.

Traditional P&I insurance is currently offered by 13 clubs covering about 90 percent of the world's merchant fleet.

These 13 clubs, or mutual insurance associations, have formed an organisation called the International Group of P&I Clubs (the "IG"). One of the important functions of IG is to co-ordinate the clubs collective purchase of market reinsurances. This is done within the framework of the Pooling Agreement. The latter contains three main elements. The first is the claims sharing between the parties to the agreement. The second is the provisions dealing with collective purchase of market reinsurances covering liabilities in excess of the upper limit of the Pool. The third is the provisions governing a claim exceeding the limit of the IG clubs collective market reinsurance contract, a so-called overspill claim.

The Association’s branch office in Tokyo

The Association has a branch office in Tokyo. The branch office has one employee and was established when the Association was granted a licence from the Japanese Ministry of Finance to insure vessels flying Japanese flag.

The Association’s branch office in Hong Kong

The Association has a branch office in Hong Kong. The branch office is authorized by the Insurance Authority to carry on business in and from Hong Kong.

The Association’s branch office in the United Kingdom

The Association has a branch office in the United Kingdom. The branch is established in the United Kingdom as a branch of an Overseas Firm in accordance with the EU rules for Free Movement of Services.

Gard AS - the Association’s insurance agent

The Association has entered into an agency agreement with Gard AS being a Norwegian registered insurance intermediary. Gard AS is registered with the Norwegian Financial Supervisory Authority as the agent of the Association. All underwriting and claims handling services offered by the Association are performed by Gard AS, or its subsidiaries abroad as insurance intermediaries on the basis of an agency agreement.

Personnel and organisation

As a result of the appointment of Gard AS as the agent of the Association there are at the end of the year only 14 persons directly employed by the Association. These persons include, inter alia, the Managing Director, the Legal Director (Company Secretary) and the Accounting Manager.

In the period from 21 February 2017 to 20 February 2018 the level of absence due to sickness has been below the corresponding average in the insurance industry. The total number of days of absence due to sickness corresponded to a percentage of 0.34 percent against 4.8 percent for the insurance industry in general. The organisation is focusing on preventing occupational injuries as a result of long time use of PCs and other office equipment. There have been no injuries or accidents in connection with the operations.

The Association seeks to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin color, language, religion and faith.

The working environment in the Association has in the period to 20 February 2018 been good.

Internal control

Pursuant to regulations determined by the Norwegian Financial Supervisory Authority the Association has established an internal control system. In accordance with the said regulations, a report about the internal auditor's findings are submitted to the Audit Committee established on a group basis as set out below. In line with the Solvency II regime a Compliance Officer function was established with effect from 1 January 2015. The Compliance Officer is part of the risk assessment and internal control system and shall ensure compliance with governing laws, regulation and administrative provisions.

Pursuant to the Norwegian Finance Institutions Act of 2015 no. 17, Section 8-18, the Association shall have an Audit Committee. However, the Association has been granted dispensation from the requirement to have an Audit Committee by the Norwegian Financial Supervisory Authority. The exemption is made on the basis that the parent company of the Association, Gard P. & I. (Bermuda) Ltd., has an Audit Committee overseeing the activities of the Group on a consolidated basis, including the activities of the Association. The decision by the authorities is made on the basis that the composition of the Group Audit Committee is in line with the requirements of Norwegian legislation both in relation to its composition as well as responsibility to perform certain tasks.

Safety at sea

The Association is participating in the activities organised under the umbrella of the International Group with a view to review possible measures to be taken by insurers for the purposes of improving safety at sea. The Norwegian Act on Ship Safety, which entered into force on 1 July 2007 allows exchange of information between insurers regarding the technical condition of vessels. The Association believes that this is an important step for the purposes of improving the safety at sea.

Research and development

The Association does not carry out research and development activities.

Environmental damage

The Association is a mutual insurance provider and the environmental footprint is therefore limited as the products, in the form of insurance cover, do not have an environmental impact. The Associations impact on climate and the environment is therefore primarily connected to business travel made by the limited number of staff.

Gard fully supports the UN Principles of Responsible Investment and actively encourage the 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.

FUND MANAGEMENT

A major part of the Association's investment portfolio is invested through a "Common Contractual Fund" structure. The investment structure represents a common legal framework for the management of the funds belonging to the following risk carriers in the Gard group: Assuranceforeningen Gard - gjensidig -, Gard P. & I. (Bermuda) Ltd, Gard Marine & Energy Limited, Gard Marine & Energy Insurance (Europe) AS and Gard Reinsurance Co Ltd. The objective of the investment structure is saving of management costs and optimizing the total returns within the investment guidelines. The portfolio managers in the Common Contractual Fund structure are all specialists within the class of assets the individual manager has been given a mandate to manage.

The general investment guidelines for the management of the funds of the Association are determined by the Board of Directors. The general guidelines determined by the Board of Directors contain, *inter alia*, provisions as to the currency composition of the investments and the types of financial instruments that can be used. The percentage of the investment held in US dollar must be in the range between 30 percent and 75 percent. Each portfolio manager employed shall not manage more than 30 percent of the total fund. The guidelines permit also investments in real estate funds, futures, options and other derivatives for the purpose of improving risk management, efficiency and liquidity of the portfolio. The individual portfolio manager's mandate is composed on the basis of an index enabling the Association to measure the individual manager's performance against a benchmark.

The Administration reports on the performance and composition of the portfolio at each Board of Directors meeting. For each meeting, a compliance report is produced showing whether there are non-conformities in relation to the investment guidelines.

In the view of the Board of Directors the Association's investments can be described as having a medium risk profile.

INSURANCE BUSINESS

Entered tonnage

At the end of the financial year to 20 February 2018, the number of entered vessels and other units was 3,151. The total tonnage of the direct business amounted to 79.1 million GT of which direct owner's entries amounted to 66.7 million GT.

Reinsurance

In the financial year to 20 February 2018, the Association's retention level for insurance liabilities, arising out of any one event any one vessel, was USD 10 million, net of reinsurance, for mutual entries reinsured under the IG Pooling Agreement. For liabilities arising under fixed premium entries reinsured outside the Pool-structure, the retention level was USD 20 million, net of reinsurance, any one event any one vessel. The Association's reinsurance program was structured as outlined below.

According to the P&I Clubs' Pooling Agreement claims in the layer between USD 10 million and USD 100 million were shared between the parties to that agreement pursuant to the agreed formula. Further the reinsurance protection through the Pool was USD 2,000 million, any one event any one vessel, in excess of the USD 100 million being the upper limit of the Pool.

Fixed premium entries covering risks falling outside the scope of the Pooling Agreement was reinsured by the Association in the commercial reinsurance market. The level of retained risk for each claim was USD 20 million.

Internal reinsurance contracts

The Association has also entered into a reinsurance treaty with its parent company, Gard P. & I. (Bermuda) Ltd., covering a proportion of the risks retained under the above reinsurance arrangements based on the Pooling Agreement and the market reinsurance contract for fixed premium business.

The Association has entered into a separate reinsurance treaty with Gard P. & I. (Bermuda) Ltd, where the Association, as the reinsurer, covers a proportion of the risks retained by Gard P. & I. (Bermuda) Ltd. under the reinsurance arrangements based on the Pooling Agreement and the market reinsurance contracts for fixed premium business.

The Association has entered into a stop loss reinsurance agreement with Gard Reinsurance Co. Ltd, a subsidiary of Gard P. & I. (Bermuda) Ltd.

The Association has also entered into a reinsurance agreement with Hydra, which is a segregated accounts company where Gard P. & I. (Bermuda) Ltd. is the owner of the Hydra Gard cell.

Open policy years

The 2015 policy year

Over the last 12 months the value of reported claims for the policy year 2015 has increased. The year is expected to produce a surplus.

The year can at the earliest be closed in October 2018. Further calls are not expected.

The 2016 policy year

Over the last 12 months, the value of reported claims for the policy year 2016 has shown a good improvement. The year is expected to produce a surplus.

The year can at the earliest be closed in October 2019. Further calls are not expected.

The 2017 policy year

The Board of Directors have decided that no deferred call shall be levied. The decision reflects the Association's sound financial position.

The year can at the earliest be closed in October 2020.
Closed policy years

All closed years up to and including the 2015 policy year have developed as anticipated and show an overall surplus.

FINANCIAL RISK

Insurance risk

The Association writes P&I risks through direct operations and reinsurance of Gard P. & I. (Bermuda) Ltd. through a quota share agreement.

The Association participates in the external reinsurance programs as described above in addition to the internal reinsurance contracts.

A set of extreme events for insurance risk have been identified and the realistic possible loss to the Association has been calculated. The highest insurance loss for own account from the identified extreme events is USD 25 million, which is 22 percent of the company's equity.

Reverse stress testing has been conducted. A net insurance loss of USD 92 million will bring the Association's solvency down to 75 percent. This corresponds to 11 losses in excess of USD 20 million on the Mutual portfolio and six losses on the fixed portfolio respectively.

Market risk

The Association has experienced a decrease in market risk over the last year, mainly driven by reduced equity exposure.

According to stress tests, the highest estimated market loss to the Association is USD 11 million due to a 30 percent fall in equity markets.

A reverse stress test demonstrates that a market loss of USD 100 million will bring the Association's solvency ratio down to 75 percent.

Counterparty default risk

The main sources of counterparty default risk is intra-group reinsurers and cash deposits at banks. As of 20 February 2018, the main counterparty exposures were National Idemnity Company, Sumitomo Bank, Nordea and Lloyds.

The credit risk in respect of receivables is handled by group policies and by close follow-up. Outstanding and overdue premiums from members and customers will be set off in payments of claims compensations.

Liquidity risk

The duration of investable assets shall meet the pay-out profile of the Association's liabilities. The investable asset consists of a portfolio that can be liquidated in a short period of time. The liquidity risk is deemed low.

Operational risk

The operational risk of the Gard group is assessed annually through the internal self-assessment. Results of the self-assessment are used to manage operational risk and to quantify the internal operational risk charge. Operational risk for the Association as calculated by the standard formula has gone down over the last year.

Capital and solvency position

The Association and its branches in Japan, Hong Kong and United Kingdom comply with all solvency and capital requirements.

ACCOUNTS FOR THE YEAR 2018

The Association has been granted dispensation by the Norwegian Financial Supervisory Authority and the Tax Authority from the requirements to present the annual accounts in Norwegian currency and in the Norwegian language. In accordance with this, the annual accounts are presented in United States Dollar (USD) and in the English language. Comparing figures as per 20 February 2017 are included in brackets.

Result

The total comprehensive income shows a profit of USD 2.9 million (profit of USD 15.8 million). No estimated deferred call for the 2017 (2016) policy year has been included in the accounts. The originally estimated deferred call was 25 percent (25 percent) of advance call or USD 27.3 million (USD 30.7 million).

Technical result was a loss of USD 9.1 million (profit of USD 7.1 million).

Premiums

The gross earned premium in the year ending 20 February 2018 was USD 151.6 million (USD 164.8 million). Earned premium for own account was USD 76.8 million (USD 84.5 million). The premium volume of the Association has decreased in the year to 20 February 2018 mainly due to a softening market.

Claims

Gross claims cost incurred during the period amounted to USD 86.0 million (USD 38.5 million). Net claims incurred for own account was USD 77.3 million (USD 67.9 million). The increase in claims incurred for own account from last year is impacted by other clubs' pool claims that have seen an adverse development.

Non-technical result

The net income derived from investments of assets was a profit of USD 12.0 million in the year to 20 February 2018 (profit of USD 11.7 million).

Total equity

Other equity has increased to USD 112.2 million (USD 109.3 million). The equity is retained to meet unforeseen fluctuations in claims exposure, possible catastrophes, and extraordinary claims patterns that fall within the Association's liabilities and to meet capital requirements.

Technical provisions

As at 20 February 2018 the Association's technical provisions to cover reported and unreported claims for own account amounted to USD 151.7 million (USD 152.1 million).

The Board of Directors is of the opinion that other equity and the technical provisions are sufficient to cover all liabilities for the 2017 policy year and earlier policy years.

Cash flow analysis

The Association's bank deposit as of 20 February 2018 amounted to USD 49.3 million (USD 48.3 million). Net cash flows from operating activities consist primarily of incoming payments in the form of premiums and outgoing payments in the form of claims and operating expenses. Operating liquidity (cash) is balanced by transfers to and from the investment portfolio.

CONTINUED OPERATION AND THE FUTURE DEVELOPMENT

The Board of Directors expects a slight decrease in premium income and volume to decrease for the year to 20 February 2019, mainly due to soft commercial insurance markets, reduced excess surplus in mutual, continuing low interest rates, as well as low growth and even reduced demand in some lines of business. The cost base would continue to increase moderately. The non-technical result is expected to give a return in the area of 2 to 4 percent over the next years. From 2019 a premium growth of 3 to 4 percent is expected.

Against this background and pursuant to the Norwegian Accounting Act of 1998, section 3-3a, the Board of Directors is of the opinion that it is basis for continued operation of the Association. The year-end accounts are based on these premises.

GOVERNING CORPORATE BODIES

The Board of Directors of the Association are composed as shown on page 1.

Board of Directors

Yngvil Åsheim and Jane Sy shall retire by rotation at the forthcoming Annual General Meeting but can be re-elected.

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The Board of Directors wishes to express its gratitude to Members, business associates and correspondents for their participation and support to the Association, and thanks all employees of the Association and Gard AS for their loyalty and interest throughout the year.

Arendal, 23 April 2018

Board of Directors
Assuranceforeningen Gard -gjensidig-

Trond Eilertsen Chairman	Jane Sy Deputy Chairman	Yngvil Åsheim
Nils Aden	Ian Beveridge	Rolf Thore Roppestad Managing Director

Assuranceforeningen Gard -gjensidig-

Statement of comprehensive income

Amounts in USD 000's	Notes	21.02.17 to 20.02.18	Restated* 21.02.16 to 20.02.17
Technical account			
Gross earned premium	4, 5, 6	151,607	164,838
Ceded reinsurance	6	(74,760)	(80,384)
Earned premium for own account	6	**76,847**	**84,454**
Other insurance related income		**238**	**153**
Gross incurred claims	6	86,001	38,474
Reinsurers' share of gross incurred claims	6	(8,724)	29,450
Claims incurred for own account	6	**77,276**	**67,924**
Aquisition costs	7	6,988	7,148
Agents' commission	7	6,899	9,822
Commission received	7	(7,176)	(8,575)
Insurance related expenses for own account	7	**6,711**	**8,395**
Other insurance related expenses	7	**2,163**	**1,191**
Technical result		**(9,067)**	**7,097**
Non-technical account			
Interest and similar income	8	4,188	8,860
Change in unrealised gain /(loss) on investments		4,404	3,478
Gain/(loss) on realisation of investments		3,487	(654)
Other investment expenses		(85)	32
Non-technical result	19	**11,993**	**11,716**
Profit before tax		**2,927**	**18,812**
Taxation	9	(99)	2,915
Net result		**3,025**	**15,897**
Other comprehensive income/(loss)			
Remeasurement due to change in pension assumptions	16	(153)	(94)
Total comprehensive income/(loss)		**2,872**	**15,802**

*See note 2.2 and note 19

Assuranceforeningen Gard -gjensidig-

Balance sheet

Amounts in USD 000's	Notes	As at 20.02.18	Restated* As at 20.02.17
Assets			
Investments			
Financial investments at fair value through profit or loss			
Equities and investments funds	11, 12, 13	24,474	39,588
Bonds and bond funds	11, 12, 13	177,518	167,632
Financial derivative assets	11, 12, 13	0	271
Other financial investments	11, 12	7,456	8,299
Total investments	**19**	**209,448**	**215,789**
Reinsurers' share of technical provisions			
Reinsurers' share of gross premium reserve	6	32	43
Reinsurers' share of gross claims reserve	6, 12	219,360	279,217
Total reinsurers' share of technical provisions		**219,391**	**279,259**
Receivables			
Policyholders	14	5,582	12,665
Receivables from reinsurance operations			
Receivables from reinsurance operations - group companies		16,441	3,088
Other receivables			
Other receivables		11	132
Other receivables - group companies		133	184
Total receivables	12	**22,168**	**16,069**
Other assets			
Equipment	10	2,201	2,201
Cash and cash equivalents	12, 15	49,271	48,295
Prepaid tax	9	748	0
Other financial assets	12	1,869	1,838
Total other assets		**54,088**	**52,333**
Prepayments and accrued income			
Accrued income and other prepayments		3,860	1,308
Total prepayments and accrued income		**3,860**	**1,308**
Total assets		**508,954**	**564,758**

*See note 2.2 and note 19

Assuranceforeningen Gard -gjensidig-

Balance sheet

Amounts in USD 000's	Notes	As at 20.02.18	Restated* As at 20.02.17
Equity and liabilities			
Equity			
Other equity	18	112,186	109,313
Total equity		**112,186**	**109,313**
Technical provisions			
Gross premium reserve	6	126	128
Gross claims reserve	3, 6	370,920	431,259
Total technical provisions		**371,046**	**431,387**
Provision for other liabilities			
Pension obligations	16	2,018	1,842
Deferred tax	9	9,005	10,553
Total provisions for other liabilities		**11,023**	**12,395**
Payables			
Payables arising out of direct insurance operations		4,922	7,487
Payables arising out of reinsurance operations		4,399	2,350
Payables group companies		279	1,000
Financial derivative liabilities	11, 12, 13, 19	652	77
Other payables	12, 19	208	93
Total payables		**10,459**	**11,007**
Accruals and deferred income			
Accruals and deferred income		4,241	656
Total accruals and deferred income		**4,241**	**656**
Total liabilities		**396,769**	**455,445**
Total equity and liabilities		**508,954**	**564,758**

*See note 2.2 and note 19

Assuranceforeningen Gard -gjensidig-

Statement of changes in equity

Amounts in USD 000's	Other equity	Total
Equity as at 21.02.16	**93,510**	**93,510**
Net result	15,897	15,897
Remeasurement due to change in pension assumptions	(94)	(94)
Equity as at 20.02.17	**109,313**	**109,313**
Equity as at 21.02.17	**109,313**	**109,313**
Net result	3,025	3,025
Remeasurement due to change in pension assumptions	(153)	(153)
Equity as at 20.02.18	**112,186**	**112,186**

Assuranceforeningen Gard -gjensidig-

Statement of cash flow

Amounts in USD 000's	Notes	21.02.17 to 20.02.18	Restated* 21.02.16 to 20.02.17
Cash flow from operating activities			
Profit before tax		2,927	18,812
Tax (paid) refunded	9	(2,106)	309
Change in unrealised gain/(loss) on investments		(4,404)	(3,477)
Pension cost charged to statement of comprehensive income	16	(153)	(94)
Change in pension obligation	16	176	(280)
Change in receivables and payables		(6,647)	(17,224)
Change in technical provisions and other accruals		469	3,441
Financial investments		10,714	15,901
Net cash flow from operating activities		**976**	**17,388**
Cash flow from investment activities			
Net cash flow from investment activities		**0**	**0**
Net change in cash and cash equivalents		976	17,388
Cash and cash equivalents at beginning of year		48,295	30,907
Cash and cash equivalents at end of year		**49,271**	**48,295**

*See note 2.2 and note 19

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 1 – Corporate information

Assuranceforeningen Gard – gjensidig -.
(the "Association") is a mutual insurance association registered with the Norwegian Companies Register (organisation number 939 717 609). The registered office of the Association is Kittelsbuktveien 31, 4836 Arendal. The Association is licensed by the Norwegian Ministry of Finance to carry out marine liability and legal costs insurances. As a mutual insurance association the Association is owned by its Members being the owners and charterers of the ships from time to time insured by the Association for Protection and Indemnity (P&I) risks. There are no external capital owners.

The principal activities of the Association are; the insurance of marine Protection and Indemnity risk on behalf of its Members, including the reinsurance of a proportion of the Protection and Indemnity risk underwritten by Gard P. & I. (Bermuda) Ltd. as a direct insurer; and management of assets covering the technical provisions.

The Members of the Association are also Members of Gard P. & I. (Bermuda) Ltd. and vice versa. The major part of the two associations' combined portfolio of direct business (currently about 80 per cent) is underwritten by Gard P. & I. (Bermuda) Ltd. The Association is primarily used as a vehicle for a smaller proportion of the combined P&I portfolio being primarily direct P&I business where an EU/EEA based insurer is required in order to comply with the governing EU regulations with regard to cross border activities.

In as much as Gard P. & I. (Bermuda) Ltd. has got the right to exercise membership rights in the reinsured portfolio, it controls more than two thirds of the voting rights in the Association being the legal basis for consolidating the two associations' accounts pursuant to the International Accounting Standard 27 Consolidated and Separate Financial Statements. Gard P. & I. (Bermuda) Ltd and its subsidiaries are considered as 'Gard group' or 'the group'.

Assuranceforeningen Gard – gjensidig- is consolidated into the accounts of Gard P. & I. (Bermuda) Ltd. and the consolidated accounts are available at the office of
Gard P. & I. (Bermuda) Ltd's management company, Lingard Ltd in Bermuda.

Note 2 - Accounting policies

2.1 Basis of preparation of the Accounts

This year's accounts include the activity from 21 February 2017 to 20 February 2018.

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 Changes to presentation and classification

The Association has changed its accounting policy on financial investments by moving the booking of entries from transactions at security level to transactions at fund level. The new accounting policy does not influence valuations, but rather the composition of Comprehensive income, Balance sheet and Statement of cash flow, hence the restated numbers due to the change. Subsequently, equities and investments funds will solely be composed of equity funds and similar, and bonds will primarily consist of bond funds and similar.
The most significant impacts to the Comprehensive Income statement are;

a) Interest and similar income is reinvested and will have a yearly income distribution that takes place prior to the financial year end
b) Change in unrealised gain/(loss) on investments will mainly relate to the change in fund value
c) Gain/(loss) on realisation of investments will be due to sales of shares in the fund
d) Investment management expenses are charged to the funds and included in the change in market value of the fund

Comparative information has been restated accordingly. See Note 19 for further details.

2.3 Use of accounting estimates when preparing the accounts

The preparation of the accounts requires the management to make estimates and assumptions that affect assets, liabilities, revenues, expenses and contingent liabilities. Due to circumstances in the future, these estimates may change. 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 Association.

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 expressed in foreign 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.

2.5 Provisions, contingent liabilities and assets

Provisions are recognised when the Association 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 neither remote nor not 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 Association.

Note 2 - Accounting policies continued

2.6 Events after the reporting period

New and material information on the Association'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 Association'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 and page of the note:

Accounting policy	Note
Technical result	6
Technical provisions	6
Insurance related expenses	7
Non-technical items	8
Tax	9
Art	10
Financial Investments	11
Derivative financial investments	13
Cash and cash equivalents	15
Pensions	16

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 3 - Intra-group transactions

Reinsurance agreements

Gard P. & I. (Bermuda) Ltd. and the Association have entered into mutual reinsurance agreements. The Association reinsures a proportion amounting to 2 per cent of Gard P. & I. (Bermuda) Ltd. risks that is not reinsured elsewhere. The Association cedes to Gard P. & I. (Bermuda) l by way of reinsurance 25 per cent of the Association's risks that are not reinsured elsewhere. Premiums are calculated on financial year basis. Claims are calculated with 25 per cent of claims incurred.

	Received from Gard P. & I. (Bermuda) Ltd.		**Ceded to Gard P. & I. (Bermuda) Ltd.**	
Amounts in USD 000's	21.02.17 to 20.02.18	21.02.16 to 20.02.17	21.02.17 to 20.02.18	21.02.16 to 20.02.17
Reinsurance	4,398	5,237	24,816	27,101
Reinsurers' share of gross settled claims	4,017	4,516	50,725	32,096
Reinsurance commission	1,297	1,275	5,870	6,480

	Received from Gard P. & I. (Bermuda) Ltd.		**Ceded to Gard P. & I. (Bermuda) Ltd.**	
Amounts in USD 000's	As at 20.02.18	As at 20.02.17	As at 20.02.18	As at 20.02.17
Reinsurers' share of gross claims reserve	10,560	11,324	85,939	114,087

The Association has entered into a stop loss reinsurance agreement with Gard Reinsurance Co Ltd (a company owned by Gard P.& I. (Bermuda) Ltd.) protecting the former against insurance liabilities in excess of a loss ratio corresponding to 90 per cent for each policy year up to and including 2014 subject to a limit of USD 25 million and for policy year 2015 a loss ratio corresponding to 100 per cent subject to a limit of USD 40 million.

	Ceded to Gard Reinsurance Co Ltd	
Amounts in USD 000's	21.02.17 to 20.02.18	21.02.16 to 20.02.17
Ceded reinsurance	2,000	2,000

	Ceded to Gard Reinsurance Co Ltd	
Amounts in USD 000's	As at 20.02.18	As at 20.02.17
Reinsurers' share of claims reserve	8,609	10,090

The Association and Gard P. & I. (Bermuda) Ltd. have entered into a reinsurance agreement with Hydra, which is a segregated accounts company. The Association's segregated account (cell) in Hydra is covering the former companies' liability to a layer of the International Group (IG) Pool and retention in the first market excess layer.

		Ceded to Hydra
Amounts in USD 000's	21.02.17 to 20.02.18	21.02.16 to 20.02.17
Reinsurance	17,242	17,432
Reinsurers' share of gross settled claims	404	306
Reinsurers' share of gross claims reserve	15,603	11,563

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 3 - Intra-group transactions continued

The Association has entered into an insurance agency agreement with Gard AS, a company owned by Gard P. & I. (Bermuda) Ltd. being the general agent, whereby Gard AS is delegated authorithy as an agent and insurance intermediary to perform claims handling and underwriting functions on behalf of the Association. The Association has also entered into agreements with the subsidiaries of Gard AS for services rendered to the Association.

	Insurance services invoiced	
Amounts in USD 000's	21.02.17 to 20.02.18	21.02.16 to 20.02.17
Insurance services invoiced from related parties	23,907	21,112

Note 4 - Gross written premium by geographical areas

Amounts in USD 000's	21.02.17 to 20.02.18	21.02.16 to 20.02.17
EEA	65,418	71,573
Norway	1,236	2,743
Other areas	84,951	90,522
Total gross written premium	**151,605**	**164,838**

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

Note 5 - Estimated deferred call

These accounts are prepared on the basis of a Board of Directors' resolution of not calling a deferred call in respect of the 2017 policy year (financial year ending 20 February 2018). The original estimated deferred call was 25 per cent. The deferred call for the 2016 policy year (financial year ending 20 February 2017) was reduced to nil from 25 per cent.

The reduction in deferred call amounts to USD 27.2 million (financial year ending 20 February 2017 USD 30.6 million).

On an estimated total call basis (ETC) the gross written premium for the financial year ending 20 February 2018 is USD 178.8 million (financial year ending 20 February 2017 USD 195.5 million).

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

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 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	21.02.17 to 20.02.18 Total P&I
Technical result	
Gross written premiums	151,605
Gross earned premium	151,607
Ceded reinsurance	(74,760)
Earned premiums for own account	**76,847**
Claims incurred, gross	
Incurred this year	(103,449)
Incurred previous years	189,449
Total claims incurred, gross	**86,001**
Reinsurers' share of gross incurred claims	(8,724)
Claims incurred for own account	**77,276**

Note 6 - Technical result and technical provisions

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 statement of comprehensive income.

Gross claims reserve

The gross claims reserve comprises estimates of the expected remaining exposure from claims that have been reported to the Association (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 a provision for Internal Claims Handling Expenses (unallocated loss adjustment expenses, or ULAE) is 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 the 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	As at 20.02.18 Total P&I
Technical provisions gross	
Provisions, at the beginning of the year	(431,259)
Claims paid	146,340
Claims incurred - gross this year	103,449
Claims incurred - gross previous years	(189,449)
Provisions, at the end of the year	**(370,920)**
Reinsurers' share of claims provision	219,360
Provisions net, at the end of the year	**(151,562)**
Provision for unearned premiums, gross	126
Reinsurers' share of premium provision	32
Provision for unearned premiums, net	**94**
The Association is a member of the International Group of P&I Clubs.	
Gross technical provision regarding Pooling Agreement	45,795
Net technical provision regarding Pooling Agreement	30,192
Provision for outstanding claims	
Technical provision gross	371,046
Technical provision net	151,655

Provided guarantees outside cover, not recognised in the balance sheet, amount to USD 0.142 million as at 20 February 2018 (USD 0.171 million as at 20 February 2017).

Sensitivity analysis has been performed in order to evaluate how sensitive gross claims reserve is dependent on the actuarial methods applied. The Association applied the following methods: Development factor method, Bornhuetter Ferguson, Apriori reduced method and Benktander. Based on these methodologies the gross claim reserve ranges between USD 369.23 million and USD 372.61 million as at 20 February 2018 (ranges between USD 429.15 million and USD 431.94 million as at 20 February 2017).

Assuranceforeningen Gard -gjensidig-

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	21.02.17 to 20.02.18	21.02.16 to 20.02.17
Acquisition costs and commissions		
Sales related salaries and wages	207	266
Insurance intermediary	6,781	6,883
Agents' commission	6,899	9,822
Commission received	(7,176)	(8,575)
Insurance related expenses for own account	**6,711**	**8,395**
Number of part time staff	**14**	**14**

Remuneration to Group Leadership Team and Board of Directors

The table below provides information regarding payments made in the financial year 2018 to members of the Board of Directors within the group. Remuneration relating to the financial year 2018, but not yet paid, is accrued for in the accounts.

Amounts in USD 000's	Salary *	Board remuneration	Total remuneration
Group Leadership Team			
Rolf Thore Roppestad (Managing Director)	70	0	70
Steinar Bye	38	0	38
Christen Guddal	28	0	28
Bjørnar Andresen	38	0	38
Kristian Dalene	28	0	28
Kjetil Eivindstad	31	0	31
Members of the Board of Directors			
Trond Eilertsen (Chairman)	0	20	20
Jane Sy (Deputy Chairman)	0	15	15
Ian Beveridge (Member)	0	15	15
Yngvild Åsheim (Member)	0	15	15
Morten W. Høegh (Member left during the year)	0	15	15
Nils Aden (New Member)	0	0	0

* All figures are excluding social security costs.

Note 7 - Insurance related expenses and number of staff continued

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 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 16 for definition of base amount).
The full pension requires a thirty year accrual period in Gard, or it will be reduced accordingly.

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 (Group leadership team) and other Key Employees, as defined in the legislation, are participating in the collective bonus scheme subject to certain adjustments required by 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, a bonus of 18 per cent of gross salary is excpected to be paid for the year to 20 February 2018.

The key features of the special terms for members of GLT and Key Employees can be summarised 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 consulation with the Chairman of the Excecutive Committee of Gard P. & I. (Bermuda) Ltd.

Remuneration auditor

Amounts in USD 000's	21.02.17 to 20.02.18	21.02.16 to 20.02.17
Auditing fee	182	87
Tax advising	0	0
Non audit services	0	0
Total auditors' fee	**182**	**87**

Net operating expenses

Amounts in USD 000's	21.02.17 to 20.02.18	21.02.16 to 20.02.17
Bad debt	731	221
Service cost	24,682	21,567
Allocated to claims handling and acquisition costs	(25,677)	(22,637)
Other operating expenses	2,428	2,040
Other insurance related expenses	**2,163**	**1,191**

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

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	21.02.17 to 20.02.18	Restated 21.02.16 to 20.02.17
Interest and similar income		
Income from financial instruments held for trading (portfolio investments)	4,495	7,687
Foreign exchange (loss)/gain	(307)	1,173
Total interest and similar income	**4,188**	**8,860**

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 9 - Tax

Accounting policy

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

Deferred tax/tax asset 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.

Taxes are calculated as follows

Amounts in USD 000's	21.02.17 to 20.02.18	21.02.16 to 20.02.17
Basis for income tax expenses, changes in deferred tax and tax payable		
Profit before tax	2,927	18,812
Permanent differences	(9,120)	(9,033)
Basis for the tax expenses for the year	**(6,193)**	**9,779**
Change in temporary differences	(3,323)	(18,044)
Basis for payable taxes in the Statement of comprehensive income	**(9,516)**	**(8,265)**
Change in (utilisation of) tax losses carried forward	9,516	8,265
Taxable income (basis for payable taxes in the balance sheet)	**0**	**0**
Income tax expenses		
Tax paid/(refunded) in Hong Kong and Japan branch	2,106	(309)
Tax payable on net assets	3	0
Change in deferred tax	(2,208)	3,225
Tax expenses on Net result	**(99)**	**2,915**
Income tax payable/prepaid tax		
Prepaid tax at the beginning of the year	0	0
Tax prepaid in Japan branch	748	0
Prepaid tax at the end of the year	**748**	**0**
Deferred tax		
Specification of tax effect resulting from temporary differences		
Pension obligations	2,018	1,842
Portfolio investments	1,781	3,758
Tax loss carried forward	76,975	67,459
Other temporary differences	1,692	1,826
Contingency reserve*	(118,484)	(117,097)
Total temporary differences	**(36,018)**	**(42,211)**
Deferred tax, 25 per cent of total temporary differences	(9,005)	(10,553)
Total deferred tax	**(9,005)**	**(10,553)**
Reconciliation of the tax expense		
Profit before tax - Basis for calculating tax	2,927	18,812
Calculated tax 25%	**732**	**4,703**
Tax expense	(99)	2,915
Difference	**831**	**1,788**
The difference consist of:		
Permanent differences not subject to tax	2,280	1,913
Tax in foreign branches	(2,106)	(309)
Tax correction earlier year	(3)	0
Currency effect posted to Non-technical result	660	184
Sum explained differences	**831**	**1,788**

* As a result of changes to the Norwegian accounting regulations for insurance companies, contingency reserve has been reclassified to Other equity. Related deferred tax has been recognised as applicable depending on tax jurisdiction. Deferred tax has been calculated as the difference between the treatment of contingency reserve in the financial statements and in the tax accounts, and is deemed to be a temporary difference. On 7 February 2018, the Norwegian Ministry of Finance issued a consultation paper with proposals for changes in the tax legislation for insurance and pension entities taking effect from the tax year 2018. No change in the tax treatment of contingency reserves has been decided, nor has there been any change in the equity capital requirements for Assuranceforeningen Gard - gjensidig -.

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 10 - Equipment

Accounting policy

Fixed assets are comprised of assets intended for long term ownership and use. Costs for maintenance are expensed as incurred. If the carrying value of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount.

Art

Amounts in USD 000's	As at 20.02.18
Acquisition costs at the beginning of the year	2,946
Net additions/(disposals)	0
Exchange adjustments	0
Cost at the end of the year	**2,946**
Depreciation and impairment at the beginning of the year	(745)
Impairment	0
Depreciation and impairment at the end of the year	**(745)**
Net book value at the end of the year	**2,201**

Art

Amounts in USD 000's	As at 20.02.17
Acquisition costs at the beginning of the year	2,946
Net additions/(disposals)	0
Exchange adjustments	0
Cost at the end of the year	**2,946**
Depreciation and impairment at the beginning of the year	0
Impairment	(745)
Depreciation and impairment at the end of the year	**(745)**
Net book value at the end of the year	**2,201**

Art is not a subject to depreciation.

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 11 - Financial investments at fair value through profit or loss

Accounting policy

Classification
The Association 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 its 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 insvestments 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 Association's management has the positive intention and ability to hold to maturity, other than:

- those that the Association 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 Association 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 Association has transferred substantially all risks and rewards of ownership.

Loans and 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.
Dividend from investments are recognised when the Association 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 income statement and reported as interest and similar income.
In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the 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.

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 11 - Financial investments at fair value through profit or loss continues

Accounting policy

Impairment of financial assets
The Association 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 Association may measure impairment on the basis of an instrument'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 statement of comprehensive income.

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 11 - Financial investments at fair value through profit or loss continued

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 bonds 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.

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 Association 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 Association is the last trade price (these investments are included in Level 1).
US government bonds and other financial instruments 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 investments are observable, the investments is included in Level 2.

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

- Equity funds and bond funds where fair values are determined by using quoted market prices of the assets where the funds have 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 deriviatives 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

The Association has no investments that fall into level 3.

	As at 20.02.18				Restated As at 20.02.17			
	Quoted market prices	Observable market data	Non observable market data		Quoted market prices	Observable market data	Non observable market data	
Amounts in USD 000's	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial investments								
Equities and investment funds	0	24,474	0	24,474	0	39,588	0	39,588
Bonds and bond funds	10,668	166,850	0	177,518	0	167,632	0	167,632
Financial derivative assets	0	0	0	0	0	271	0	271
Cash incl. in other financial investments	7,405	0	0	7,405	8,257	0	0	8,257
Other financial investments	51	0	0	51	41	0	0	41
Total financial investments	**18,124**	**191,324**	**0**	**209,448**	**8,298**	**207,491**	**0**	**215,789**
Financial liabilities								
Financial derivative liabilities	0	652	0	652	0	77	0	77
Total financial liabilities	**0**	**652**	**0**	**652**	**0**	**77**	**0**	**77**

Note 11 - Financial instruments at fair value through profit or loss continued

Equities and investment funds

The Association has an equity exposure of 11.7 per cent of its total investments which is lower than the year before,

The majority of investments held are subfunds of the Gard Common Contractual Fund. A legal fund structure establised in Ireland. Each subfund hold well diversified portfolios with different investment objectives, and the underlying holdings are common stocks traded on regional stock exchanges. Only minority interests are held in quoted companies through the equity funds.

Amounts in USD 000's	Investment profile	Currency	As at 20.02.18 Market value
Equity funds			
Gard Global Equity Fund II	Global equity	USD	24,474
Total Equity fund			**24,474**
Total Equities and investment funds			**24,474**
The part of Equity fund invested in quoted shares.			24,474

Bonds and bond funds

The Association holds units in bond sub funds within the Gard Common Contractual Fund.

Amounts in USD 000's	Investment profile	Currency	As at 20.02.18 Market value
Bond funds			
Gard Emerging Market Debt Fund	Emerging market debt	USD	10,333
Gard Global Bond Fund I	Global aggregate bonds	USD	67,295
Gard Global Credit Bond Fund I	Global corporate bonds	USD	59,532
Gard Global Treasury Fund	Government debt	USD	29,690
Northern Trust Cash Fund	Money market fund	USD	10,668
Total Bond funds			**177,518**
Government Bonds			
The Japan Ministry of Finance		JPY	1,771
Total Government Bonds			**1,771**

The Japan Government Bond is held as a deposit for the business underwritten in Japan. The bond is not subject for trade.
The bond is held to maturity, and then replaced by a new bond to meet the local capital requirements.
According to Norwegian GAAP the Bond is included in "Other assets" in the Balance Sheet.

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 12 - 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 capitalization) are defined in accordance with risk carrying 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 all 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 regulary, managed proactively, monitored regulary and reported to the relevant responsible body.

Main financial risks

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 trasury 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 Association 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.

The Association 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 20.02.2018. 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.

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Notes to the accounts

Note 12 - Financial risk continued

Credit risk exposure in balance sheet

Amounts in USD 000's	As at 20.02.18	Restated As at 20.02.17
Bonds and bond funds		
AA	10,668	0
Not rated	166,850	167,632
Total bonds and bond funds (rating of underlying securities presented in a separate table)	**177,518**	**167,632**
Financial derivative assets		
A	0	271
Total financial derivative assets	**0**	**271**
Other financial investments		
A	7,456	8,299
Total other financial investments	**7,456**	**8,299**
Reinsurers` share of gross claims reserve		
AA	6,312	16,483
A	194,834	242,731
BBB	16,708	18,456
Not rated	1,505	1,547
Total reinsurers`share of gross claims reserve	**219,360**	**279,217**
Receivables		
A	17,161	3,753
BBB	77	319
Not rated	4,929	11,996
Total receivables	**22,168**	**16,069**
Cash and cash equivalents		
AA	13,658	0
A	35,612	48,294
Total cash and cash equivalents	**49,271**	**48,295**
Other financial assets presented in balance sheet		
A	1,869	1,838
Not rated	748	0
Total other financial assets presented in balance sheet	**2,617**	**1,838**

The table below presents the rating of underlying securities held in bond funds on a look-through basis.

Amounts in USD 000's	As at 20.02.18	Restated As at 20.02.17
Bond funds		
AAA	62,390	51,903
AA	41,787	20,533
A	17,096	28,285
BBB	45,867	55,432
BB	7,627	8,474
B	1,884	2,543
CCC/lower	867	461
Total bond funds	**177,518**	**167,632**

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 12 - Financial risk continued

Age analysis of receivables after provision for bad debt

Amounts in USD 000's	As at 20.02.18	Restated As at 20.02.17
Not due	3,018	10,756
0-60 days	17,028	3,415
61-90 days	(13)	(189)
Above 90 days	3,336	3,501
Provision for bad debt	(1,200)	(1,414)
Total receivables	**22,168**	**16,069**

Impaired receivables

As at 20 February 2018 there are impaired receivables of USD 1.20 million (20 February 17 USD 1.41 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	As at 20.02.18	As at 20.02.17
Balance as at the beginning of the year	1,414	1,393
Provision for receivables impairment	922	35
Receivables written off during the year as uncollectable	(945)	199
Unused amounts reversed	(213)	(213)
Exchange adjustment	22	0
Balance as at the end of the year	**1,200**	**1,414**

The creation and release of provision for impaired receivables have 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.

Market risk

Market risks araises 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 higher skewedness towards emerging markets and smaller companies compared to a global market capitalised benchmark. This is expected to generate 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 are broadly matched to the expected duration of the liabilities. The sensitivity analysis for bond instruments is testing the portfolio's interest rate sensitivity with a weighted average duration approach. Interest sensitive liabilities are not part of the analysis.

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 emphasise 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.

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 12 - Financial risk continued

The table below splits the balance sheet into the major currencies USD, EUR and GBP, and remaining currencies are grouped into Other.

Currency split balance sheet Amounts in USD 000's	As at 20.02.18	Restated As at 20.02.17
Assets		
USD	416,172	446,473
EUR	35,248	46,922
GBP	24,176	31,011
Other	33,359	40,351
Total assets	**508,954**	**564,758**
Equity and liabilities		
USD	338,860	360,852
EUR	59,865	74,462
GBP	50,281	61,062
Other	59,948	68,381
Total equity and liabilities	**508,954**	**564,758**
Net asset exposure		
USD	77,312	85,621
EUR	(24,617)	(27,540)
GBP	(26,105)	(30,051)
Other	(26,590)	(28,030)

The table below presents the balance sheet split into major currencies including the foreign exchange exposure of the underlying securities held in equity and bond funds on a look-through basis.

Amounts in USD 000's	As at 20.02.18	Restated As at 20.02.17
Assets		
USD	353,646	380,186
EUR	46,559	63,497
GBP	50,071	55,101
Other	58,679	65,974
Total assets	**508,954**	**564,758**
Equity and liabilities		
USD	338,860	360,852
EUR	59,865	74,462
GBP	50,281	61,062
Other	59,948	68,381
Total equity and liabilities	**508,954**	**564,758**
Net asset exposure		
USD	14,787	19,334
EUR	(13,306)	(10,965)
GBP	(211)	(5,962)
Other	(1,270)	(2,407)

Note 12 - Financial risk continued

Financial instruments - 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	As at 20.02.18	Restated As at 20.02.17
Impact on fixed income portfolio investments given an increase of 50 basis points	(1,841)	(2,409)
Impact on equity portfolio given a 10% drop in quoted market prices	(2,426)	(3,987)
Impact on total investment portfolio given a change of 10% in foreign exchange rates against USD	(4,907)	(5,898)

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 Association has no significant risk concentrations which is not in line with the overall investment guidelines set by the Board of Directors. Any impact from risk tested in the table above is not, due to tax regulations, assumed to have any taxable impact.

The methods used above for deriving sensitivity information and significant variables have not changed from the previous year.

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 12 - Financial risk continued

Liquidity risk

The risk that cash resources 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.

Maturity profile

The following tables below 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. Liabilities not covered by IFRS 7 (claims reserves) are classified as other liabilities in the table. Maturity profile on derivatives are presented in note 13.

The Association maintains highly marketable financial instruments and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. This gives a presentation of the maturity profile on the payables.

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	No maturity date	As at 20.02.18 Total
Gross claims reserve	109,347	234,570	27,003	0	370,920
Payables and accruals	14,492	0	0	0	14,492
Other payables	208	0	0	0	208
Other liabilities	0	0	11,023	0	11,023

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	No maturity date	Restated As at 20.02.17 Total
Gross claims reserve	127,135	272,728	31,396	0	431,259
Payables and accruals	11,570	0	0	0	11,570
Other payables	93	0	0	0	93
Other liabilities	0	0	12,395	0	12,395

Portfolio asset allocation

The table below presents the IFRS balance sheet items together with an asset allocation perspective.
The portfolio asset allocation is deemed as a better way of representing the actual underlaying exposures
Financial derivatives adjust the equity exposure by selling equity futures and simultaneously adjusts fixed income exposure by buying interest rate swap contracts.

Amounts in USD 000's	Fair value 20.02.18			As at 20.02.18
Financial investments	**Total**	**Equity**	**Fixed income**	**Other**
Equities and investment funds	24,474	24,474	0	0
Bonds and bond funds	177,518	0	177,518	0
Financial derivative assets*	0	0	0	0
Other financial investments**	7,456	0	0	7,456
Total financial investments	**209,448**	**24,474**	**177,518**	**7,456**
Financial liabilities				
Financial derivative liabilities	652	0	0	652
Total financial liabilities	**652**	**0**	**0**	**652**
Net financial investments	**208,796**	**24,474**	**177,518**	**6,804**
Net %	**100%**	**12%**	**85%**	**3%**

* The asset allocations for financial derivative assets are stated at their notional values (note 14)
** "Other financial investments" includes cash and cash equivalents

Note 13 - 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 re-measured at their fair value. The Association does not practice hedge accounting.

Financial derivatives

Financial derivatives are integrated components in the investment philosophies and processes 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 fund management. Financial derivatives contribute to reducing the risk of the assets not being able to cover the Association's liabilities. The Association has implemented 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.

Investment guidelines

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

The aggregate economic exposure of the Associations' investment portfolio may not exceed one hundred per cent of the total portfolio's market value, i.e. there must be no leverage or gearing of any nature whatsoever 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 it is necessary to have independent verification based on alternative sources of data. The global custodian is therefore responsible for detailed 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 instruments are carried at independently sourced market values.
Underlying contract values represent the value of the underlying gross commitments of all open contracts.

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 instrument at a spesific price within a specified period of time. An interest rate option can be written on cash instruments 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 instrument at a specified price at the end of a designated period of time.

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 13 - Financial derivatives at fair value through profit or loss continued

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.

Maturity intervals on Notional values

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Total Notional 20.02.18	Fair value 20.02.18
Type of derivatives					
Foreign currency related					
Forward foreign exchange contracts	13,453	0	0	13,453	(652)
Net foreign currency related	**13,453**	**0**	**0**	**13,453**	**(652)**
Net financial derivative liabilities					**(652)**
Financial derivative assets					0
Financial derivative liabilities					(652)
Net financial derivative liabilities					**(652)**

Maturity intervals on Notional values

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Restated Total Notional 20.02.17	Restated Fair value 20.02.17
Type of derivatives					
Foreign currency related					
Forward foreign exchange contracts	22,216	0	0	22,216	194
Net foreign currency related	**22,216**	**0**	**0**	**22,216**	**194**
Net financial derivative assets					**194**
Financial derivative assets					271
Financial derivative liabilities					(77)
Net financial derivative assets					**194**

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 14 - Receivables from direct insurance operations

Amounts in USD 000's	As at 20.02.18	As at 20.02.17
Direct and received premium	6,784	14,079
Accrued deferred call	(2)	0
Provision for bad debts	(1,200)	(1,414)
Receivables from direct insurance operations	**5,582**	**12,665**

Note 15 - 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.

Restricted cash

Cash and cash equivalents includes bank deposits and cash in hand, of which USD 0.025 million as at 20 February 2018 is restricted cash (USD 0.021 million as at 20 February 2017).

The Japanese Branch require a deposit placed locally for entering business, and a Goverment Bond is held to meet this requirement
The Bond is held to maturity, and booked value is USD 1.868 million
In addition the Japan Branch held a bank account with some limitations. The book value is USD 35.612 million.

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 16 - Pensions

Accounting policy

Employees are covered by pension plans which comply with Norwegian laws and regulations.The Association has defined benefit pension plans only.

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.

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 income.

For defined contribution plans, the Association pays contributions to privately administered pension insurance plans on a contractual basis. There are 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 assets to the extent that a cash refund or a reduction in the future payments is available.

Pension obligations

The Association has defined benefit plans covering two retired employees. These contracts are financed through the Association's operations. Part time employees working with the Association are included in the pension scheme in Gard AS. This pension scheme covers the required occupational pension in accordance with the Norwegian Pension Act.

Defined benefit plans entitle the employees to a defined level of future pension payments. Such future pension payments are mainly dependent on number of contributory years and the salary level on retirement.

For defined benefit plans actuarial calculations are made with regard to pension liabilities at the end of the year, and resulting changes in pension liabilities are charged to the income statement.

Actuarial calculations of pension liabilities have been prepared as at 20 February 2018. These calculations show that the Association has pension liabilities amounting to USD 2.0 million.

Pension costs and pension liabilities are accounted for in accordance with IAS19R.

Amounts in USD 000's	As at 20.02.18	As at 20.02.17
Pension cost		
Defined benefit pension plans		
Interest expense on earned pension	50	47
Yield on pension funds	0	0
Settlement/curtailment	0	0
Net pension cost earning related plan	**50**	**47**
Total pension cost charged to the Statement of comprehensive income	**50**	**47**
Changes in pension assumptions charged to Other comprehensive income	**153**	**94**
Liabilities according to the actuarial calculations:		
Pension obligation gross	2,018	1,842
Net pension obligation at the end of the year	**2,018**	**1,842**
Financial assumptions	Per cent	Per cent
Discount rate	2.40	2.60
Assumed annual salary regulation	2.50	2.50
Assumed pension increase	1.50	1.50
Assumed regulations of public pensions	2.25	2.25
Assumed yield on funds	2.40	2.60

G is a base rate used as the basis for calculatiing benefits. G is adjusted annually and is approved each year by Norwegian parliament. The last time G was updated was May 2017. As of 20 February 2017 G equals NOK 93.634 (USD 11,943).

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 17 - Differences between Solvency II and balance valuation

Amounts in USD 000's	Solvency II	Balance Sheet	As at 20.02.18 Differences
Assets			
Reinsurance recoverables:			
Reinsurers' share of gross premium reserve	0	32	(32)
Reinsurers' share of expected cash flow for unexpired cover net of reinsurer commission provision	25	0	25
Reinsurers' share of gross claims reserves	219,360	219,360	0
Discounting effect of reinsurers' share of gross claims reserves	(5,365)	0	(5,365)
Reinsurers' share of Bound but not incepted (BBNI) - net	(11,994)	0	(11,994)
Reinsurance recoverables	**260,293**	**279,259**	**(18,966)**
Liabilities			
Technical provisions			
Gross premium reserves	0	126	(126)
Gross expected cash flow for unexpired cover net of commission provision	118	0	118
Gross claims reserves	370,920	370,920	0
Discounting effect of gross claims reserves	(10,945)	0	(10,945)
Bound but not incepted (BBNI) - net	(10,358)	0	(10,358)
Risk Margin	6,383	0	6,383
Technical provisions	**356,118**	**371,046**	**(14,928)**

Reinsurance recoverables

Reinsurers’ share of expected cash flow for unexpired cover net of reinsurer commission provision claims covers the combined ratio share of reinsurers’ share of gross premium reserves less reinsurance commission provisions.

Discounting effect of reinsurers’ share of gross claims reserve shows the reduction in reinsurers’ share of gross claims reserve, in order to arrive at net present value of the reserves as at balance sheet date.

Reinsurers’ share of Bound but not incepted (BBNI) – net, covers the net of reinsurers’ share of premiums, claims and commission based on agreements with customers entered into but not incepted as at the balance sheet date.

Losses occurring during is covering expected cash flow of extended reinsurance in order to align the coverage period with the premium reserve period.

Technical provisions

Bound but not incepted (BBNI) – net is covering the net of gross premiums, claims and commission from customer agreements entered into, but not incepted as at the balance sheet date.

Gross expected cash flow for unexpired cover net of commission provision is covering the combined ratio share of gross premium reserve less commission provisions. This represents the expected claims costs related to the gross premiums reserve as at balance sheet date.

Discounting effect of gross claims reserve is showing the reduction in gross claims reserve, in order to arrive at net present value of the reserves as at balance sheet date.

The risk margin is calculated as a 6% charge on future yearly cash flows, which is based on Solvency Capital Requirement in respect of non-hedgeable risks. The risk margin represents cost of capital an insurance company would require to take on the obligations of a given company.

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 18 - Capital requirements

Assuranceforeningen Gard -gjensidig- is required to maintain minimum capital and surplus equal to the Solvency Capital Requirement ("SCR") under Solvency II. The statutory capital and surplus for 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 July 2018.
As a result, preliminary figures as at 20 February 2018 are included as at 20 February 2018.

Amounts in USD 000's	As at 20.02.18
Own funds	
Ordinary share capital	0
Share premium account	112,186
Reconciliation reserve	(2,431)
Excess of assets over liabilities	**109,754**
Tier 3 - Net deferred tax assets	0
Total basic own funds / (equal to Excess of assets over liabilities)	**109,754**
Tier 2 - Supplementary calls	217,000
Total ancillary own funds	**217,000**
Total available own funds to meet the SCR	326,755
Total available own funds to meet the MCR	109,754
Total eligible own funds to meet the SCR	157,380
Total eligible own funds to meet the MCR	109,754
SCR	95,251
MCR	25,974
Ratio of eligible own funds to SCR	**165%**
Ratio of eligible own funds to MCR	**423%**
Minimum Capital Requirement (MCR)	
Linear MCR	25,974
SCR	95,251
MCR cap (45% of SCR)	42,863
MCR floor (25% of SCR)	23,813
Combined MCR	25,974
Absolute floor of the MCR	4,306
MCR	**25,974**
Solvency Capital Requirement (SCR)	
Market risk	19,149
Counterparty default risk	17,279
Non-life underwriting risk	77,073
Diversification	(28,742)
Basic SCR	**84,759**
Calculation of SCR	
Operational risk	10,492
SCR	**95,251**

Note 19 - Change in accounting policy

The Gard Group entities manage the majority of investments through an Irish Common Contractual Fund (CCF).

This umbrella fund structure has several sub funds enabling investment pooling across the legal entities within the Group. In its capacity as a transparent structure for both tax and regulatory purposes, investors can enjoy the option of choosing reports from fund level and security level. Transactions are generated on a fund level based on the number of shares held by the investor, and on an investor level where underlying security transactions are allocated to investor accounts according to the number of shares held by the investor in the fund.

The Associaiton has changed its accounting policy on investments managed through the CCF by moving the booking of entries from transactions at security level to transactions at fund level. The new accounting policy does not influence valuations, but rather the composition of Comprehensive income and Balance sheet statements, hence the restated numbers due to the change. Subsequently, equities and investment funds will solely be composed of equity funds and similar, and bonds will primarily consist of bond funds and similar.

The change in accounting policy does not impact the tax reporting and the look-through approach still prevails.

Impact of change in accounting policy on balance sheet

Amounts in USD 000's	Previously stated As at 20.02.17	Change in accounting policy	Restated As at 20.02.17
Assets			
Investments			
Financial investments at fair value through profit and loss			
Equities and investment funds	39,531	57	39,588
Bonds	174,286	(6,654)	167,632
Financial derivative assets	953	(682)	271
Other financial investments	24,910	(16,612)	8,299
Total investments	**239,680**	**(23,891)**	**215,789**
Other receivable	9	123	133
Total receivable	15,946	123	16,069
Total asset	**588,527**	**(23,768)**	**564,758**
Equity and liabilities			
Payables			
Payable arainsing out of direct insurance operations	6,569	919	7,487
Payable arainsing out of reinsurance operations	0	2,350	2,350
Financial derivative liabilities	512	(435)	77
Other payables	26,694	(26,602)	93
Total payables	**34,776**	**(23,768)**	**11,007**
Total liabilities	**479,213**	**(23,768)**	**455,445**
Total equity and liabilities	**588,527**	**(23,768)**	**564,758**

Assuranceforeningen Gard -gjensidig-

Notes to the accounts

Note 19 - Change in accounting policy continued

Impact of change in accounting policy on Statement of comprehensive income

Amounts in USD 000's	Previously stated 21.02.16 to 20.02.17	Change in accounting policy	Restated 21.02.16 to 20.02.17
Technical result	**7,097**	**0**	**7,097**
Non-technical account			
Interest and similar income	6,384	2,476	8,860
Change in unrealised gain /(loss) on investments	8,011	(4,534)	3,478
Gain/(loss) on realisation of investments	(2,077)	1,424	(654)
Other Investment expenses	(602)	634	32
Non-technical result	**11,716**	**0**	**11,716**
Net Result	**15,897**	**0**	**15,897**
Total comprehensive income	**15,802**	**0**	**15,802**

Impact of change in accounting policy on Statement of cash flow

Amounts in USD 000's	Previously stated 21.02.16 to 20.02.17	Change in accounting policy	Restated 21.02.16 to 20.02.17
Cash flow from operating activities			
Profit before tax	18,812	0	18,812
Tax paid (refunded)	309	0	309
Change in unrealised gain/(loss) on investments	(8,011)	4,534	(3,477)
Pension cost charged to statement of comprehensive income	(94)	0	(94)
Change in pension obligation	(280)	0	(280)
Change in receivables and payables	6,667	(23,891)	(17,224)
Change in technical provisions and other accruals	3,441		3,441
Purchase/sale of other investments	(3,456)	19,357	15,901
Net cash flow from operating activities	**17,388**	**0**	**17,388**

Arendal, 23 April 2018

The Board of Directors
Assuranceforeningen Gard -gjensidig-

Trond Eilertsen Chairman	Jane Sy Deputy Chairman	Yngvil Eriksson Åsheim
Nils Aden	Ian Beveridge	Rolf Thore Roppestad Managing Director

pwc

To the General Meeting of Assuranceforeningen Gard -gjensidig-

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Assuranceforeningen Gard -gjensidig- showing a profit of USD 2 872 thousand. The financial statements comprise the balance sheet as at 20 February 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 20 February 2018, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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.

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

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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, whether due to fraud or error. We 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 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 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 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 to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors 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.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 11 May 2018
PricewaterhouseCoopers AS

Magne Sem
State Authorised Public Accountant