DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR TO 20 FEBRUARY 2011

gard

Welcome to the 2011 consolidated financial statements for the Gard group – the objective of which is to ensure that our Members and clients understand the breadth and depth of our activities.

By expanding the scope of our report to include a number of new sections, we are increasing our accessibility through more detailed and transparent reporting, as well as demonstrating the core values which underpin everything we do.

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Highlights

Gross written premium on ETC basis	General contingency reserve	Total assets
USD**792m**	USD**790m**	USD**2.4bn**

Combined net ratio on ETC basis	Surplus after tax on ETC basis	Standard & Poor's rating
94%	USD**175m**	**A** (positive outlook)

FIRST CLASS SERVICE AND SOLUTIONS DEPEND ON A CONTINUOUS INVESTMENT IN KNOWLEDGE AND EXPERTISE

Chairman's statement

After the turbulence experienced across the global economy in the last several years, we are pleased to report that Gard has experienced another good year. Despite the marine insurance industry trading through a difficult period (excess capital and a benign claims environment have led to some aggressive pricing), Gard's market position remains robust.

Since Gard P.&I. (Bermuda) Ltd became the parent company of the group, and so created the legal basis from which to present a consolidated financial statement, we have expanded the scope of our report to include some new sections. Our objective is to enable that our Members and clients understand the breadth and depth of the group today, and receive detailed and transparent reporting on the activities of the previous year. We are including a section which outlines the group's principal activities, as well as our international operations. This is crucial when considering the 24/7 service needs of our shipowners and operators in today's complex legal and regulatory environment. It also clarifies the structure of our risk carrying and intermediary operations. We are also providing more detail on our investment activities – an area of the business which over the years has made an excellent contribution to our results – and our reinsurance policies, which are key to our overall security.

International Group - EU proceedings

On 26 August 2010, the European Commission announced that – following the expiry of the second 10-year exemption for the International Group Agreement – it had decided to carry out another review into certain aspects of the International Group's claims-sharing and reinsurance arrangements.

Although it is not possible to predict the outcome of the proceedings, things are definitely moving forward. The dialogue between the European Commission and the International Group is continuing, and particular efforts are being made to explain why the key features of the current arrangements are required to deliver benefits for both the shipping industry and the society at large.

The International Group has emphasised that the traditional P&I cover is crucial in getting existing and new maritime liability regimes to work, as well as being recognised in every port as a guarantor for financial liability. This ensures smooth sailing for ships – whatever trouble they run into.

Sanction legislation

The use of sanctions as a political tool against different regimes is also an issue with which we have to deal. On 1 July 2010 President Obama signed into law the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, which expanded the scope of possible sanctions to include foreign companies (including insurance, financing and shipping companies) that support Iran's development of petroleum resources and the export of refined petroleum to Iran. In addition, on 25 October 2010, EU regulations came into force prohibiting the provision of insurance to entities incorporated in Iran, or controlled by such entities, and also imposed restrictions on the transfer of funds involving such entities. What is special in these cases, and in particular the US legislation, is that the sanctions are directed towards innocent insurers insuring ships involved in activities that are, or may in the future be, prohibited by the sanctions - even if the actual employment of the relevant ship is outside the control of the insurer.

"Gard has experienced another good year. Despite the marine insurance industry trading through a difficult period, our market position remains robust."

Chairman's statement continued

For both P&I and marine and energy insurance, terms have been implemented in the contract of insurance which protects Gard's membership as a whole from being caught out by the sanction legislation. In addition, a new sanction clause has been introduced by the reinsurance market – and steps are taken so that the direct insurers are on 'back to back' terms with the reinsurers.

New capital requirements

One of the major challenges that the insurance industry faces over the next few years is the introduction of Solvency II in 2013. At its core, Solvency II is simple: each insurer needs to have a system in place to prove that it is meeting the required capital adequacy standards – which means both a comprehensive set of business information and an organisational mindset that understands the risks they are taking.

This is undoubtedly creating pressure on costs and resources across the insurance market – at a time when margins are already being squeezed. The marine industry – and especially P&I – faces a specific problem because as specialist companies they are essentially mono-line insurers. A number of Clubs have said that this will place upward pressure on premiums. Gard will, however, benefit from the fact that it is a more diversified marine and energy insurance group, and is well-capitalised to meet the Solvency II requirements.

Record levels of piracy

Piracy at sea has increased again in the last year. According to the International Maritime Bureau (IMB), 445 ships were attacked in 2010, 53 were hijacked, 1,181 seafarers were taken hostage and eight were killed. As well as a much greater frequency of attacks, the IMB has also said that there has been a dramatic increase in the violence used; the size of vessels being attacked; and the geographic range in which pirates are operating. Gard's position on the debate around the presence of armed guards on ships is neutral since we believe that shipowners should be able to make their own, informed decisions on the issue. While we do not discount the validity of the arguments against the use of armed guards on board, we believe that owners should have more room to manoeuvre in how they respond to the threat of piracy.

Board changes

During the past year, the following people have announced they will retire from the Board of Gard P.&I. (Bermuda) Ltd. at the AGM in August 2011: Takeshi Matsui, the Sanko Steamship Co Ltd, Tokyo; Magne Morken, Solvang ASA, Stavanger; Basil Abul-Hamayel, Saudi Aramco, Dhaharan; and Tom Erik Klaveness, the Torvald Klaveness Group, Oslo. We would like to thank them all for their valuable contributions and long service, and we look forward to welcoming new members at the AGM. In addition, Morten Høegh will be replacing Magen Morken as a member of the Executive Committee of Gard P.&I. (Bermuda) Ltd.

There is never a year at Gard when the levels of activity and creativity diminish. Whether that is responding to the many challenges that we all face in our businesses, or working to re-engineer and refine the processes of underwriting and claims, responsiveness is an ever present part of the group. I know that I speak for all of our Members and clients when I thank the management and staff for their energy, enthusiasm and efficiency – all of which are critical to the group's continued good health and strong development.

Stephen Pan
Chairman

"There is never a year at Gard when the levels of activity and creativity diminish"

Chief Executive's statement

The 2010 financial year delivered another strong set of results for the Gard group. We are pleased to report that all our insurance operations performed well, with a surplus after tax of USD 175 million and a combined ratio (on an ETC basis) across the group of 94 per cent. This result emphasises our careful risk selection processes, and was helped by a relatively benign claims picture across some areas. While historically low interest rates are affecting the performance of the financial markets, we were pleased with our investment return of 9.3 per cent. As a result of this robust overall performance for the full year, we were able to increase our free reserves to USD 818 million (before returning USD 28 million to the Members through a reduction in the deferred call) and strengthen our balance sheet so that total assets now stand at USD 2.4 billion.

Offering first class risk solutions

Overall, all business areas delivered good results. Gross written premium decreased by 2 per cent from the previous year, partly as a result of market pricing softening but also because of our risk selection process. The P&I mutual book now has 130 million gt and, for the last five years our retention rate has averaged around 99 per cent of mutual tonnage. This level of customer satisfaction is a great compliment to the service that our Members receive from everyone at Gard.

The marine book performed well, while P&I and energy were slightly behind plan. In terms of specialist areas both the charterers/traders and offshore teams also delivered good results, albeit in a competitive environment. The offshore market had a tough year, driven mainly by the fact that the reinsurance market overall was reducing its aggregates in the aftermath of the Deepwater Horizon accident. Despite this challenge, our ability to write MOU business was not adversely affected and the business plan was achieved as budgeted.

This is our second year of operating as a single underwriting team. Underwriters have built closer relationships with their Members and clients which have resulted in more efficient working practices.

Delivering on our promises

In terms of claims the 2010 year was particularly noticeable for a few significant claims late in the policy year. In addition, we saw more claims above USD 10 million than we would expect – as well as an increase in the underlying claims trends – particularly in areas such as cargo and personal injury.

All organisations benefit from periodic self-assessments, and since the Gard group has expanded and undergone significant structural changes over the past decade, it is vital that we continue to look for new ways to improve our products and services. In the last year we have made significant progress in our Claims Initiative – a thorough review of our total claims operations and services – which is aimed at improving our service, making us more capable and efficient as an organisation and reducing our claims costs over time. The changes are fact-based, borne out of an analysis of claims data and process reviews, combined with input from, and discussion with, claims managers and other staff.

We have concluded that claims specialisation should represent the foundation for the way we organise our work as we move forward. This is reflected in the new claims processes that we have implemented from 20 February 2011 – each with a process owner who is responsible for the claims performance irrespective of the location of the handlers. We have also created specialist teams to deal with charterers/traders and liquid cargo claims.

> "The high level of customer retention that we see is a great compliment to the service that Members & clients receive from everyone at Gard"

Chief Executive's statement continued

Strong financial foundations

In January of this year, Standard & Poor's Ratings Services (S&P) affirmed its A rating on the group and also revised the outlook to "positive". This revision reflects their opinion that the ratings could be raised if Gard maintains its strong operating performance and financial profile over the rating horizon. We have always been very clear that we are comfortable with an 'A' rating – which is the highest in the marine mutual market – but this decision is recognition of the steps we have taken, and our ongoing efforts, to provide Members and clients with first-class financial security.

In May 2011 we were able to announce a reduction in the deferred call for the 2010 policy year from 25 per cent to 15 per cent of the advance call, returning USD 28 million to the mutual Members of the Club. Gard's premium policy is to be as fair – and as predictable – as possible with Members and offer P&I insurance at rates which ensure that the club has adequately rated insurance portfolios. For this reason we will always look to reduce the insurance cost for the mutual Members to below the estimated total call when the results and capital position allow.

Investing in our people

Equally key to our values and vision is our investment in our staff: their expertise, knowledge and competence, and this has been a vital component in the development of the group. Over the years, through Gard Academy, we have developed an ongoing programme of training and development – both in technical subjects and developing softer skills – that will mean that our Members and clients receive the support and service that will genuinely set us apart from the competition.

In terms of technical understanding, last year Gard Academy introduced a new course – an Introduction to Marine Insurance – which provides a thorough grounding in the basics of our business. The course was run twice with over 40 internal and external attendees. Other technical subjects on which we have run training have included pollution, lay-up, piracy and charter parties. Sharing the expertise that we build up within Gard with Members and clients is core to our building long term relationships with them. The high point of our Gard Academy year is always the Summer Seminar in early June which last year attracted 125 delegates from 18 countries. Lectures covered air emissions, anchor handling and wreck removal amongst others, as well as offering delegates the opportunity to hear from some leading external market figures.

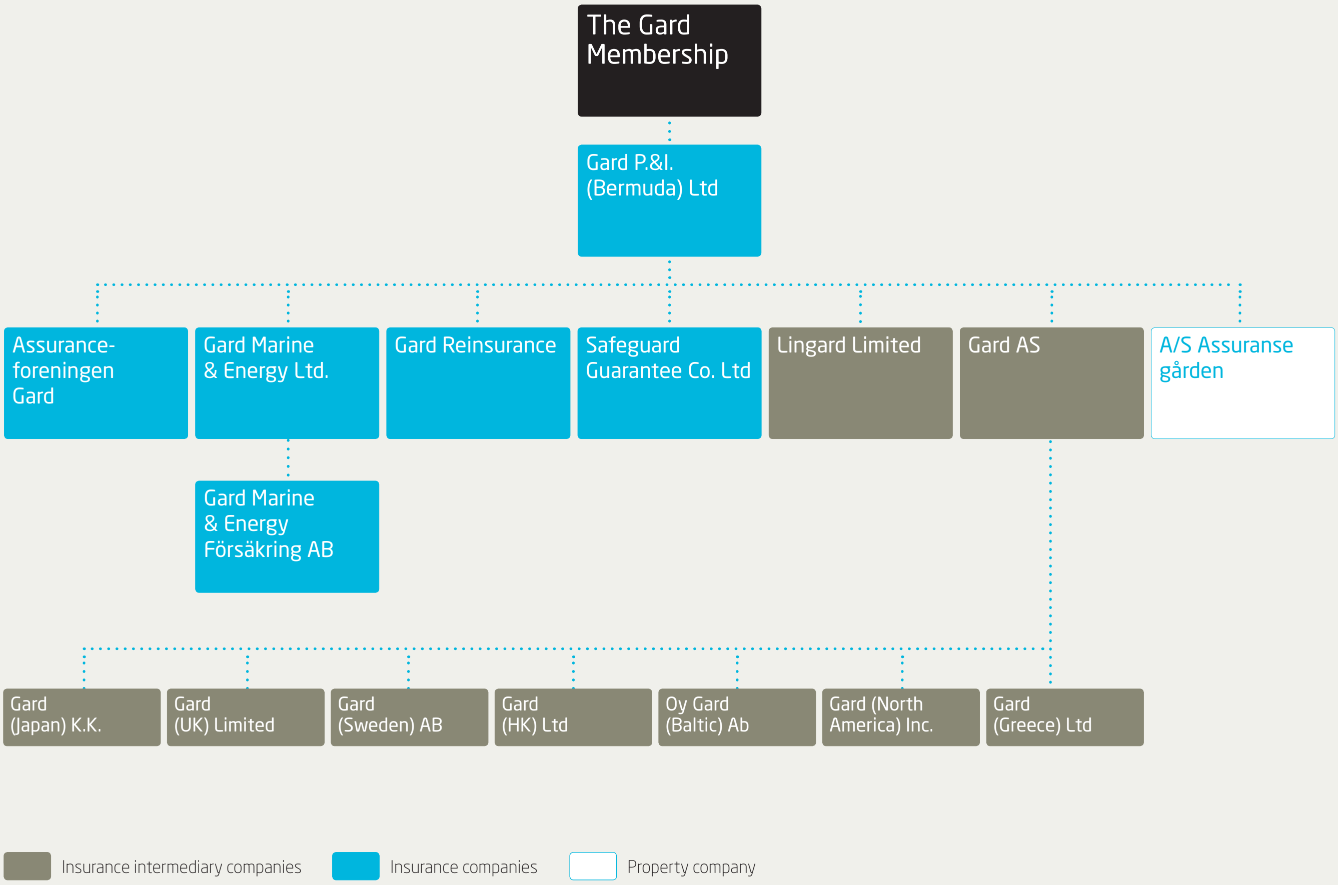
I would like to conclude by thanking our Board for the support that they give to the management of the business, and to all our staff whose hard work and commitment to first class delivery is crucial to ongoing performance of our business. We are proud of the trust that is given to us by our Members and clients, and hope that another year of sound performance justifies the faith they have in us.

Claes Isacson
Chief Executive Officer

> "Equally key to our values and vision is our investment in our staff: their expertise, knowledge and competence."

ADAPTABILITY IS VITAL TO RESPOND TO THE CHANGING BUSINESS REALITIES OF OUR MEMBERS AND CLIENTS

Group structure



Insurance companies

Gard P.&I. (Bermuda) Ltd was established in 1988 and, as a mutual insurance association, it is owned by its Members (shipowners, operators and charterers). There are no external capital owners. It is registered and domiciled in Bermuda, licensed by the Bermuda Monetary Authority as a 'Class 2' insurer, and is managed by Lingard.

Gard P.&I. (Bermuda) provides P&I and related insurance products to its Members. Its direct insurance business is carried out through a Norwegian branch located in Arendal, Norway, and the general agent of the branch is Gard AS. Its Members are also Members of Assuranceforeningen Gard – gjensidig in Norway (Gard P&I Norway) and vice versa. However, about 80 per cent of the two associations' combined portfolio of direct business is underwritten by Gard P.&I. (Bermuda) through the Norwegian branch as direct insurer.

Mutual reinsurance agreements have been entered into between Gard P&I Norway and Gard P.&I. (Bermuda) so that the two associations are reinsuring each other. For the tonnage entered in Gard P.&I. (Bermuda) and reinsured in Gard P&I Norway, the former (as the reinsured) has been given the right to exercise membership rights in the latter. This means in practice that Gard P.&I. (Bermuda) is the parent company in the group, and that Gard P&I Norway is treated as a subsidiary in the same way as the other wholly-owned subsidiaries like Gard Marine & Energy, Gard Reinsurance, Lingard, Safeguard and Gard AS.

This creates the required legal basis for consolidation of the accounts of Gard P.&I. (Bermuda) and Gard P&I Norway.

Both Gard P.&I. (Bermuda) and Gard P&I Norway are members of the International Group of P&I Clubs and are parties to the International Group of P&I Clubs' Pooling Agreement, which is the contractual basis for the sharing of claims among the P&I clubs and collective purchase of market reinsurances. The two associations are recorded as 'Paired Associations', with Gard P.&I. (Bermuda) as the principal.

Assuranceforeningen Gard - gjensidig - (Gard P&I Norway) is a mutual insurance association owned by its Members and founded in Arendal, Norway in 1907 – where its head office is located. It is registered and domiciled in Norway, and licensed by the Norwegian Ministry of Finance to carry out P&I and defence insurance.

It provides P&I and related insurance products to its Members (shipowners, operators and charterers), who have ships entered in the club.

Gard P&I Norway is primarily used for insuring Members in the EU/EEA area where an EU/EEA based insurer is required in order to comply with the governing EU regulations with regard to cross border activities. The P&I portfolio of Gard P&I Norway represents about 20 per cent of the combined portfolio of Gard P&I Norway and Gard P.&I. (Bermuda).

Gard Marine & Energy Limited is a joint stock company and a wholly-owned subsidiary of Gard P.&I. (Bermuda). It is registered and domiciled in Bermuda and licensed by the Bermuda Monetary Authority as a 'Class 3B' insurer covering, among other things, marine and energy risks. It is managed by Lingard.

Gard Marine & Energy carries out its direct insurance business through a Norwegian branch located in Norway. The general agent of the branch is Gard AS.

In 2008 Gard Marine & Energy Försäkring AB was established in Sweden as a wholly-owned subsidiary of Gard Marine & Energy. It is used as a vehicle for business where an EU/EEA-based insurer is required in order to comply with governing EU regulations with regard to cross-border activities. Gard Marine & Energy reinsures the vast proportion of Gard Marine & Energy Försäkring's net retained liabilities.

Gard Reinsurance Co Ltd is a joint stock company and a wholly-owned subsidiary of Gard P.&I.(Bermuda). It is registered and domiciled in Bermuda and licensed by the Bermuda Monetary Authority as a 'Class 3A' insurer covering, among other things, marine (including P&I) and energy risks. It is managed by Lingard.

Reinsurance agreements have been entered into between Gard Reinsurance (as the reinsurer) and Gard P.&I. (Bermuda) and Gard Marine & Energy (as the reinsureds), covering a certain proportion of their retained risks (that is, the proportion of the risks underwritten that are not reinsured elsewhere). A stop loss reinsurance agreement has also been entered into between Gard Reinsurance and Gard P&I Norway.

Safeguard Guarantee Company Ltd is a joint stock company and a wholly-owned subsidiary of Gard P.&I. (Bermuda). It is registered and domiciled in Bermuda, licensed by the Bermuda Monetary Authority as a 'Class 3A' insurer and managed by Lingard.

The sole purpose of Safeguard is to offer the financial security required under the International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001 for mobile offshore units and other vessels insured outside the reinsurance structure established by the International Group of P&I Clubs. It has been approved as a provider of financial security by all State Parties to the Bunker Convention to which applications have been made.

Insurance intermediary companies

Lingard Limited is a joint stock company, which was registered in Bermuda in August 2006. It is a wholly-owned subsidiary of Gard P.&I. (Bermuda) and registered and licensed as an Insurance Manager. Lingard has management agreements with Gard P.&I. (Bermuda), Gard Reinsurance, Safeguard and Gard Marine & Energy, and has been delegated the responsibility of administering the day-to-day business and corporate functions of the companies domiciled in Bermuda.

Gard AS is a Norwegian joint stock company registered in Arendal, Norway, and is a wholly-owned subsidiary of Gard P.&I. (Bermuda). Gard AS is registered by the Norwegian Financial Supervisory Authority as an insurance intermediary company.

Gard AS has agency agreements with Gard P.&I.(Bermuda), Gard P&I Norway and Gard Marine & Energy to act as agent and intermediary with regard to these insurers' portfolio of direct business and has the power to conclude contracts of insurance and handle claims falling within the scope of the insurance cover.

Gard AS has established a service network of wholly-owned subsidiaries in:

- **Sweden** – Gard (Sweden) AB
- **Finland** – Gard (Baltic) OY
- **England** – Gard (UK) Limited
- **The United States** – Gard (North America) Inc.
- **Hong Kong** – Gard (HK) Limited
- **Greece** – Gard (Greece) Ltd
- **Japan** – Gard (Japan) KK

The subsidiaries are the local point of contact for Members and clients and perform insurance intermediary services in these markets on behalf of Gard AS' principals.

Underwriting

> "Gard has a strong record of building long term relationships and a significant amount of the group's growth has come from cross-sales."

The shipping industry is constantly evolving and, in order to be able to respond, we need to look at every stage of our operations and think about how we structure our underwriting in terms of specialisation, skills development, product development and market resources.

Understanding a changing environment

When we look at our customers' needs, we see a number of different perspectives: the make-up of their fleet, the cargoes that they are carrying and the way in which they are managing their operations. In terms of the fleets, we are seeing increasing sophistication in the ships, especially with regards to items such as electronic components. This means that if something does go wrong, the consequences are more serious and the cost is generally much higher. The fact that the vessels are also getting much larger is also increasing the potential liabilities. Shipowners are also focusing more on particular type of trades or cargos: for example carriage of cars, LNG and chemical products are niches where this development is apparent.

In terms of managing their businesses, many shipowners and operators are taking increased responsibility for the whole logistics chain – not just the sea voyage – and they are also altering their risk appetite, retaining more risk and asking for higher deductibles.

This increased focus creates a need for tailor-made, solutions – one size does not fit all anymore. We have to build deep knowledge in specialised areas and develop products and service concepts to fit the different niches. For example, in times of economic difficulty, it is not only accidents that damage the balance sheet that concern our Members and clients, but also when their income is affected.

In the last year we have introduced a new product which is aimed at replacing lost income if the vessel is out of operation for reasons other than physical damage to the ship. Our Charterers Loss of Use Cover is designed to ease the charterer's concerns around having to pay significant amounts of hire during long lasting detentions, delays and arrests. As piracy continues to represent a significant threat for the maritime community, so the product provides protection against the liability to pay hire during a period where the vessel is detained by pirates. Another example of product development is the tailor-made freight forwarder extensions to the standard liability cover that we have developed for large liner operators, which responds to different types of inland transport and storage risks.

Understanding different market sectors in terms of geographical need is also vital. Gard has a strong record of building long term relationships with its Members and clients and a significant amount of the group's growth has come from cross-sales and new tonnage from existing relationships. For example our owners' tonnage increased by nearly 9 per cent in 2010 and, of the 6,800 vessels we now insure in Gard Marine & Energy, we have the claims lead on 59 per cent - up from 43 per cent five years ago. There is also no doubt that the economic centre of gravity is shifting east to Asia. This is particularly true in shipping, where 54 per cent of the global bulk newbuildings is coming from East Asia. Meeting this growing need is one of the reasons that we have been increasing our focus on the region, and developing our offices in Hong Kong and Tokyo.

Increase in owners' tonnage

9%

The number of vessels we insure

6,800

Challenging market conditions

Across all classes of business pricing remains competitive, with neither capital nor underwriters being withdrawn due to losses or adverse market conditions. In addition, low levels of global economic activity have meant that insured values have been falling and levels of activity in the shipping sector have not picked up significantly. Nevertheless, across the group there has been a strong underwriting performance for the year, with P&I recording a combined ratio net (CRN) of 99 per cent, while the CRN for Gard Marine & Energy for the same period was 85 per cent.

P&I

The last three years has been a period in which Gard has delivered strong underwriting results. However, the claims picture is beginning to change. We have seen claims levels rising, driven by the increase in cargo values and deteriorating exchange rate movements. We expect this trend to continue.

Gard is, relative to the market, in a very strong position both in terms of technical underwriting performance and financial strength, and this position is attracting new business both from existing and new Members. The run up to the 20 February renewal saw good results, with some particular highlights. There was a good renewal in Japan where medium and smaller shipowners have been looking for alternatives outside the local market, and where Gard is seen as a good partner for the future. We also saw ongoing development in Germany, Greece, France, North America and Norway. In terms of charterers/traders and the offshore market, these segments were very competitive, but in both cases we managed to secure a very high retention rate for existing business, as well as achieving a moderate growth of quality business.

Marine & Energy

Through the last year, when the claims picture has been generally positive, the marine story has remained consistent – with pricing generally flat and pressure from quality accounts for discounts. Insured values are still falling, and some underwriters are chasing income, but in the event that the claims environment takes a turn for the worse the market could see some significant losses.

The energy market has seen a few expensive claims – the ramifications of which have been felt throughout the entire sector – irrespective of whether or not businesses and insurers were directly involved. Premium levels have responded to this claims picture and there was some hardening in rates towards the end of the policy year. There has been some expansion of underwriting capacity in Scandinavia, as London based underwriters seek to establish a presence in the region – but clients overall value our long term commitment to the risk class.

The problems in the marine builders' risk market have been well-documented, with reduced activity and few new orders. The overall decline in the market has meant that demand for this type of cover has reduced significantly, and for the reduced number of orders that are being placed there is significant competition.

Claims

> "We continue to aim for constant improvement, and are committed to making structured and systematic improvements an integral part of what we do."

Delivering world-class claims handling is central to Gard's core purpose and our own long-term success. Over the last 18 months we have worked on a revised claims distribution model – moving from a structure based on business areas to one based on claims types and skill sets. This allows for maximum optimisation of claims processes across the organisation, and increases the exploitation of synergies across business areas.

As a result, at the end of the 2010 policy year we implemented seven new claims processes – each with a process owner who is responsible for the performance of these types of claims – irrespective of the location of the handlers. We have also created specialised teams dealing with charterers/traders and liquid cargo claims.

From the beginning of the 2011 policy year the new process owners and team leaders will move forward to identify how we improve our claims handling and services for each of their areas. We continue to aim for constant improvement, and are committed to making structured and systematic improvements an integral part of what we do.

P&I

The claims picture for the 2010 policy year started well, but unfortunately deteriorated during the last quarter. On balance, older claims developed positively over the period. In terms of high profile casualties, Gard experienced three claims which exceeded the Club's USD 8 million retention and have been reported to the pool for the 2010 policy year. These are the first Gard cases to be submitted to the pool since 2007. Common to all these three cases is that they involve contact with the berths and related equipment, or moored vessels.

Throughout 2010 we were working on the wreck removal for the WEST ATLAS, the largest project of its kind in the history of Gard. During the 2010 year, another large claim from the offshore segment was reported following the sinking of a drilling rig off Venezuela.

Sanctions imposed by various governments against Iran have raised many questions for our Members, and created considerable uncertainty throughout the year. It is a difficult and complex area and the question of issuing Club letters, for example, is one that has to be decided on a case by case basis. We have, however, tried to help our Members to understand the issues involved through seminars and other briefings.

Marine

The results for marine claims were very good and considerably below plan – a trend that appears to be being shared by other marine insurers – and incurred claims for 2010 overall are notably reduced compared to 2008 and 2009. Part of this is accounted for by a reduction in the number of claims in general and especially in navigation-related claims. In addition, there was a reduced number of machinery claims and a positive outlook in the repair market, with steel prices at their lowest levels for some time.

There are a number of issues that are on the radar for the marine claims team, including: monitoring the quality of crews on newbuildings (where unfamiliarity with systems may cause problems), and making early, accurate estimates of the costs incurred in complex claims. We are also keeping an eye on vessels which have been in layup, or lying idle, in order to prevent claims (particularly on the machinery side) when they return to ordinary service. On the environmental side we are closely monitoring the IMO's new low sulphur fuel requirements and any potentially negative effect this may have on ships' engines.

Energy

Last year was one of the quietest periods in energy claims for some time, although there has been significant academic interest in the development of the DEEPWATER HORIZON casualty. The casualty did alert companies and personnel to the possible catastrophic consequences of an accident, and this has renewed their interest in loss prevention and risk management.

World fleet detentions

5.3%

Gard fleet detentions

1.5%

The last quarter of the policy year did see several FPSO mooring failures which clearly demonstrated the high loss potential associated with the anchoring and flexible riser systems. In November 2010, the NINGALOO VISION on the Australian NW shelf lost one anchor connection, and anchor chain locking failure was discovered on a second anchor leg. In February the GRYPHON A, in the UK sector of the North Sea, broke four of its ten anchor lines – the resulting drift meant a total loss of all flexible risers and control umbilicals.

There has been a small pick-up in terms of newbuildings, albeit from a low level. It is likely therefore that the frequency of claims in marine builders' risks will increase. Yard claims from the Chilean earthquake have been higher than expected.

Defence

For the last several years, during difficult financial times, the ability to either pursue disputed amounts or defend claims has sometimes meant the difference between financial success or failure for Members and clients. In addition, political and physical events during 2010 have enabled us to clearly demonstrate the value of the Defence product. Ship owners and charterers alike are faced with harsh realities and new challenges, often completely beyond their control, when it comes to worldwide trading in the 21st century.

As Defence trends follow world events, 2010 was another record year in terms of the number of files opened, which has kept the team very busy. Many problems have arisen including:

- Issues relating to voyages to ports in Egypt, Tunisia and Libya
- Numerous enquiries on sanction issues with respect to Iran, Libya and the Ivory Coast
- Piracy continuing as one of the biggest concerns of Members and clients
- A spate of dangerous cargo disputes concerning nickel ore and iron ore fines

On a more positive note, despite the increased frequency of claims, by comparison their severity shows a very positive trend. We put this down to our large and highly competent Defence team, who are able to handle the majority of matters in-house and therefore save costs.

Loss prevention and risk assessment

The Gard loss prevention updates that are sent to Members and clients are now divided into three different categories:

- Gard alerts - which contain important and timely information relevant to the shipping industry, mostly provided by external parties such as correspondents, local experts and different international organisations and authorities. In 2010 we issued 18 alerts covering different areas of interest.
- Loss prevention circulars - that contain important lessons learned for the shipping industry, mostly based on internal knowledge gained by Gard's claims departments and based on trends and claims cases. In 2010 we issued 15 loss prevention circulars.
- Case studies for onboard safety meetings - these describe typical incidents onboard a vessel. The case studies are based on actual cases from the Gard claims database, and focus on risk assessment and identifying the chain of errors that led to an incident. In 2010 we issued nine case studies for onboard safety meetings.

The 'Have a safe journey' 2011 calendar was distributed to over 10,000 Members and clients last December. The calendar is a part of our ongoing loss prevention programme and is aimed directly at crew members on board vessels. Our new one day emergency response training course, focusing on crisis communication and camera training has also become popular with Members and clients.

As a part of our traditional client contingency training concept the clients' actual Gard claims handler takes an active part in the exercise, and feedback suggests that this has been very beneficial in both relationship building and knowledge sharing with the client. During 2010 LPRA has attended several crew seminars in Europe and Asia, and we are holding more interactive workshops together with the seafarers, using the risk assessment concept and case studies as a basis for the group work for our onboard safety meetings.

On the risk assessment side, a total of 65,000 port state inspections have been carried out by coastal states and 5.3 per cent of these inspections resulted in detentions. In contrast, for the vessels entered with Gard, the detention rate following a port state inspection was 1.5 per cent, suggesting that they are performing significantly better than the word fleet. A vessel entered with Gard will be inspected twice on average during a year by port state control, which is – in addition to class and flag changes, claims frequency and performance – one of the criteria used when monitoring the Gard portfolio and choosing vessels for further investigation. In 2010 Gard carried out a total of 115 surveys and 245 fleet assessments on entered vessels.

Reinsurance

The main features of Gard's reinsurance programme are as follows:

P&I poolable

For the 2010 policy year the Club retention increased from USD 7 million to USD 8 million. Apart from this there are no changes to the structure of the International Group reinsurance programme for the 2010 policy year. The reinsurance protection through the pool is USD 2,000 million per event in excess of the USD 50 million upper limit of the pool. For the 2011 policy year the excess point was raised to USD 60 million.

The structure of the cover reinsured through the International Group of P&I Clubs Excess of Loss Programme for the 2011 policy year is as follows:

Club retention: USD 8 million
Pool retention: USD 52 million (in excess of USD 8 million)
General excess loss cover: USD 2000 million (in excess of USD 50 million)
Common overspill protection: USD 1000 million (in excess of the underlying general excess loss cover)

P&I non-poolable

P&I fixed premium entries covering risks falling outside the scope of the Pooling Agreement are reinsured by Gard P.&I. (Bermuda) in the commercial reinsurance market. The reinsurance capacity limit is USD 1 billion excess of a USD 20 million retention.

Gard Marine & Energy

Gard Marine & Energy has entered into reinsurance arrangements in the commercial reinsurance market. The overall reinsurance capacity limit has been USD 130 million for Energy and USD 100 million for Marine excess of a USD 20 million retention.

Investments

Over the year, we achieved a 9.3 per cent return on our investment portfolio, versus a benchmark of 7.5 per cent. We achieved this strong result against the backdrop of the global economy continuing to recover over the 12-month period, with all major markets posting positive returns.

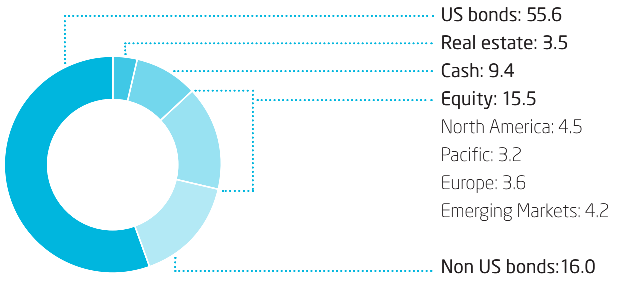
Since 1 August 2006, a major part of the Gard P.&I. (Bermuda) Ltd. investment portfolio has been invested through Gard's Common Contractual Fund (CCF), which is established in Ireland. This investment structure represents a common legal framework for the management of the funds belonging to the risk-carrying entities in the Gard group (Assuranceforeningen Gard – gjensidig, Gard P.&.I (Bermuda), Gard Marine & Energy Limited, Gard Reinsurance Co Ltd and Gard Marine & Energy Försäkring AB). The objective is to reduce management costs and optimise total returns within the investment guidelines.

The portfolio managers in the CCF are all specialists within the class of assets that they have a mandate to manage.

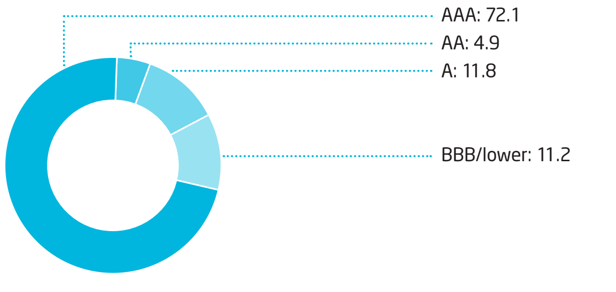
They are given general investment guidelines for the management of the funds, which are determined by the Board of Directors of each legal entity in the Gard group. These contain provisions as to the currency composition of the investments and the types of financial instruments that can be used – for example, the guidelines state that investments in equities shall not exceed 25 per cent. The guidelines also permit investments in real estate funds, futures, options and other derivatives for the purpose of improving the risk management, efficiency and liquidity of the portfolio.

In terms of asset allocation, at 20 February 2011, the Gard portfolio was made up of 55.6 per cent in US bonds; 16 per cent in non-US bonds; 15.5 per cent in global diversified equities; 3.5 per cent in global diversified real estate; and 9.4 per cent in cash. Our bond portfolio is characterised by short duration, investment grade government and corporate bonds.

Asset allocation as at 20/02/2011



Credit quality, bond portfolio



TRUST HAS TO BE EARNED: BY DOING THE RIGHT THING WITH HONESTY, TRANSPARENCY AND RESPECT

Corporate governance

Gard is committed to maintaining high standards of corporate governance. We believe that effective corporate governance is essential and establishes an open and transparent framework for delivering insurance products and services to our Members and clients.

Composition of the Board and Committees

The Members of Gard P.&I. (Bermuda) are the owners of the Gard group, and therefore the composition of the governing bodies of the various legal entities within the group mirror, as far as possible and practical, the make-up of the Members in terms of categories of tonnage entered and geographic spread.

The Board and Committees of Gard P.&I. (Bermuda)

In line with Bermudan law Gard P.&I. (Bermuda) has a Board of Directors whose directors are all elected by the membership at the Annual General Meeting. There are not less than 10 and not more than 35 directors and the Board normally meets twice a year. Following elections at the Annual General Meeting in June 2010 the Board now consists of 24 directors.

The Board of Directors has established an Executive Committee and an Election Committee.

The Executive Committee

Unless otherwise determined by the Board, the Executive Committee shall administer the daily business of Gard P.&I. (Bermuda). The Executive Committee shall, inter alia, administer Gard P.&I. (Bermuda)'s funds in accordance with the general principles laid down by the Board and submit proposals and recommendations to the Board regarding the approval of the accounts, premium policy, the levy of calls and closing of open policy years, and deal with other issues arising out of the daily business of the Company.

The Executive Committee shall consist of at least five, but not more than eight, Directors and the President. The members of the Executive Committee shall be appointed each year by the Board of Directors at the first Board meeting held after the Annual General Meeting. The Executive Committee normally meets four to five times each year, in addition to the regular meetings of the Board of Directors.

The Election Committee

The Election Committee shall assist in the selection of the Board of Directors and the Executive Committee of Gard P.&I. (Bermuda). The Election Committee shall make recommendations to the Annual General Meeting for the election of all of the members of the Board of Directors and the Election Committee.

The Election Committee shall comprise a minimum of three but not more than four, members elected by the General Meeting and the Chairman of the Board of Directors. The Chairman of the Board of Directors is also the Chairman of the Election Committee.

Normally, the Election Committee meets once a year in order to determine the Election Committee's recommendations to the Annual General Meeting for the election of members to the Board of Directors and the Election Committee.

Professional secrecy

Members of governing corporate bodies of a company within the Gard group are bound to observe professional secrecy in relation to any and all matters dealt with, or reported to, the relevant board or committee. The duty to observe professional secrecy extends to all information received by the individual in their capacity as members of a board or committee of an entity within the Gard group regarding the group's business activities, and the business activities of the group's owners, clients and/or Members unless obliged by law to release such information.

Conflicts of interest

General conflict of interest principles, as laid down in the governing legislation and/or the Statutes and/or the Articles of Association and/or the Bye-laws of the individual group company, shall apply to members of a governing corporate body of an entity within the Gard group. Notwithstanding the above, no member of a governing corporate body of an entity within the group can be a member of a governing corporate body of another company or association or other legal entity that is involved in business activities which compete with Gard.

Duty to inform if a conflict of interest situation arises

If a conflict of interest situation arises, or a situation arises which might give reason to assume that such a conflict may exist, the relevant member of the board or committee has a duty to report the matter immediately to the chairman of the relevant board or committee, Members of the Board of Directors, the Executive Committee and the Election Committee of Gard P. & I. (Bermuda) Ltd.

Composition of boards and committees

The Board of Directors

Stephen Pan	Chairman, World-Wide Shipping Agency Limited, Hong Kong
Bengt Hermelin	Deputy Chairman, Samco Shipholding Pte. Ltd, Singapore
Basil A. Abul-hamayel	Saudi Aramco, Dhahran**
Salah M. Al-Hareky	Saudi Aramco, Dhaharan *
Ian Beveridge	Bernhard Schulte, Hamburg
K. C. Chang	Evergreen Marine Corp. (Taiwan) Ltd., Taipei
Trond Eilertsen	Oslo
Timothy C. Faries	Bermuda
Costas Gerapetritis	Navios Shipmanagement, Athens *
Hannu Haapanen	Neste Shipping OY, Espoo
Herbjørn Hansson	Nordic American Tanker Shipping Ltd, Bermuda
Morten Høegh	Leif Høegh & Co. AS, Oslo/London
Kenneth Hvid	Teekay Norway AS, Stavanger
Hans Peter Jebsen	Kristian Gerhard Jebsen Skipsrederi AS, Bergen
Robert E. Johnston	Overseas Shipholding Group Inc., Tampa
Tom Erik Klaveness	The Torvald Klaveness Group, Oslo**
Sergio Machado	Petroleo Brasileiro S.A. - Petrobras, Rio de Janeiro
Takeshi Matsui	The Sanko Steamship Co. Ltd., Tokyo**
Magne Morken	Solvang ASA, Stavanger **
Tadeusz Niszczota	Polish Steamship Co., Szczecin
Halvor Ribe	the JJUgland Companies, Grimstad *
Patrick Rodgers	Euronav (UK) Agencies Limited, London
Michael Say	Aug. Bolten Wm. Miller's Nachfolger, Hamburg
Jane Sy	Stolt Tankers B. V., Rotterdam
Kazuya Uchida	Meiji Shipping Co. Ltd., Tokyo
Jan Eyvin Wang	Wilh. Wilhelmsen ASA, Oslo *
Hor Weng Yew	AET-Tankers PTE Limited, Kuala Lumpur
Claes Isacson	President

The Executive Committee

Trond Eilertsen	Chairman, Oslo
Morten Høegh	Leif Høegh & Co. AS, Oslo/London***
Tadeusz Niszczota	Polish Steamship Co., Szczecin
Magne Morken	Solvang ASA, Stavanger**
Jane Sy	Stolt Tankers B. V., Rotterdam
Michael Say	Aug. Bolten Wm. Miller's Nachfolger, Hamburg
Claes Isacson	President

The Election Committee

Stephen Pan	Chairman World-Wide Shipping Agency Limited, Hong Kong
Bengt Hermelin	Samco Shipholding Pte. Ltd, Singapore
Trond Eilertsen	Oslo
Herbjørn Hansson	Nordic American Tanker Shipping Ltd, Bermuda

Directors marked with an * have been nominated for election at the AGM in August, 2011
Directors marked with an ** will be retiring from the board at the AGM in August 2011
Directors marked with an *** have been nominated for election to the Executive Committee at the AGM in August, 2011

Gard P. & I. (Bermuda) Ltd.
Meeting dates for boards & committees 2010

The AGM

Wednesday 23 June	Bermuda

Board of Directors

Monday 31 May, at 09.00 hrs	Dubrovnik
Wednesday, 23 June	Bermuda
Monday 25 October (meeting cancelled and decisions made by written resolution)	

Executive Committee

Thursday 28 January, at 13.00 hrs	Copenhagen
Thursday 22 April, at 13.00 hrs	Copenhagen
Saturday 29 May, at 09.00 hrs	Dubrovnik
Thursday 23 September, at 13.00 hrs	Copenhagen

FINANCIAL STRENGTH DELIVERS STABILITY, PREDICTABILITY AND SECURITY – EVEN IN TURBULENT TIMES

Report of the auditors

Report on the financial statements

We have audited the accompanying financial statements of Gard P.& I. (Bermuda) Ltd. comprising the financial statements for the Parent Company and the Group. The financial statements for the Parent Company and the Group comprise the balance sheet as at February 20, 2011, the statements of profit and loss and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors' and the President's responsibility for the financial statements

The Directors and the President are responsible for the preparation and fair presentation of these financial statements in accordance with "Regulations for annual accounts for insurance companies" approved by the Norwegian Ministry of Finance, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of Gard P.& I. (Bermuda) Ltd. present fairly, in all material respects, the financial position of the Parent Company and the Group as of February 20, 2011, and its financial performance and its cash flows for the year then ended in accordance with "Regulations for annual accounts for insurance companies" approved by the Norwegian Ministry of Finance.

Arendal, May 30, 2011

ERNST & YOUNG AS
Jan Dønvik

Notice of AGM

TO THE MEMBERS OF GARD P. & I. (BERMUDA) LTD.

NOTICE IS HEREBY GIVEN that the 2011 Annual General Meeting of Gard P. & I. (Bermuda) Ltd. (the "Company") will be held on Wednesday, 31 August, 2011 at the offices of its Manager, Lingard Limited, Trott & Duncan Building, 17A Brunswick Street, Hamilton HM 10, Bermuda at 12:00 noon or as soon thereafter as possible, for the following purposes:

AGENDA

1. To appoint a Chairman and a Secretary of the Meeting.
2. To read the Notice calling the Meeting.
3. To consider the Minutes of the 2010 Annual General Meeting of the Company held on 23 June, 2010.
4. To receive the Auditor's report and Financial Statements for the year ended 20 February 2011.
5. a) To elect Directors and Alternate Directors;

   b) To authorise the Directors to fill any vacancies on the Board;

   c) To authorise the Directors to appoint Alternate Directors; and

   d) To determine the remuneration of the Directors and the Alternate Directors.
6. To elect members of the Election Committee.
7. To appoint Auditors.
8. To ratify and confirm the actions of the Directors and Officers of the Company in relation to their Company duties.

By order of the Board of Directors

Graham W. Everard
Secretary
Bermuda, May 30 2011

Gard P. & I. (Bermuda) Ltd
Profit & loss account

Amounts in USD 000's

	Notes	Parent company 21.02.10 to 20.02.11	Parent company 21.02.09 to 20.02.10	Consolidated accounts 21.02.10 to 20.02.11	Consolidated accounts 21.02.09 to 20.02.10
Technical account					
Gross written premium	4.5	377,607	293,431	764,077	770,112
Ceded reinsurance		(223,712)	(4,890)	(127,492)	(104,056)
Change in gross premium reserve		0	0	10,884	(4,219)
Change in RI premium reserve		0	0	2,164	(2,024)
Net earned premium	3	**153,895**	**288,541**	**649,633**	**659,813**
Other insurance related income		0	0	868	628
Gross settled claims		221,349	242,010	617,069	623,170
Reinsurers share of gross settled claims		(20,453)	(1,265)	(154,247)	(94,200)
Change in gross claims reserve		110,013	31,259	60,975	38,298
Reinsurers share of change in claims reserve		(186,970)	0	8,741	(18,325)
Net claims cost	3,6	**123,939**	**272,004**	**532,538**	**548,943**
Acquisition costs	3,8	**25,786**	**16,761**	**89,363**	**87,749**
Net operating expenses		**6,352**	**6,708**	**12,859**	**9,769**
Technical result	7	**(2,182)**	**(6,932)**	**15,741**	**13,980**
Non-technical account					
Investment income		108,516	95,119	47,498	47,818
Change in unrealised gain/loss of investments		63,939	152,031	109,838	241,553
Loss on realisation of investments		(10,062)	(76,691)	(7,870)	(86,630)
Investment management expenses		(3,781)	(3,023)	(9,227)	(7,357)
Non-technical result	9	**158,612**	**167,436**	**140,239**	**195,384**
Profit before tax		**156,430**	**160,504**	**155,980**	**209,364**
Taxation	10	3,692	762	8,669	8,792
Net result		**152,738**	**159,742**	**147,311**	**200,572**
Transferred to contingency reserve		(152,738)			
Total use of net result		**(152,738)**			

The accounts are presented after accounting for a reduction in deferred call of USD 28 million.

Gard P. & I. (Bermuda) Ltd
Balance sheet

Amounts in USD 000's

		Parent company		Consolidated accounts	
	Notes	As at 20.02.11	As at 20.02.10	As at 20.02.11	As at 20.02.10
Assets					
Intangible					
Other intangible assets	11	0	0	14,120	12,418
Total intangible assets		**0**	**0**	**14,120**	**12,418**
Investments					
Property and plant used in operation	12	0	0	32,603	28,791
Investments in subsidiaries	13	488,388	308,362	0	0
Loan to subsidiaries	3	21,090	31,725	0	0
Investments at amortised cost	15,16	13	13	3,478	3,478
Financial instruments at fair value through profit and loss	15,16,17	587,136	659,020	1,615,809	1,299,700
Other financial investments	15,16	0	0	47,776	59,171
Total investments		**1,096,627**	**999,120**	**1,699,666**	**1,391,140**
Reinsurers share of technical provisions					
Reinsurers share of gross premium reserve		0	0	3,520	1,120
Reinsurers share of gross claims reserve	3,6	186,970	0	161,588	176,749
Total reinsurers share of technical provisions		**186,970**	**0**	**165,108**	**177,869**
Receivables					
Receivables from direct insurance operations	18	35,828	1,798	156,703	157,545
Receivables from reinsurance operations		0	0	25,250	17,733
Receivables from group companies		81,998	1,292	0	0
Other receivables	17,19	0	16,951	5,176	70,146
Total receivables		**117,826**	**20,041**	**187,129**	**245,424**
Other assets					
Equipment	14	1,356	1,355	10,071	9,652
Cash and cash equivalents	20	49,606	74,237	245,846	242,343
Deferred tax asset	10	0	0	5,289	5,048
Total other assets		**50,962**	**75,592**	**261,206**	**257,043**
Prepayments and accrued income					
Accrued income and other prepayments		6,702	5,590	24,912	27,143
Total prepayments and accrued income		**6,702**	**5,590**	**24,912**	**27,143**
Total assets		**1,459,087**	**1,100,343**	**2,352,141**	**2,111,037**

Gard P. & I. (Bermuda) Ltd
Balance sheet continued

Amounts in USD 000's

	Notes	Parent company As at 20.02.11	Parent company As at 20.02.10	Consolidated accounts As at 20.02.11	Consolidated accounts As at 20.02.10
Equity and liabilities					
Paid in equity					
Statutory reserve	22	463	463	463	463
Total equity		**463**	**463**	**463**	**463**
Technical provisions					
Gross premium reserve		0	0	146,348	157,173
Gross claims reserve		705,222	595,209	1,277,702	1,221,835
Total technical provisions		**705,222**	**595,209**	**1,424,050**	**1,379,008**
Contingency reserve					
Contingency reserve	23	637,756	485,018	789,695	637,948
Total contingency reserve		**637,756**	**485,018**	**789,695**	**637,948**
Provision for other liabilities					
Pension obligations	21	2,574	2,406	25,864	18,715
Income tax payable	10	2,889	0	11,288	8,683
Total provisions for other liabilities		**5,463**	**2,406**	**37,152**	**27,398**
Creditors					
Creditors arising out of direct insurance operations		4,875	227	5,165	2,784
Creditors arising out of reinsurance operations		18,921	630	6,869	1,928
Liabilities to financial institutions		0	0	10,150	10,227
Creditors group companies		68,090	1,297	0	0
Other creditors	17,19	11,497	252	52,687	26,694
Total creditors		**103,383**	**2,406**	**74,871**	**41,633**
Accruals and deferred income					
Accruals and deferred income		6,800	14,841	25,910	24,587
Total accruals and deferred income		**6,800**	**14,841**	**25,910**	**24,587**
Total liabilities		**1,458,624**	**1,099,880**	**2,351,678**	**2,110,574**
Total equity and liabilities		**1,459,087**	**1,100,343**	**2,352,141**	**2,111,037**

Gard P. & I. (Bermuda) Ltd
Cash flow analysis

Amounts in USD 000's

	Parent company		Consolidated accounts	
	21.02.10 to 20.02.11	21.02.09 to 20.02.10	21.02.10 to 20.02.11	21.02.09 to 20.02.10
Cash flow from operating activities				
Profit from ordinary operations before tax	156,430	159,742	155,980	200,572
Income tax payable	(803)	(763)	(6,305)	(2,347)
Currency effects	0	0	4,433	0
Income/loss from sales of equipment	0	0	(569)	154
Depreciation and amortisation expenses	0	0	3,877	2,739
Change in pension obligation	168	(11)	7,149	5,413
Change in receivables and creditors	(23,308)	(4,964)	91,537	11,986
Change in technical provisions and other accruals	(74,971)	30,558	75,996	33,875
Net cash flow from operating activities	**57,516**	**184,562**	**332,098**	**252,392**
Cash flow from investment activities				
Purchase of equipment	0	0	(1,351)	(1,750)
Purchase of property and plant	0	0	(3,812)	(2,988)
Proceeds from disposal of equipment	0	0	0	7
Purchase/sale of other investment	(82,147)	(334,350)	(323,355)	(443,562)
Net cash flow from investment activities	**(82,147)**	**(334,350)**	**(328,518)**	**(448,293)**
Cash flow from financial activities				
Dividends received from subsidiaries	0	76,800	0	0
Repayment of borrowings	0	0	(77)	(584)
Net cash flow from financial activities	**0**	**76,800**	**(77)**	**(584)**
Net change in cash and cash equivalents	(24,631)	(72,988)	3,503	(196,485)
Cash and cash equivalents at 21.02	74,237	147,225	242,343	438,828
Cash and cash equivalents at 20.02	**49,606**	**74,237**	**245,846**	**242,343**

Gard P. & I. (Bermuda) Ltd
Notes to the accounts

Note 1 – Corporate information – the Gard group of companies

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

The principal activities of the Company are; the insurance of marine Protection and Indemnity risk on behalf of its Members; the insurance of Marine and Energy risks through its wholly owned subsidiary Gard Marine & Energy Limited; and management of assets covering the technical provisions.

The Members of the Company are also Members of Gard P&I Norway and vice versa. The major part of the two associations' combined portfolio of direct business (currently about 80 per cent) is underwritten by the Company through the Norwegian branch as direct insurer. Gard P&I Norway insures a smaller proportion of the combined P&I portfolio being primarily direct P&I business in certain countries within the EU/EEA area where an EU/EEA based insurer is required in order to comply with the governing EU regulations with regard to cross border activities.

Assuranceforeningen Gard – gjensidig- ("Gard P&I Norway") is a mutual insurance association registered and domiciled in Norway and licensed by the Norwegian Ministry of Finance to carry out marine liability and legal costs insurances. The principal activity of the association is 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 the Company as direct insurer. Inasmuch as the Company has got the right to exercise membership rights in for the reinsured portfolio, the Company controls more than 2/3rds of the voting rights in Gard P&I Norway being the legal basis for consolidating the two associations accounts pursuant to the to the International Accounting Standard 27 Consolidated and Separate Financial Statements.

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

Gard Marine & Energy Försäkring AB ("Gard M&E AB") is a wholly owned subsidiary of Gard M&E and is registered and domiciled in Sweden. Gard M&E AB is used as a vehicle for business in the EU/EEA area where an EU/EEA based insurer is required in order to comply with the governing EU regulations with regard to cross border activities. Gard (Sweden) AB in Gothenburg is appointed the agent of Gard M&E Försäkring. The parent company, Gard M&E, reinsures the vast proportion of Gard M&E AB's net retained liabilities.

Hydra Gard Cell. Hydra Insurance Company Limited is a reinsurance company established by the parties of the International Group of P&I Clubs' Pooling Agreement pursuant to the Bermuda Segregated Accounts Companies Act 2000 as amended for the purpose of reinsuring certain layers of risks retained by the insurers being parties to the said Pooling Agreement. The Hydra Gard Cell is owned 100 per cent by the Company. The assets and liabilities of the segregated account of the Company, the Hydra Gard Cell, are separated from the general accounts of Hydra Insurance Company and of any other cells.

Gard Reinsurance Co Ltd ("Gard Re") is a wholly owned subsidiary of the Company registered and domiciled in Bermuda. Gard Re is licensed by the Bermuda Monetary Authority as a Class 3A insurer. Its principal activity is the reinsurance of an agreed proportion of the risks retained by the Company, Gard M&E and Gard P&I Norway.

Safeguard Guarantee Company Ltd ("Safeguard") is a wholly owned subsidiary of the Company and is registered and domiciled in Bermuda. Safeguard offers insurance of special risks falling outside the scope of the traditional marine liability covers and financial security required under the International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001, for vessels reinsured outside the reinsurance arrangements organised by the International Group of P&I Clubs.

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

Gard AS is a wholly owned subsidiary of the Company. Gard AS is registered and domiciled in Norway. Its principal activity is to provide insurance agent and intermediary services to Lingard Limited and Gard P&I Norway.

A/S Assuransegården is a wholly owned subsidiary of the Company. A/S Assuransegården is a Norwegian registered and domiciled company and the owner of various fixed properties in Norway used by the Gard group of companies.

Note 2 – Accounting policies

Basis of preparation of the accounts

Gard P. & I. (Bermuda) Ltd. is incorporated under Bermudian Law. The operations and insurance activities of the company are carried out by the management company Lingard Ltd. In order to comply with Norwegian Regulations, Gard P. & I. (Bermuda) Ltd. has established a Norwegian Branch containing all business underwritten in Norway with effect from 21 February 2010.

The Annual Accounts of Gard P. & I. (Bermuda) – Norwegian Branch are undertaken by Norwegian accounting rules and filed in Norway. The preparation of the year end accounts for Gard P. & I. (Bermuda) Ltd has from financial year 2010 and going forward with few exceptions been based on "Regulations for annual accounts for insurance companies" approved by the Norwegian Ministry of Finance. Comparative figures have been changed accordingly.

Basis for consolidation

The consolidated financial statements comprise Gard P. & I. (Bermuda) Ltd (the Company) and the companies where Gard P. & I. (Bermuda) Ltd has a controlling interest (the Gard group).

A controlling interest is normally obtained when ownership is more than 50 per cent of the shares in the company and can exercise control over the Company. In as much as the Company has got the right to exercise membership rights in Gard P&I Norway, the Company controls more than 2/3rd of the voting rights in Gard P&I Norway being the legal basis for consolidating the two associations accounts pursuant to the to the International Accounting Standard 27 Consolidated and Separate Financial Statements.

Transactions between the companies in the Gard group have been eliminated in full in the consolidated financial statement. The consolidated financial statement has been prepared in accordance with the same accounting principles for both parent and subsidiaries.

The acquisition method is applied when accounting for business combinations. Companies which have been bought or sold during the year are included in the consolidated financial statements from the date when control is achieved and until the date when control ceases.

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 can change. Estimates and their assumptions are considered continuously, and accounts adjusted accordingly.

Insurance contract liabilities are the main items in the balance sheet based upon judgments 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. Actuarial methods are used in estimating the total cost of outstanding claims.

Foreign currency

Functional currency and presentation currency

Both the functional currency and presentation currency of the company is USD.

Transactions in foreign currency

Transactions in currency are translated at the rate applicable on the transaction date. Monetary items in currency other than USD are translated into USD using the exchange rate applicable at the end of the reporting period. The currency exposure of the provision for claims is assessed to be equivalent to the same currency exposure as claims paid. Opening and closing balance of the provision for claims other than USD are translated into USD based on the same method as for monetary items. Non-monetary items that are measured at the fair value expressed in currency other than USD are translated into USD using the exchange rate applicable on the transaction date. Changes to exchange rates are recognised in the profit and loss statement as they occur during the accounting period.

Translation of subsidiaries to USD for consolidation purposes are made on exchange rates at closing date regarding balance sheet items, and on an average rate for items in the profit and loss account. Translation effects due to this methodology are charged to the contingency reserve in the consolidated accounts.

Principles for entering of revenues and charging of expenses

Premiums

Premiums are based on the insurance contracts where one part (the insurer) has accepted a significant risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event adversely affects the policyholders. Premiums are accounted for in the period they are earned. Deferred call for the accounting year is subject to approval for the Board of Directors in the following year, but is included as revenue in the accounts for the current year. Supplementary calls may be charged to members for previous policy years.

Reinsurance premiums

Reinsurance premiums are recognised as an expense in the applicable period.

Claims expenses

Expenses regarding incurred claims and other administrative expenses are charged to the period in which they are incurred.

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

Income tax

The tax expense in the profit and loss account consists of both tax payable for the accounting period and changes in deferred tax. Deferred tax is calculated as 28 percent of temporary differences between accounting profit and taxable profit considering the tax effect of former operating losses. Temporary differences, both positive and negative, are offset within the same period. Deferred tax assets are recognised if it is probable that profit for tax purposes in subsequent periods are sufficient.

The Norwegian branch is liable to pay income tax based on gross earned premiums. Income tax is calculated as 0,84 per cent of gross earned premiums irrespective of whether the branch created any profit or suffered any loss in the reporting period.

Financial instruments

In accordance with "Regulations for annual accounts for insurance companies" IAS 39, Financial instruments: Recognition and measurement, should be used for assets within the scope of IAS 39. Financial instruments are classified in the following categories: at fair value with changes in value through profit or loss, held to maturity, loans and receivables, available for sale and other liabilities.

Financial instruments that are primarily held with the objective of trading in the short term, financial instruments that form part of a portfolio of identified instruments which are managed together and where there are clear traces of short-term gain realisation are classified as held for trading purposes. These instruments form part of the category of financial instruments recognised at their fair value with changes in value through profit or loss, together with financial instruments which qualify for, and have been designated as, instruments recognised at their fair value with changes in value through profit or loss.

Financial assets with fixed or determinable cash flows and a specific redemption date which the association intends and is able to keep until maturity are classified as investments held to maturity.

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 2 – Accounting policies continued

Financial assets with fixed or determinable cash flows that are not quoted in an active market are classified as loans and receivables.

All other financial assets are classified as being available for sale.

Financial liabilities that do not form part of the held for trading purposes category and which have not been designated as being at fair value with changes in value through profit or loss are classified as other liabilities.

Investments that are held to maturity, loans and receivables and other liabilities are recognised at their amortised cost. Financial instruments that are classified as available for sale and held for trading purposes are recognised at their fair value, as observed in the market at the end of the reporting period, without deducting costs linked to a sale.

Changes in the fair value of financial instruments classified as held for trading purposes or designated as being at fair value with changes in value through profit or loss are recognised in the profit and loss statement as a financial income/expense.

Financial derivatives
Financial derivatives are assessed at their fair value. Changes in the fair value are recognised in the profit and loss as they arise. Financial derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial derivatives are used in the Gard group's management primarily to obtain the exposure that is laid down in the Board of Directors' instructions.

Receivables
Receivables are stated at face value, less provision for bad debts.

Property and plant used in operation and equipment
Property, plant and equipment is capitalised and depreciated linearly over the estimated useful life. Costs for maintenance are expensed as incurred, whereas costs for improving and upgrading property plant and equipment are added to the acquisition cost and depreciated with the related asset. If carrying value of a non current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount.

Technical provisions
Gross premium reserve
The gross premium reserve at year end in the consolidated accounts relates to M&E business as all insurance policies for P&I business ends on the same date as the financial year. Gross premium reserve for M&E business are calculated and accounted for in the balance sheet as provision for the part of agreed premium written that exceeds the end of the financial year. Changes in the provision are charged to the profit and loss account.

Gross claims reserve
The gross claims reserve comprises estimates of the expected remaining exposure from claims that have been reported to the company, and from claims that have been incurred but not reported.

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 when entered in the accounts.

Contingency reserve
The contingency reserve is retained to meet unforeseen fluctuations in claims exposure, possible catastrophes and extraordinary claims patterns that fall within the Gard group's liabilities.

Designated reserves
Given the level of pool retentions and the participation of the International Group in the general excess loss reinsurance contract, all parties to the Pooling Agreement have entered into arrangements, under an agreement dated 20 February 1996, to provide security by way of letters of credit or security bonds to other pooling members to cover a significant proportion of their potential liabilities under the Pooling Agreement. Such letters of credit/security bonds can only be drawn upon in the event that an Association fails to meet a call upon it in relation to its obligations under the Pooling Agreement. The company currently has a contingent liability under a bank guarantee in the amount of USD 30.8 million relating to its participation in this arrangement. The bank guarantee does not constitute a formal charge on the assets of the company as no counter security has been required.

Pensions
The basis for accounting for defined benefit plans is an actuarial calculation of pension commitments. Change in the pension commitment during the year is expensed in the Profit and Loss account.

Contingent liabilities and assets
Contingent liabilities are not recognised in the annual accounts. Significant contingent liabilities are disclosed, with the exception of contingent liabilities that are unlikely to incur.

Contingent assets are not recognised in the annual accounts but are disclosed if there is a certain probability that a benefit will be added to the association.

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

Significant transaction
The company established Gard Reinsurance Co Ltd (Gard Re) in February 2010. Gard Re acts as reinsurer for the company, which cedes to Gard Re 50 per cent of the Protection and Indemnity risk underwritten that is not reinsured elsewhere from policy year 2010.

Gard P. & I. (Bermuda) Ltd has bought a major part of the P&I portfolio from Assuranceforeningen Gard -gjensidig. The agreement gives Gard P. & I. (Bermuda) Ltd. rights to offer renewal terms from renewal date as at 20.02.2010 to certain clients and members. A significant part of the portfolio has in 2010 renewed their insurance with Gard P. & I. (Bermuda) Ltd.

Note 3 – Group transactions

Internal reinsurance agreements

Gard P. & I. (Bermuda) Ltd (the "Company") and Assuranceforeningen Gard – gjensidig ("Gard P&I Norway") have entered into mutual reinsurance agreements. The Company reinsures with effect from 20 February 2010 a proportion amounting to 25 per cent of Gard P&I Norway's Protection and Indemnity risk underwritten that is not reinsured elsewhere (85 per cent for policy years up to 2009). With effect from the same date the Company cedes to Gard P&I Norway by way of reinsurance 2 per cent of the Company's Protection and Indemnity risk underwritten that is not reinsured elsewhere (15 per cent for policy years up to 2009).

Received premium from Gard P&I Norway amounts to USD 15.3 million (20.02.10 USD 273.5 million). Ceded premium to Gard P&I Norway amounts to USD 5.3 million (20.02.10 USD 2.5 million). Gard P. & I. (Bermuda) Ltd has received from Gard P&I Norway USD 1,6 million (20.02.10 USD 1.2) as reinsurers share of gross settled claims, and reinsurers share of gross claims reserve amounts to USD 186.9 mill (20.02.10 USD 0.0 million).

Gard P. & I. (Bermuda) Ltd has as reinsurers of Gard P&I Norway paid a share of gross settled claims amounting to USD 158.3 million (20.02.10 USD 204.5 million) and share of gross claims reserve amounts to USD 405.6 million (20.02.10 USD 595.2 million)
Net commission paid under the reinsurance agreements with Gard P&I Norway amounts to USD 1.8 million (20.02.10 USD 45.1 million).

Both the Company and Gard Marine & Energy Limited ("Gard M&E") have entered into reinsurance agreements with Gard Reinsurance Co Ltd ("Gard Re") whereby the two direct insurers are ceding 50 per cent of all risk underwritten that is not reinsured elsewhere to Gard Re with effect from 20 February 2010. Ceded premium from the Company to Gard Re amounts to USD 139.5 million and the Company has received a reinsurance commission amounting to USD 24.7 million. The Company has received USD 18.7 million as reinsurers share of gross settled claims and Gard Re as reinsurers share of gross claims reserve amounts to USD 127.3 million.

The company and Gard P&I Norway have entered into a reinsurance agreement with Hydra, which is a segregated accounts company. The company's segregated account (cell) in Hydra is covering the former companies' liability to the second layer of the International Group (IG) pool and the former companies share of IG-companies 25 per cent participation in the 1st market excess layer. Reinsurance premium amounts to USD 17.9 million.

Insurance management agreement

The Company, Gard M&E, Gard Re and Safeguard Guarantee Company Ltd have appointed Lingard Limited as their Insurance Manager and principal representative in Bermuda. These services are governed by individual insurance management agreements entered into between each of the above four companies and Lingard Limited. Insurance services have been invoiced with USD 57.8 million (20.02.10 USD 6.2 million).

Insurance agency agreements

Lingard Limited in its capacity as Insurance Manager of the Company and Gard M&E has entered into an insurance agency agreement with Gard AS, being the general agent of the Norwegian branches of the Company and Gard M&E, whereby Gard AS is delegated authority as an agent and insurance intermediary to perform claims handling and underwriting functions on behalf of the two Bermuda based risk carriers. A similar agency agreement has been entered into between Gard P&I Norway as the principal and Gard AS as the agent.

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

Loan agreement

The Company has entered into loan agreements with AS Assuransegården and Gard AS. Loan amounts to USD 21 million. Loan interest amounts to USD 0.8 million.

Note 4 – Gross written premium by geographical areas

Amounts in USD 000's

	Parent company		Consolidated accounts	
	21.02.10 to 20.02.11	21.02.09 to 20.02.10	21.02.10 to 20.02.11	21.02.09 to 20.02.10
Norway	98,452	76,015	210,054	217,022
EEA	155,775	21,772	331,428	365,734
Other areas	123,380	195,644	222,595	187,356
Total	**377,607**	**293,431**	**764,077**	**770,112**

Note 5 – Estimated deferred call

The Board of Directors has decided to levy a 15 percent deferred call in respect to of the 2010 policy year, payable in 2011. The original estimate for the year was 25 percent. Deferred call for 2009 was set to 10 percent.

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 6 – Claims incurred gross and net of reinsurance

Amounts in USD 000's

	Parent company 21.02.10 – 20.02.11 P&I	M&E	Total	Parent company 21.02.09 – 20.02.10 P&I	M&E	Total
Gross claims						
Provisions, opening balance	(595,209)	0	(595,209)	(563,950)	0	(563,950)
Claims paid*	221,349	0	221,349	242,010	0	242,010
Provisions, closing balance	705,222	0	705,222	595,209	0	595,209
Currency exchange effect	0	0	0	0	0	0
Claims incurred – gross	**331,362**	**0**	**331,362**	**273,269**	**0**	**273,269**
Claims net of reinsurance						
Provisions, opening balance	(595,209)	0	(595,209)	(563,950)	0	(563,950)
Claims paid, net*	200,896	0	200,896	240,745	0	240,745
Provisions net, closing balance	518,252	0	518,252	595,209	0	595,209
Net currency exchange effect	0	0	0	0	0	0
Net claims cost	**123,939**	**0**	**123,939**	**272,004**	**0**	**272,004**

	Consolidated accounts 21.02.10 – 20.02.11 P&I	M&E	Total	Consolidated accounts 21.02.09 – 20.02.10 P&I	M&E	Total
Gross claims						
Provisions, opening balance	(872,238)	(349,597)	(1,221,835)	(784,434)	(389,613)	(1,174,047)
Claims paid*	420,914	196,154	617,068	349,346	273,824	623,170
Provisions, closing balance	930,563	347,139	1,277,702	872,238	349,597	1,221,835
Currency exchange effect	0	5,108	5,108	0	(9,490)	(9,490)
Claims incurred – gross	**479,239**	**198,804**	**678,043**	**437,150**	**224,318**	**661,468**
Claims net of reinsurance						
Provisions net, opening balance	(729,816)	(315,270)	(1,045,086)	(698,775)	(321,387)	(1,020,162)
Claims paid, net*	293,748	169,073	462,821	317,491	211,478	528,969
Provision net, closing balance	797,021	319,093	1,116,114	729,816	315,270	1,045,086
Net currency exchange effect	0	(1,311)	(1,311)	0	(4,950)	(4,950)
Net claims cost	**360,953**	**171,585**	**532,538**	**348,532**	**200,411**	**548,943**

* Claims paid include claims' handling costs. Claims' handling costs consist of both direct and indirect claims' handling costs from insurance intermediary.

Reinsurers' share of technical provisions

Amounts in USD 000's

	Parent company			Parent company		
			As at 20.02.11			As at 20.02.10
	Premium	Claim	Total	Premium	Claim	Total
Provisions, opening balance	0	0	0	0	0	0
Change in reinsurers provision	0	186,970	186,970	0	0	0
Net currency exchange effect	0	0	0	0	0	0
Provision, closing balance	**0**	**186,970**	**186,970**	**0**	**0**	**0**

	Consolidated accounts			Consolidated accounts		
			As at 20.02.11			As at 20.02.10
	Premium	Claim	Total	Premium	Claim	Total
Provisions, opening balance	1,120	176,749	177,869	3,144	153,885	157,029
Change in reinsurers provision	2,164	(8,741)	(6,577)	(2,024)	18,325	16,301
Net currency exchange effect	236	(6,420)	(6,184)	0	4,539	4,539
Provision, closing balance	**3,520**	**161,588**	**165,108**	**1,120**	**176,749**	**177,869**

No changes have been made during the year as to how the reinsurers' share of technical provisions has been measured or calculated. We have no information about the reinsurers taking part in the company's reinsurance programme that could lead to a potential short fall in the reinsurers' share of technical provisions.

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 7 – The technical results for gross operations and ceded reinsurance operations divided into business areas

Amounts in USD 000's

	Parent company 21.02.10 – 20.02.11			Parent company 21.02.09 – 20.02.10		
	P&I	M&E	Total	P&I	M&E	Total
Gross						
Premiums earned	377,607	0	377,607	293,431	0	293,431
Claims incurred	(331,362)	0	(331,362)	(273,269)	0	(273,269)
Operating costs	(35,479)	0	(35,479)	(23,649)	0	(23,649)
Total result – gross	**10,766**	**0**	**10,766**	**(3,487)**	**0**	**(3,487)**
Ceded reinsurance						
Reinsurance premiums	(223,712)	0	(223,712)	(4,890)	0	(4,890)
Reinsurers' share of claims incurred	207,423	0	207,423	1,265	0	1,265
Reinsurance commission	3,341	0	3,341	180	0	180
Total result – ceded reinsurance	**(12,948)**	**0**	**(12,948)**	**(3,445)**	**0**	**(3,445)**
Result on technical account	**(2,182)**	**0**	**(2,182)**	**(6,932)**	**0**	**(6,932)**

	Consolidated accounts As at 20.02.11			Consolidated accounts As at 20.02.10		
	P&I	M&E	Total	P&I	M&E	Total
Gross						
Premiums earned	463,098	311,863	774,962	447,601	318,292	765,893
Claims incurred	(478,964)	(199,080)	(678,044)	(432,468)	(229,000)	(661,468)
Operating costs	(47,715)	(66,225)	(113,940)	(44,422)	(65,466)	(109,888)
Total result – gross	**(63,581)**	**46,558**	**(17,022)**	**(29,289)**	**23,826**	**(5,463)**
Ceded reinsurance						
Reinsurance premiums	(86,344)	(38,984)	(125,328)	(69,902)	(36,178)	(106,080)
Reinsurers' share of claims incurred	118,814	26,692	145,506	83,937	28,588	112,525
Reinsurance commission	4,685	7,900	12,585	3,492	9,506	12,998
Total result – ceded reinsurance	**37,155**	**4,392**	**32,763**	**17,527**	**1,916**	**19,443**
Result on technical account	**(26,426)**	**42,166**	**15,741**	**(11,762)**	**25,742**	**13,980**

Note 8 – Acquisition costs, remuneration and number of staff

Amounts in USD 000's

	Parent company		Consolidated accounts	
	21.02.10 to 20.02.11	21.02.09 to 20.02.10	21.02.10 to 20.02.11	21.02.09 to 20.02.10
Acquisition costs and commissions				
Insurance intermediary	18,401	982	40,977	42,429
Agent commission	18,355	15,959	51,742	58,318
Commissions earned	(10,970)	(180)	(3,356)	(12,998)
Total net acquisition cost	**25,786**	**16,761**	**89,363**	**87,749**
Number of staff	**0**	**0**	**403**	**390**

Average Expense Ratio (AER) – P&I
In accordance with Schedule 3 of the International Group Agreement 1999 the Association is required to disclose the AER for the Association's P&I business for the five years ended 20 February 2011. The Ratio of 12 per cent (11.8 last year) has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant Financial Statements.

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

Total remuneration to the Committees, Managing Director and Auditor amounts to:

Amounts in USD 000's

	Salary	Pension	Other benefits
Board of directors	465	0	0
CEO, salary and other benefits*	1,763	1,516	65

* The CEO is partly paid from the subsidiaries Gard AS, Lingard Ltd and Assuranceforeningen Gard. 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 2 years of salary in addition to a contractual 6 months notice period.

The CEO has a mortgage loan with a remaining balance on USD 214.4. The loan has an charge of interest according to the interest set by the Tax Ministry in Norway. Down payment period is 7.5 years.

The Top Management and some defined personnel have a pension scheme that gives them the right to retire from 60 years of age. The CEO has a pension scheme that gives him the right to retire from 58 years of age. The CEO will be entitled to a bonus equal to 70 per cent of his salary if he remains in his position until the age of 60.

A Bonus Scheme has been established which includes all employees and the CEO. Bonuses will be paid if predefined targets are met. The total bonus has a maximum of 20 per cent of gross salary. The bonuses payable for the accounting year 2010 amounts to 18 per cent.

Amounts in USD 000's

	Parent company		Consolidated accounts	
	21.02.10 to 20.02.11	21.02.09 to 20.02.10	21.02.10 to 20.02.11	21.02.09 to 20.02.10
Auditor fee	60	50	581	534
Tax advising	10	13	198	0
Non audit services	8	20	395	307
Total auditors' fee	**78**	**83**	**1,174**	**841**

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 9 – Financial income and expenses

Amounts in USD 000's

	Parent company		Consolidated accounts	
	21.02.10 to 20.02.11	21.02.09 to 20.02.10	21.02.10 to 20.02.11	21.02.09 to 20.02.10
Investment income				
Interest income	36	1,126	2,838	14,246
Dividend from subsidiaries	81,450	76,800	0	0
Income from financial instruments held for trading (portfolio investments)	34,018	27,566	56,167	42,289
Income from held-to maturity instruments	0	0	91	53
Foreign exchange gains/losses	(6,988)	(10,373)	(11,598)	(8,770)
	108,516	**95,119**	**47,498**	**47,818**
Change in unrealised gain/loss of investments				
Change in unrealised gain/loss of investments	63,939	152,031	109,838	241,553
	63,939	**152,031**	**109,838**	**241,553**
Gains on realisation of investments				
Gain on financial instruments held for trading (portfolio investments)	(10,062)	(76,691)	(7,870)	(86,630)
	(10,062)	**(76,691)**	**(7,870)**	**(86,630)**
Investment management expenses	**(3,781)**	**(3,023)**	**(9,227)**	**(7,357)**
Non-technical result	**158,612**	**167,436**	**140,239**	**195,384**

Net profits on realisation of investments reflect the difference between cost and sale price in the local currency of the investment.

Note 10 – Tax

Amounts in USD 000's

	Parent company		Consolidated accounts	
	21.02.10 to 20.02.11	21.02.09 to 20.02.10	21.02.10 to 20.02.11	21.02.09 to 20.02.10
Income tax expenses:				
Tax payable	2,889	0	7,946	8,403
Paid foreign withheld tax	803	762	1,234	1,287
Change in deferred tax	0	0	(510)	(898)
Tax expenses ordinary result	**3,692**	**762**	**8,669**	**8,792**

Amounts in USD 000's

	Parent company		Consolidated accounts	
	20.02.11	20.02.10	20.02.11	20.02.10
Deferred tax asset:				
Specification of tax effect resulting from temporary differences				
Pension obligations	0	0	19,362	16,309
Equipment	0	0	(831)	883
Other temporary differences	0	0	359	837
Total temporary differences	**0**	**0**	**18,890**	**18,029**
Deferred tax asset, 28 per cent of total temporary differences	**0**	**0**	**5,289**	**5,048**

Deferred tax asset in the consolidated accounts has been recorded in the balance sheet because it is likely to be used in the future. One subsidiary has a net deferred tax asset as at 20.02.11 amounting to USD 28.9 million (20.02.10 USD 26.4 million) that is not included in the recorded amount above. This deferred tax asset is not likely to be utilised in the future.

Note 11 – Other intangible assets

Amounts in USD 000's

	Consolidated accounts	
	21.02.10 to 20.02.11	21.02.09 to 20.02.10
Cost at opening balance	17,712	11,660
Purchased assets in the period	2,424	4,278
Sale of assets in the period	0	0
Exchange adjustments	0	1,774
Cost at closing balance	**20,136**	**17,712**
Depreciation at opening balance		
Total impairment effect	6,016	5,294
Exchange adjustments	0	0
Depreciation at closing balance	**6,016**	**5,294**
Net book value at closing balance	**14,120**	**12,418**

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 12 – Property and plant used in operation

Amounts in USD 000's

	Consolidated accounts 20.02.11
Cost as at 20.02.2010	35,101
Purchased assets in the period	2,788
Sale of assets in the period	(31)
Exchange adjustments	1,846
Cost as at 20.02.2011	**39,704**
Depreciation as at 20.02.2010	6,313
Depreciation charge for the year	456
Acquisitions of assets in subsidiaries	0
Exchange adjustments	332
Depreciation as at 20.02.2011	**7,101**
Net book value as at 20.02.2011	**32,603**
Amortisation period	20-66 years
Amortisation type	linear

Note 13 – Investments in subsidiaries

Amounts in USD 000's

	Ownership	Voting share	Place of office	Share capital	Cost price USD 20.02.11
Gard Marine & Energy Ltd.	100.0 %	100.0 %	Bermuda	USD 190,000	197,737
Gard AS	100.0 %	100.0 %	Norway	NOK 30,000	70,932
A/S Assuransegården	100.0 %	100.0 %	Norway	NOK 22,220	21,095
Varmekrogen AS	100.0 %	100.0 %	Norway	NOK 100	26
Safeguard Guarantee Company Ltd.	100.0 %	100.0 %	Bermuda	USD 120	10,000
Gard Reinsurance Co. Ltd	100.0 %	100.0 %	Bermuda	USD 150,000	180,000
Hydra Insurance Company Ltd. (Gard's cell)	100.0 %	100.0 %	Bermuda	USD 7,698	7,698
Lingard Ltd.	100.0 %	100.0 %	Bermuda	USD 900	900
Total					**488,388**

Gard Reinsurance Co. Ltd has received a group contribution amounting to USD 30 million from Gard P. & I. (Bermuda) Ltd.

Note 14 – Equipment

Amounts in USD 000's

	Parent company	Consolidated accounts		
	As at 20.02.2011			As at 20.02.2011
	Art	Art	Equipment	Total
Cost at opening balance	1,356	4,337	12,672	17,009
Purchased assets in the period	0	0	2,137	2,137
Sale of assets in the period	0	0	(220)	(220)
Exchange adjustments	0	0	596	596
Cost at closing balance	**1,356**	**4,337**	**15,185**	**19,522**
Depreciation at opening balance	0	0	6,555	6,555
Depreciation charge for the year	0	0	2,599	2,599
Acquisitions of assets in subsidiaries	0	0	0	0
Exchange adjustments	0	0	297	297
Depreciation at closing balance	**0**	**0**	**9,451**	**9,451**
Net book value as at 20.02.2011	**1,356**	**4,337**	**5,734**	**10,071**

Note 15 – Financial instruments and fair values of financial instruments

Amounts in USD 000's

Investments at amortised costs

Parent company		As at 20.02.11		As at 20.02.10
	Carrying value	Fair value	Carrying value	Fair value
Bonds held to maturity	13	13	13	13
Total	**13**	**13**	**13**	**13**

Consolidated accounts		As at 20.02.11		As at 20.02.10
	Carrying value	Fair value	Carrying value	Fair value
Bonds held to maturity	3,478	4,677	3,478	4,067
Total	**3,478**	**4,677**	**3,478**	**4,067**

Financial instruments at fair value through profit or loss

Parent company		As at 20.02.11		As at 20.02.10
	Carrying value	Fair value	Carrying value	Fair value
Equities	192,741	192,741	163,947	163,947
Bonds	373,993	373,993	467,349	467,349
Real estate fund	5,220	5,220	2,856	2,856
Financial derivative assets	15,182	15,182	24,869	24,869
Total	**587,136**	**587,136**	**659,020**	**659,020**
Financial derivative liabilities*	**(6,219)**	**(6,219)**	**0**	**0**

Consolidated accounts		As at 20.02.11		As at 20.02.10
	Carrying value	Fair value	Carrying value	Fair value
Equities	385,489	385,489	287,348	287,348
Bonds	1,209,247	1,209,247	980,124	980,124
Real estate fund	5,220	5,220	2,856	2,856
Financial derivative assets	15,852	15,852	29,372	29,372
Total	**1,615,809**	**1,615,809**	**1,299,700**	**1,299,700**
Financial derivative liabilities*	**(8,191)**	**(8,191)**	**0**	**0**

*Financial derivative liabilities are included in other creditors

Financial instruments above was designated as fair value through profit or loss at initial recognition.

Other financial investments designated at fair value through profit or loss

Amounts in USD 000's

			Consolidated accounts	
		As at 20.02.11		As at 20.02.10
	Carrying value	Fair value	Carrying value	Fair value
Loan to employees	29,428	29,428	26,791	26,791
Bonds	18,348	18,348	32,380	32,380
Total	**47,776**	**47,776**	**59,171**	**59,171**

Determination of fair value
The following describes the methodologies and assumptions used to determine fair values:

Financial instruments at fair value through profit or loss
The fair value of financial assets classified as financial instruments at fair value through profit or loss and the fair value of bonds included above 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.

Floating rate financial investments – loan to employees
The estimated fair value of floating rate loan to employees is based on discounted cash flows by comparing interest rates charged on loan to employees with current market rates for debts with similar credit risk and maturity.

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 15 – Financial instruments and fair values of financial instruments continued

Fair value hierarchy

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market.

Non market observable inputs means that fair values are determined as a whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. As of 20 February there are no such instruments in the balance sheet.

Amounts in USD 000's

	Parent company			Parent company		
			As at 20.02.11			As at 20.02.10
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial instruments						
Investments at amortised cost						
Bonds held for maturity	13	0	0	13	0	0
Financial assets at fair value through profit or loss						
Equities	192,741	0	0	163,947	0	0
Bonds	373,993	0	0	467,349	0	0
Real estate fund	0	5,220	0	0	2,856	0
Financial derivative assets	0	15,182	0	0	24,869	0
Other financial investments designated at fair value through profit or loss						
Bonds	0	0	0	0	0	0
Loan to employees	0	0	0	0	0	0
Total financial instruments	**566,747**	**20,402**	**0**	**631,308**	**27,725**	**0**
Financial liabilities						
Financial derivative liabilities	0	(6,219)	0	0	0	0
Total financial liabilities	**0**	**(6,219)**	**0**	**0**	**0**	**0**

During the reporting period ending 20 February 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no items or transfers into and out of Level 3 fair value measurements.

Amounts in USD 000's

	Consolidated accounts			Consolidated accounts		
			As at 20.02.11			As at 20.02.10
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial instruments						
Investments at amortised cost						
Bonds held for maturity	3,478	0	0	3,478	0	0
Financial assets at fair value through profit or loss						
Equities	385,489	0	0	287,348	0	0
Bonds	1,209,247	0	0	980,124	0	0
Real estate fund	0	5,220	0	0	2,856	0
Financial derivative assets	0	15,852	0	0	29,372	0
Other financial investments designated at fair value through profit or loss						
Bonds	18,348	0	0	32,380	0	0
Loan to employees	0	29,428	0	0	26,791	0
Total financial instruments	**1,616,563**	**50,500**	**0**	**1,303,330**	**59,018**	**0**
Financial liabilities						
Financial derivative liabilities	0	(8,191)	0	0	0	0
Total financial liabilities	**0**	**(8,191)**	**0**	**0**	**0**	**0**

During the reporting period ending 20 February 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no items or transfers into and out of Level 3 fair value measurements.

Note 16 – Financial risk

Risk management framework

The purpose of risk management is to enable the Gard group to meet its obligations to policyholders and members. Risk management must ensure that risk-taking is consistent with the association's risk appetite and that there is an appropriate risk-reward balance in all risk-taking activities.

The Risk and Capital Committee meets regularly to discuss any commercial, regulatory and organisational requirements. The mission is to improve the understanding of current and prospective risk exposures, as well as ensure sound, holistic and transparent decision-making processes in relation to risk management.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The credit exposure on the Gard group's reinsurance program is in line with the guidelines of only accepting reinsurers with an A- or higher rating. The Gard group is however faced with BBB rating exposure through the IG Pooling Agreement. Among the thirteen clubs, six have ratings of BBB or lower. This is mitigated by a designated reserve scheme, whereby high quality bank guarantees are provided as security for liabilities between the pooling participants.

The Gard group also has counterparty risk towards counterparties through the financial derivative overlay program used to manage market risk exposures. Common risk mitigation techniques are exercised in order to minimise the counterparty risk in relation to holding derivative contracts.

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 16 – Financial risk continued

The credit risk in respect of receivables is handled in group policies and by close follow up. Outstanding receivables can be netted of against outstanding claims payment to reduce the risk of doubtful debts.

The tables below provide information regarding credit risk exposure as at 20 February 2011, by classifying assets according to Standard & Poor's ratings. AAA is the highest possible rating.

Amounts in USD 000's

Parent company									As at 20.02.11
	AAA	AA	A	BBB	BB	B	CCC/lower	Not rated	Total
Financial instruments									
Investments at amortised cost									
Bonds held for maturity	0	13	0	0	0	0	0	0	13
Financial assets at fair value through profit or loss									
Equities	602	44,604	91,219	47,311	4,754	1,804	0	2,447	192,741
Bonds	281,084	13,221	37,143	38,068	3,137	942	175	225	373,993
Real estate fund	0	0	0	0	0	0	0	5,220	5,220
Financial derivative assets	0	0	15,182	0	0	0	0	0	15,182
Receivables	0	0	81,998	0	0	0	0	35,828	117,826
Cash and cash receivables	0	49,606	0	0	0	0	0	0	49,606
Total	**281,686**	**107,444**	**225,542**	**85,379**	**7,891**	**2,746**	**175**	**43,720**	**754,581**

Parent company									As at 20.02.11
	AAA	AA	A	BBB	BB	B	CCC/lower	Not rated	Total
Financial instruments									
Investments at amortised cost									
Bonds held for maturity	0	13	0	0	0	0	0	0	13
Financial assets at fair value through profit or loss									
Equities	234	35,792	63,362	35,341	6,113	1,767	0	21,339	163,948
Bonds	336,564	17,659	44,879	62,405	4,651	929	117	143	467,349
Real estate fund	0	0	0	0	0	0	0	2,856	2,856
Financial derivative assets	0	0	24,869	0	0	0	0	0	24,869
Receivables	0	0	1,292	0	0	0	0	50,474	51,766
Cash and cash receivables	0	74,237	0	0	0	0	0	0	74,237
Total	**336,798**	**127,701**	**134,403**	**97,746**	**10,764**	**2,696**	**117**	**74,812**	**785,038**

Amounts in USD 000's

	AAA	AA	A	BBB	BB	B	CCC/lower	Not rated	Consolidated accounts As at 20.02.11 Total
Financial instruments									
Investments at amortised cost									
Bonds held for maturity	3,465	13	0	0	0	0	0	0	3,478
Financial assets at fair value through profit or loss									
Equities	1,812	70,851	156,093	90,766	8,873	3,032		54,062	385,489
Bonds	886,093	59,735	129,402	103,816	21,470	6,508	1,006	1,218	1,209,247
Real estate fund								5,220	5,220
Financial derivative assets	0	0	15,852	0	0	0	0	0	15,852
Other financial investments designated at fair value through profit or loss									
Bonds	18,348	0	0	0	0	0	0	0	18,348
Loan to employees	0	0	0	0	0	0	0	29,428	29,428
Receivables	0	0	0	0	0	0	0	187,129	187,129
Cash and cash receivables	0	245,846	0	0	0	0	0	0	245,846
Total	**909,718**	**376,445**	**301,347**	**194,582**	**30,343**	**9,540**	**1,006**	**277,057**	**2,100,037**

	AAA	AA	A	BBB	BB	B	CCC/lower	Not rated	Consolidated accounts As at 20.02.11 Total
Financial instruments									
Investments at amortised cost									
Bonds held for maturity	3,465	13	0	0	0	0	0	0	3,478
Financial assets at fair value through profit or loss									
Equities	966	56,416	102,639	56,081	10,717	2,138	0	58,391	287,348
Bonds	707,287	44,486	115,418	97,249	13,208	1,129	606	741	980,124
Real estate fund	0	0	0	0	0	0	0	2,856	2,856
Financial derivative assets	0	0	29,372	0	0	0	0	0	29,372
Other financial investments designated at fair value through profit or loss									
Bonds	32,380	0	0	0	0	0	0	0	32,380
Loan to employees	0	0	0	0	0	0	0	26,791	26,791
Receivables	0	0	0	0	0	0	0	245,424	245,424
Cash and cash receivables	0	242,343	0	0	0	0	0	0	242,343
Total	**744,098**	**343,258**	**247,428**	**153,330**	**23,925**	**3,267**	**606**	**334,202**	**1,850,116**

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 16 – Financial risk continued

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Credit risk is mitigated by entering into collateral agreements. Management monitors the market value of the collateral and request additional collateral when needed. For financial derivatives collateral is received from one counterpart as at 20.02.11 in the amount of USD 6.6 million (20.02.10 USD 14.6 million).

Like mentioned above the group actively manages its credit portfolio to ensure that there is no significant concentration of credit risk.

Age analysis of receivables after provision for bad debt:

Amounts in USD 000's

					Parent company As at 20.02.11
	Not due	0-60 days	61-90 days	Above 90 days	Total
Receivables	114,462	1,771	576	1,017	117,826
Total	**114,462**	**1,771**	**576**	**1,017**	**117,826**

					Parent company As at 20.02.10
	Not due	0-60 days	61-90 days	Above 90 days	Total
Receivables	20,006	32	-1	4	20,041
Total	**20,006**	**32**	**-1**	**4**	**20,041**

					Consolidated accounts As at 20.02.11
	Not due	0-60 days	61-90 days	Above 90 days	Total
Receivables	160,710	14,798	2,996	8,625	187,129
Total	**160,710**	**14,798**	**2,996**	**8,625**	**187,129**

					Consolidated accounts As at 20.02.10
	Not due	0-60 days	61-90 days	Above 90 days	Total
Receivables	220,877	13,828	595	10,124	245,424
Total	**220,877**	**13,828**	**595**	**10,124**	**245,424**

Impaired receivables

As at 20.02.11 there are impaired receivables in the parent company of USD 0.7 million (20.02.10 USD 0.0 million) and there are impaired receivables in the consolidated accounts of USD 11.8 million (20.02.10 USD 10.2 million). No collateral is held as security for the impaired receivables, but they can be deducted in future claim payments if any. Impairment allowance is included in net operating expenses.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries. Liquidity risk arises primarily due to the unpredictability of the timing of payment of insurance liabilities and the illiquidity of the assets held or when market depth is insufficient to absorb the required volumes of assets to be sold, resulting in asset sale at a discount. The risk is mitigated through a credit facility with Nordea Bank Norge ASA and a cash pool between the direct insurance entities in the Gard group improve access to liquidity across the legal entities.

Maturity profile
The tables below set out the maturity profile of assets and liabilities combining amounts expected to be recovered within 1 year, above 1 year and later than 5 years. Assets and liabilities not covered by IFRS 7 is classified as other assets and other liabilities in the table below.

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

Amounts in USD 000's

						Parent company As at 20.02.11
	Carrying value	Within 1 year	1 – 5 year	More than 5 years	No maturity date	Total
Financial assets						
Investments in subsidiaries	488,388	0	0	0	488,388	488,388
Investment at amortised cost	13	0	0	13	0	13
Financial assets at fair value through profit or loss	587,136	11,473	331,871	45,831	197,961	587,136
Other financial investments designated at fair value through profit or loss	0	0	0	0	0	0
Reinsurers share of technical provisions	186,970	50,482	112,182	24,306	0	186,970
Receivables	138,916	117,826	0	0	21,090	138,916
Cash and cash equivalents	49,606	49,606	0	0	0	49,606
Accrued income and prepayments	6,702	6,702	0	0	0	6,702
Total financial assets	**1,457,731**	**236,089**	**444,053**	**70,150**	**707,439**	**1,457,731**
Other assets	1,356	0	0	0	1,356	1,356
Total Assets	**1,459,087**	**236,089**	**444,053**	**70,150**	**708,795**	**1,459,087**
Financial liabilities						
Financial derivative liabilities	6,219	6,219	0	0	0	6,219
Technical provisions	1,342,978	190,410	423,133	91,679	637,756	1,342,978
Provision for other liabilities	5,463	167	2,889	2,407	0	5,463
Creditors and accruals	103,964	103,964	0	0	0	103,964
Total financial liabilities	**1,458,624**	**300,760**	**426,022**	**94,086**	**637,756**	**1,458,624**
Other liabilities	463	0	0	0	463	463
Total liabilities	**1,459,087**	**300,760**	**426,022**	**94,086**	**638,219**	**1,459,087**

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 16 – Financial risk continued

Amounts in USD 000's

	Carrying value	Within 1 year	1 – 5 year	More than 5 years	No maturity date	Parent company As at 20.02.10 Total
Financial assets						
Investments in subsidiaries	308,362	0	0	0	308362	308,362
Investment at amortised cost	13	0	0	13	0	13
Financial assets at fair value through profit or loss	659,020	234,887	183,643	79,702	160,788	659,020
Other financial investments designated at fair value through profit or loss	0	0	0	0	0	0
Reinsurers share of technical provisions	0	0	0	0	0	0
Receivables	55,266	55,266	0	0	0	55,266
Cash and cash equivalents	74,237	74,237	0	0	0	74,237
Accrued income and prepayments	2,090	2,090	0	0	0	2,090
Total financial assets	**1,098,988**	**366,480**	**183,643**	**79,715**	**469,150**	**1,098,988**
Other assets	1,355	0	0	0	1,355	1,355
Total assets	**1,100,343**	**366,480**	**183,643**	**79,715**	**470,505**	**1,100,343**
Financial liabilities						
Financial derivative liabilities	0	0	0	0	0	0
Technical provisions	1,080,227	160,706	357,125	77,377	485,018	1,080,227
Provision for other liabilities	2,406	0	0	2,406	0	2,406
Creditors and accruals	17,247	17,247	0	0	0	17,247
Total financial liabilities	**1,099,880**	**177,953**	**357,125**	**79,783**	**485,018**	**1,099,880**
Other liabilities	463	0	0	0	463	463
Total liabilities	**1,100,343**	**177,953**	**357,125**	**79,783**	**485,481**	**1,100,343**

Amounts in USD 000's

	Consolidated accounts					
						As at 20.02.11
	Carrying value	Within 1 year	1 – 5 year	More than 5 years	No maturity date	Total
Financial assets						
Investment at amortised cost	3,478	0	0	3,478	0	3,478
Financial assets at fair value through profit or loss	1,615,809	166,130	698,253	360,489	390,936	1,615,809
Other financial investments designated at fair value through profit or loss	47,776	0	18,348	29,428	0	47,776
Reinsurers share of technical provisions	165,108	47,149	96,953	21,006	0	165,108
Receivables	187,129	187,129	0	0	0	187,129
Cash and cash equivalents	245,846	245,846	0	0	0	245,846
Accrued income and prepayments	24,912	24,912	0	0	0	24,912
Total financial assets	**2,290,058**	**671,166**	**813,554**	**414,402**	**390,936**	**2,290,058**
Other assets	62,083	0	10,071	5,289	46,723	62,083
Total Assets	**2,352,141**	**671,166**	**823,625**	**419,691**	**437,659**	**2,352,141**
Financial liabilities						
Financial derivative liabilities	8,191	8,191	0	0	0	8,191
Technical provisions	2,213,745	491,328	766,621	166,101	789,695	2,213,745
Provision for other liabilities	37,152	8,333	11,288	17,531	0	37,152
Creditors and accruals	92,590	92,590	0	0	0	92,590
Total financial liabilities	**2,351,678**	**600,441**	**777,909**	**183,632**	**789,695**	**2,351,678**
Other liabilities	463	0	0	0	463	463
Total liabilities	**2,352,141**	**600,441**	**777,909**	**183,632**	**790,158**	**2,352,141**

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 16 – Financial risk continued

Amounts in USD 000's

	Carrying value	Within 1 year	1 – 5 year	More than 5 years	No maturity date	Consolidated accounts As at 20.02.10 Total
Financial assets						
Investments in subsidiaries						
Investment at amortised cost	3,478	0	0	3,478	0	3,478
Financial assets at fair value through profit or loss	1,299,700	351,446	443,058	246,134	259,062	1,299,700
Other financial investments designated at fair value through profit or loss	59,171	0	32,380	26,791	0	59,171
Reinsurers share of technical provisions	177,869	48,842	106,049	22,977	0	177,869
Receivables	245,424	245,424	0	0	0	245,424
Cash and cash equivalents	242,343	242,343	0	0	0	242,343
Accrued income and prepayments	27,143	27,143	0	0	0	27,143
Total financial assets	**2,055,128**	**915,198**	**581,487**	**299,380**	**259,062**	**2,055,128**
Other assets	55,909	0	9,652	5,048	41,209	55,909
Total Assets	**2,111,037**	**915,198**	**591,139**	**304,428**	**300,271**	**2,111,037**
Financial liabilities						
Financial derivative liabilities	0	0	0	0	0	0
Technical provisions	2,016,956	487,068	733,101	158,839	637,948	2,016,956
Provision for other liabilities	27,398	0	8,683	18,715	0	27,398
Creditors and accruals	66,220	66,220	0	0	0	66,220
Total financial liabilities	**2,110,574**	**553,288**	**741,784**	**177,554**	**637,948**	**2,110,574**
Other liabilities	463	0	0	0	463	463
Total liabilities	**2,111,037**	**553,288**	**741,784**	**177,554**	**638,411**	**2,111,037**

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from the investment activities and the sensitivity of liabilities to market prices. The most significant market risk types are: foreign exchange rates (currency risk), market interest rates (interest rate risk), and quoted price rates (price risk).

Currency risk
Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The currency exposure on the asset side in the Gard group is matched to the assumed currency exposure of liabilities. A significant share of the actual claims exposure is in another currency than the accounting currency. Based on accounting figures, there is a mismatch between assets and liabilities. The currency exposure is managed through a rolling forward program.

The tables below summarises assets and liabilities by major currencies:

Amounts in USD 000's

					Parent company As at 20.02.11
	USD	EUR	GBP	Other	Total
Assets					
Investments in subsidiaries	396,337			92,051	488,388
Loan to subsidiaries				21,090	21,090
Investments at amortised cost	13				13
Portfolio investments at fair value through profit and loss	246,347	114,602	87,188	138,999	587,136
Reinsurers share of gross claims reserve	43,003	26,176	20,567	97,224	186,970
Receivables from direct insurance operations	35,174	853	1	(200)	35,828
Receivables from group companies	81,998				81,998
Equipment	1,356				1,356
Cash and cash equivalents	37,857	3,250	598	7,901	49,606
Accrued interest	6,629			73	6,702
Total assets	**848,714**	**144,881**	**108,354**	**357,138**	**1,459,087**
Liabilities					
Statutory reserve	463				463
Gross claims reserve	162,201	98,731	77,574	366,715	705,222
Contingency reserve	637,756				637,756
Pension obligations	1,495		1,079		2,574
Income tax payable				2,889	2,889
Creditors arising out of direct insurance operations	4,868	7			4,875
Creditors arising out of reinsurance operations	18,921				18,921
Creditors group companies	68,055			35	68,090
Other creditors	10,701	492	222	82	11,497
Accruals and deferred income	6,800				6,800
Total liabilities	**911,260**	**99,230**	**78,875**	**369,721**	**1,459,087**

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 16 – Financial risk continued

	USD	EUR	GBP	Other	Consolidated accounts As at 20.02.11 Total
Assets					
Other intangible assets		8	11,523	2,589	14,120
Property and plant used in operation				32,603	32,603
Investments at amortised cost				3,478	3,478
Portfolio investments at fair value through profit and loss	678,640	323,162	242,371	371,636	1,615,809
Other financial investments	18,348		600	28,828	47,776
Reinsurers share of gross premium reserve	3,345	159		16	3,520
Reinsurers share of gross claims reserve	37,165	22,622	17,775	84,026	161,588
Receivables from direct insurance operations	133,299	8,922	2,777	11,705	156,703
Receivables from reinsurance operations	25,250				25,250
Other receivables	955	506	648	3,067	5,176
Equipment	1,117	56	449	8,449	10,071
Cash and cash equivalents	156,681	28,019	15,225	45,921	245,846
Deferred tax asset				5,289	5,289
Other prepayments and accrued income	20,662	2,873	161	1,216	24,912
Total assets	**1,075,462**	**386,327**	**291,529**	**598,823**	**2,352,141**
Liabilities					
Gross premium reserve	109,556	22,553	2,793	11,446	146,348
Gross claims reserve	293,871	178,878	140,547	664,405	1,277,702
Contingency reserve	790,157				790,157
Pension obligations	1,735		3,086	21,043	25,864
Income tax payable		6	62	11,220	11,288
Creditors arising out of direct insurance operations	5,165				5,165
Creditors arising out of reinsurance operations	6,800	69			6,869
Liabilities to financial institutions				10,150	10,150
Other creditors		31,139	16,427	5,121	52,687
Accruals and deferred income	9,935	452	423	15,101	25,911
Total liabilities	**1,217,219**	**233,097**	**163,338**	**738,486**	**2,352,141**

Interest rate risk
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The term structure of interest bearing assets in the Gard group is matched to the expected duration of the liabilities. The sensitivity analysis of the bond assets of the Gard group has been modelled by reference to a reasonable approximation of the weighted average interest rate sensitivity of the investments held.

Equity risk
Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Gard group's equity price risk exposure relates to financial instruments whose values will fluctuate as a result of changes in market prices.

The equity portfolio is broadly diversified. However, compared to a global benchmark portfolio based on market capitalization, the equity portfolio is skewed towards emerging markets and small caps, which is expected to have a higher volatility than the global market as a whole. Through an equity program funds are invested in active equity managers and the equity market exposure is hedged into fixed income exposure through a rolling derivative program. See note 12.

Financial instruments - sensitivity analyses

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

	Parent company		Consolidated accounts	
	As at 20.02.11	As at 20.02.10	As at 20.02.11	As at 20.02.10
Impact on fixed income portfolio investments given an increase of 50 basis points	(4,264)	(8,676)	(18,454)	(21,712)
Impact on equity portfolio given a 10 per cent drop in quoted market prices	(19,274)	(16,395)	(38,549)	(28,733)
Impact on total investment portfolio given a change of 10 per cent in foreign exchange rates against USD	(21,350)	(13,566)	(49,001)	(25,002)

The sensitivity analysis assumes no correlation between equity price, interest rate, property market and foreign currency rate risk. It also assumes that all other receivables and payables remain unchanged and that no management action is taken.

The Gard group has no significant risk concentrations which is in line with the overall investment guidelines set by the company's Board.

Any impact from risks 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 did not change from the previous period.

Note 17 – Financial derivatives at fair value through profit and loss

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 optimize return within the guidelines set for the Gard group's fund managements. These uses contribute to reducing the risk of the assets not being able to cover the Gard group's liabilities.

The Gard group has a well implemented derivative overlay program 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:

All options must be covered. The aggregate economic exposure of the fund may not exceed one hundred per cent of the total fund's market value, i.e. there must be no leverage or gearing of any nature whatsoever of the fund. Derivatives must not be used to effect economic exposures beyond the limits set out in the fund guidelines. Any transactions in derivative instruments or of a partly paid nature, which might lead to a contingent liability undertaken for the Gard group will be subject to the restriction that sufficient cash or relevant securities must be retained to cover the full net exposure. In addition, there are minimum criteria for counter parties in derivative transactions.

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 semi-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 in accordance with principles described under note 2. Underlying contract value represents the value of the underlying gross commitments of all open contracts.

Types of financial derivatives used during the financial year:

Forwards 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.

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 17 – Financial derivatives at fair value through profit and loss continued

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 specific price within a specified period of time. An interest rate option can be written on cash instruments or futures, and is used to manage 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 clearinghouse 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.

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

Amounts in USD 000's

	Parent company		Parent company	
	Notional 20.02.11	Notional 20.02.10	Fair value 20.02.11	Fair value 20.02.10
Type of derivatives				
Interest rate related				
Futures	52,597	24,775	7,339	24,321
Options	4,292	31,862	(49)	(40)
Swaps	529,879	646,682	15,231	24,909
Total interest rate related	**586,767**	**703,319**	**22,521**	**49,190**
Futures offset			(7,339)	(24,321)
Net interest rate related			**15,182**	**24,869**
Equity related contracts				
Futures	257,184	226,403	(236,003)	(182,155)
Total	**257,184**	**226,403**	**(236,003)**	**(182,155)**
Futures offset			236,003	182,155
Net equity related			**0**	**0**
Foreign currency related				
Forward exchange contracts in other currencies than USD			(147,819)	(135,582)
USD receivables related to foreign currency contracts			141,599	147,457
Net foreign currency related*			**(6,219)**	**11,875**
Net financial derivatives (liability)/asset			**8,963**	**36,744**

Amounts of USD 000's

	Consolidated accounts		Consolidated accounts	
	Notional 20.02.11	Notional 20.02.10	Fair value 20.02.11	Fair value 20.02.10
Type of derivatives				
Interest rate related				
Futures	101,982	54,912	(892)	60,152
Options	81,000	165,100	(912)	(209)
Swaps	657,625	886,414	16,764	29,581
Total interest rate related	**840,607**	**1,106,426**	**14,961**	**89,524**
Futures offset			892	(60,152)
Net interest rate related			**15,852**	**29,372**
Equity related contracts				
Futures	332,595	286,357	(311,414)	(242,109)
Total	332,595	286,357	(311,414)	(242,109)
Futures offset			311,414	242,109
Net equity related			**0**	**0**
Foreign currency related				
Forward Exchange contracts in other currencies than USD			(279,709)	(249,917)
USD receivables related to foreign currency contracts			271,519	263,192
Net foreign currency related*			**(8,191)**	**13,275**
Net financial derivatives (liability)/asset			**7,662**	**42,647**

* Financial derivative liabilities are included in other creditors. If net foreign currency related derivative is an asset then the amount is included in other receivables. See note 19.

Note 18 – Receivables from direct insurance operations

Amounts in USD 000's

	Parent company		Consolidated accounts	
	As at 20.02.11	As at 20.02.10	As at 20.02.11	As at 20.02.10
Direct and received premium	3,310	0	22,469	13,662
Direct and received premium through broker	0	0	74,439	76,395
Accrued deferred call	33,217	1,798	42,220	27,638
Not closed premium	0	0	24,322	30,729
Claims related debtors, reinsurers	0	0	5,012	19,354
Provision for bad debts	(699)	0	(11,759)	(10,233)
Receivables from direct insurance operations	**35,828**	**1,798**	**156,703**	**157,545**

Gard P. & I. (Bermuda) Ltd
Notes to the accounts continued

Note 19 – Other receivables and other creditors

Amounts in USD 000's

	Parent company		Consolidated accounts	
	As at 20.02.11	As at 20.02.10	As at 20.02.11	As at 20.02.10
Other receivables				
Other receivables	0	0	5,176	3,976
Foreign currency related derivative	0	11,875	0	13,275
Investment transactions in progress	0	5,076	0	52,895
Total other receivables	**0**	**16,951**	**5,176**	**70,146**
Other creditors				
Other creditors	1,833	252	17,695	26,694
Financial derivative liabilities	6,219	0	8,191	0
Investments transactions in progress	3,445	0	26,801	0
Total other creditors	**11,497**	**252**	**52,687**	**26,694**

"Investment transactions in progress" refer to net sales and purchases of investments at the Balance Sheet date, where settlements were executed after the Balance Sheet date.

Note 20 – Cash and cash equivalents

Cash and cash equivalents includes bank deposits and cash at hand, of which USD 2.2 million as at 20 February 2011 as restricted cash. The company has a group account agreement and participates in a cash pool agreement. Both agreements are made with the company's main bank connection that is Nordea Bank Norge ASA.

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

Gard P. & I. (Bermuda) Ltd. has an overdraft facility with Nordea Bank Norge ASA for an amount of USD 40 million.

Through the cash pool agreement all the participating companies can make use of this overdraft facility. The cash pool agreement secures efficient use of the operating bank deposits through the companies opportunity to make use of the overdraft facility on individual bank accounts accumulated up to USD 40 million in aggregate for the companies participating in the agreement. Each company participating in the cash pool agreement is jointly liable for the overdraft facility through unsecured guaranties.

Note 21 – Pensions

Gard P. & I. (Bermuda) Ltd has entered into pension contracts with former employees. These contracts are financed directly through the company's operations. The subsidiaries have entered into various pension plans with both former and actual employees. The pensions are both contribution plans and defined benefit plans. From 09.02.2009 all defined benefit related pension plan has been closed. New employed after this date will be member of the defined contribution agreement. Payments to pension contribution agreements are charged to the accounts in the same period as the related salaries. The pension plans satisfy the demands according to Norwegian Pension Act.

Defined benefit related pension plans entitle the employees to a defined level of future pension payments. Such future pension payments are mainly dependent on number of contributory years, the salary level on retirement and are financed through an insurance scheme in a life insurance company. In addition all employees can apply for a tariff based early retirement pension (AFP) from the age of 62. As of 1.1. 2011 AFP is no longer an early retirement scheme that ended at the age 67, but is a lifelong additional pension scheme you may apply for until the age of 70 years. For the employees who could choose between the two AFP regimes, born 1944-1948, Gard will maintain an off of contributory pension from 65 – 67 years equivalent of the AFP agreement ending in 2010. This is financed directly from the operations of the company.

For defined benefit related pension plans actuarial calculations are made with regard to pension commitments and funds at the end of the year, and resulting changes in pension obligations are charged to the Profit and Loss Account. Any changes in the pension plan and deviations from estimates are amortised over 5 years.

Amounts of USD 000's

	Parent company		Consolidated accounts	
	As at 20.02.11	As at 20.02.10	As at 20.02.11	As at 20.02.10
Pension cost				
Earning related pension plans				
Pension benefits earned during the year	0	0	9,281	6,823
Interest expense on earned pension	96	89	4,173	3,373
Yield on pension funds	0	0	(3,227)	(2,840)
Effect of estimation deviation	188	(17)	4,128	6,248
Net pension costs earning related plan	**284**	**72**	**14,355**	**13,604**
Pension contribution agreements	**0**	**0**	**2,514**	**1,625**
Total pension cost	**284**	**72**	**16,869**	**15,229**
Liabilities according to the actuarial calculations				
Pension obligation gross	(2,676)	(2,160)	(108,376)	(88,983)
Pension funds at market value	0	0	60,746	50,680
Effects on estimation deviations not charged to the profit and loss	102	(246)	21,766	19,587
Net pension obligation at year end	**(2,574)**	**(2,406)**	**(25,864)**	**(18,715)**
Financial assumptions				
Discount rate	4.00 %	4.50 %	4.00 %	4.50 %
Assumed annual salary regulation	4.00 %	4.50 %	4.00 %	4.50 %
Assumed pension increase	1.30 %	1.40 %	1.30 %	1.40 %
Assumed regulations of public pensions	3.75 %	4.25 %	3.75 %	4.25 %
Assumed yield on funds	5.40 %	5.70 %	5.40 %	5.70 %

Note 22 – Statutory Reserve

Gard P. & I. (Bermuda) Ltd is registered under and regulated by the Insurance Act 1978 and its regulations. Under these regulations the company is required to maintain USD 462,500 in statutory capital and surplus.

Note 23 – Changes in contingency reserve

Amounts in USD 000's

	Parent company	Consolidated accounts
Contingency reserve as at 21.02.10	485,018	637,948
Net result	152,738	147,311
Exchange differences on translation of foreign subsidiaries	0	4,436
Contingency reserve as of 20.02.11	**637,756**	**789,695**

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