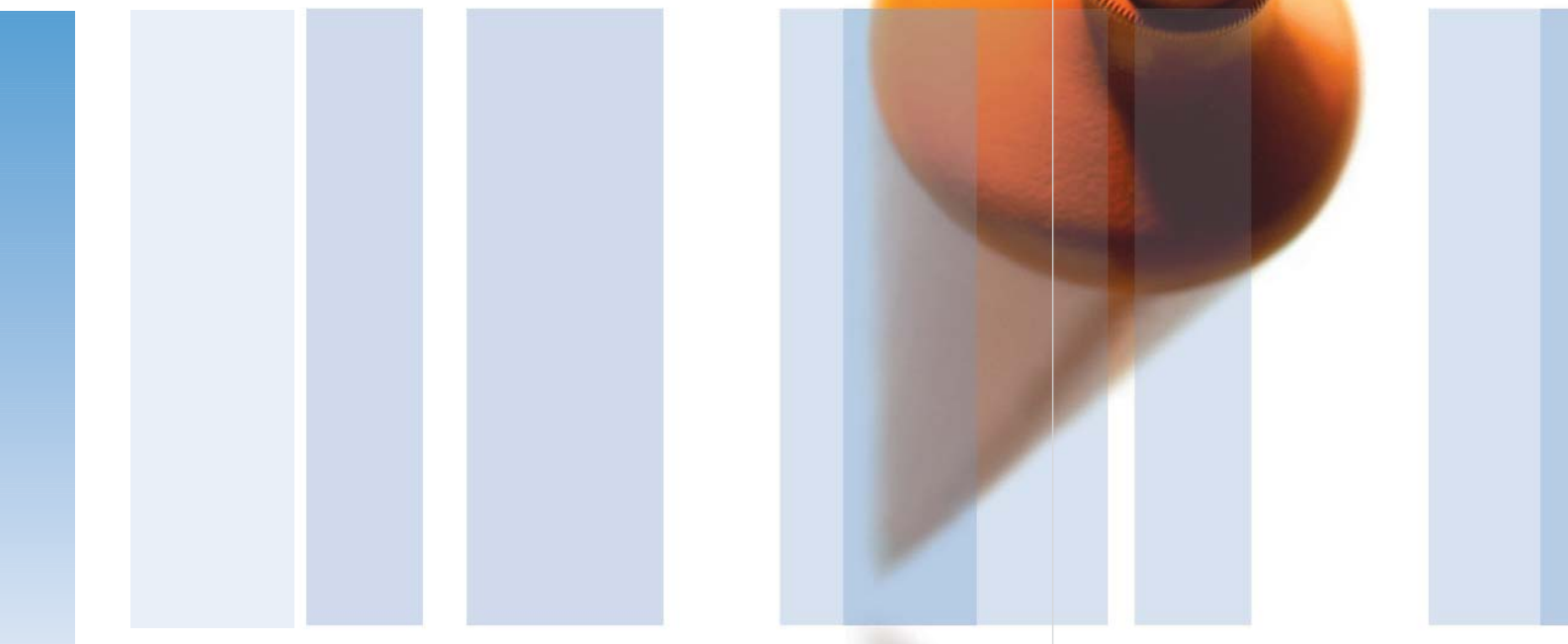


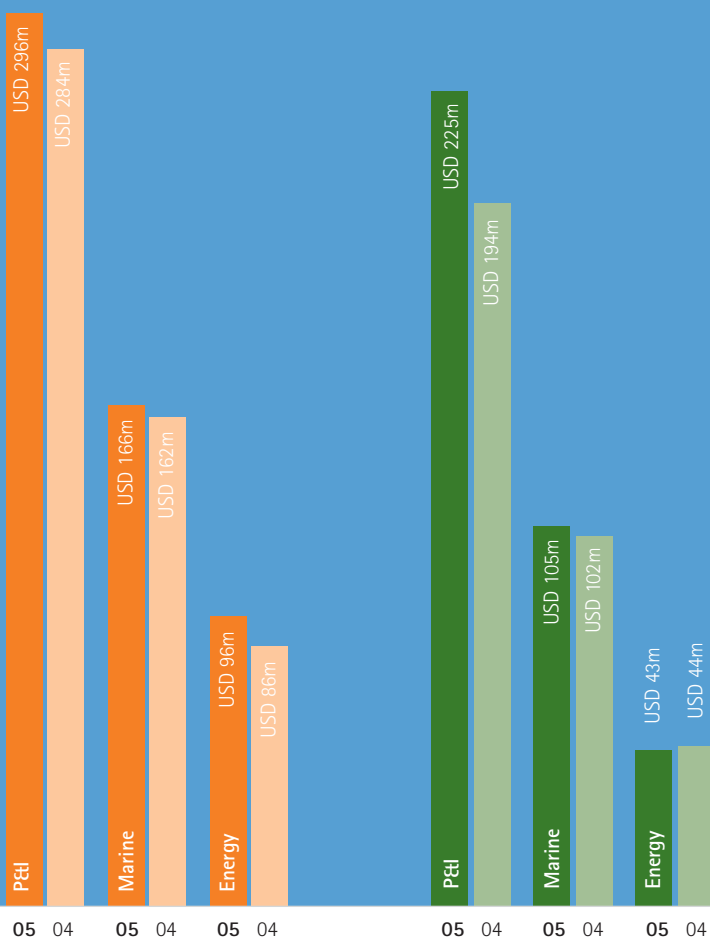


Management Report  
20th February 2006



# *contents*

- 1 highlights
- 2 chairman's statement
- 4 chief executive's statement
- 6 underwriting
- 12 claims
- 16 security
- 18 accounts



Surplus for 2005 USD

**61**  
million

General contingency reserve USD

**438**  
million

Total assets USD

**1.53**  
billion

highlights

Gross premium written

Net claims incurred

## Premium

For the first time, the proportion of premium income coming from clients shared by more than one business area has topped 50%, proof that clients value the opportunity to solve their risk management issues in an integrated way.

For the 2005 policy year, the combined net ratio overall was 107%, a strong performance in a tough year.

## Claims

As businesses work their assets harder, so adequate protection against damage to assets, loss of income and third party liabilities has become more important. It was therefore not surprising that 2005 showed some increase in claims across all business areas of the Gard Group.

The energy claims result is impacted by the receipt of reinsurance recoveries and the payment of reinstatement premiums.

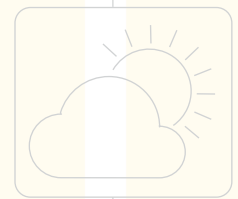
## Security

2005 was a good year for the Group, a year in which our financial strength has received the external endorsement of an A rating, with a positive outlook, from Standard & Poor's.

The financial position has been further strengthened, so that free reserves have grown by 12.5% and total assets by 13% during the year. The surplus of USD 61 million is on an estimated total call basis, before allocations such as the reduction in the deferred call.

USD 92 million was earned from investment income, delivering a return of 9.5% over the 12-month period.

We have laid the foundations for a multi-line insurer that delivers real and lasting benefits to both clients and stakeholders.



The last twelve months has been a period of great challenge as well as satisfaction. The challenges have come from all directions; from the worst-ever hurricane season in 2005 to a raft of regulatory measures in both the shipping and insurance industries. The satisfaction is that, amongst this uncertainty, Gard has delivered a robust operational performance in all areas; a performance based on clear strategic goals supported by sound underwriting, responsive claims handling, careful cost control and active investment management.

### A satisfying year

2005 was a successful year, culminating in an overall surplus of USD 61 million, before the reduction in the deferred call. Two significant claims events in Hurricanes Katrina and Rita and a high level of International Group pooling claims were more than offset by the strong underlying performance in other sectors.

### The benefits of diversification

Our ability to deliver this result, despite adverse events, is tangible evidence that the policy of diversification is working. The move towards creating a multi-line insurer on behalf, and operated in the interests, of the shipping industry is delivering real and lasting benefits to both clients and stakeholders.

The primary driver behind the strategy is to meet the current and future needs of shipowners around the world, delivering:

- Financial protection from a very strong balance sheet.
- Access to ample capacity to cover new and increasing risks.
- The widest choice of products to protect against existing and emerging risks.
- Efficient service and effective support at all times, but particularly in times of crisis.

### Responding to constant change

The pressures in the marine insurance market rarely diminish, but in the current environment, competition is particularly keen from all markets. This means that we cannot be complacent about issues that we all face, and that a close partnership between insurers and the shipping market is the best way forward to achieving astute and timely risk mitigation. Understanding the changing environment faced by our clients is critical to the way that Gard operates.



Understanding the changing environment faced by our clients is critical to the way Gard operates.



Along with other members of our industry, we are working closely with a range of organisations in order to manage the implications of the changes to various liability regimes, changes that are demanding ever increasing levels of compensation. Oil pollution and liability compensation costs for passenger ship owners are just two areas which will continue to affect the business environment in that we operate for years to come.

In addition, the implementation of legislation to introduce criminal penalties for ambiguously defined negligence for pollution in early 2007 is a matter of increasing concern for the shipping and marine insurance industries. Both industries are united in their concern for innocent crew, and there are a number of initiatives in place to look at guidelines to address both the "due process" rights, as well as the seafarers' welfare during the detentions and investigations following marine casualties.

The ever present threat of pandemics and terrorism also means that everyone involved in the supply chain needs to be aware of the possible precautions, and to have business continuity plans in place for dealing with a major disruption to business.

### Causes and consequences of new risks

No business can stand still in an environment of continual change. Today, with globalisation and instant communications, we live in an interconnected world and often a problem in one place, or in one segment of the business world, has a disproportionate effect on another. These complications give rise to new risks, greater vulnerabilities and inevitably higher costs. Understanding the causes and consequences of new risks, whether it is people, technology, or regulation, and helping our customers to manage them is a fundamental part of what Gard does. It is the cornerstone of Gard's business.

It has been a busy year for everyone, and I would like to take this opportunity to thank all the members of our Committees and Boards for their advice and support over the last 12 months. On behalf of all the Members, I would like to offer our thanks to the management and staff for the efforts they have made, often under difficult circumstances, to deliver the high quality of service that is a vital part of the way Gard operates. Last but not least, I would like to thank all the Members for their loyalty and support as without them there would be no Gard.

Stephen Pan  
Chairman



**Our** combined net ratio for 2005 was 107%, a figure which, if hurricane losses were excluded, would have been 92%.

Our efforts over the last three years have been directed at building a strong and integrated multi-line insurance company; one that has the products to manage new and existing risks, services that respond when and where they are needed, and the first-class financial strength to support clients in an ever developing world. This is a building process that is never finished, but always has room to be refined and improved as needs and circumstances change.

#### **Positive rating and strong financials**

I am very pleased to be able to announce that for the 2005 year our combined net ratio overall was 107%, a figure which, if hurricane losses were excluded, would have been 92%. This reflects a strong performance by all areas of the Group and means that our overall surplus, before any allocations, was USD 61 million and that our free reserves have increased by USD 49 million to USD 438 million. The Group now has total assets of USD 1.53 billion.

Our results for the 2005 policy year are, however, a positive indication that the steps we have taken are moving us in the right direction. The most tangible evidence was the decision by Standard & Poor's in January of this year to upgrade the rating on Gard Marine & Energy Ltd and to take a positive view on the rating for Assuranceforeningen Gard.

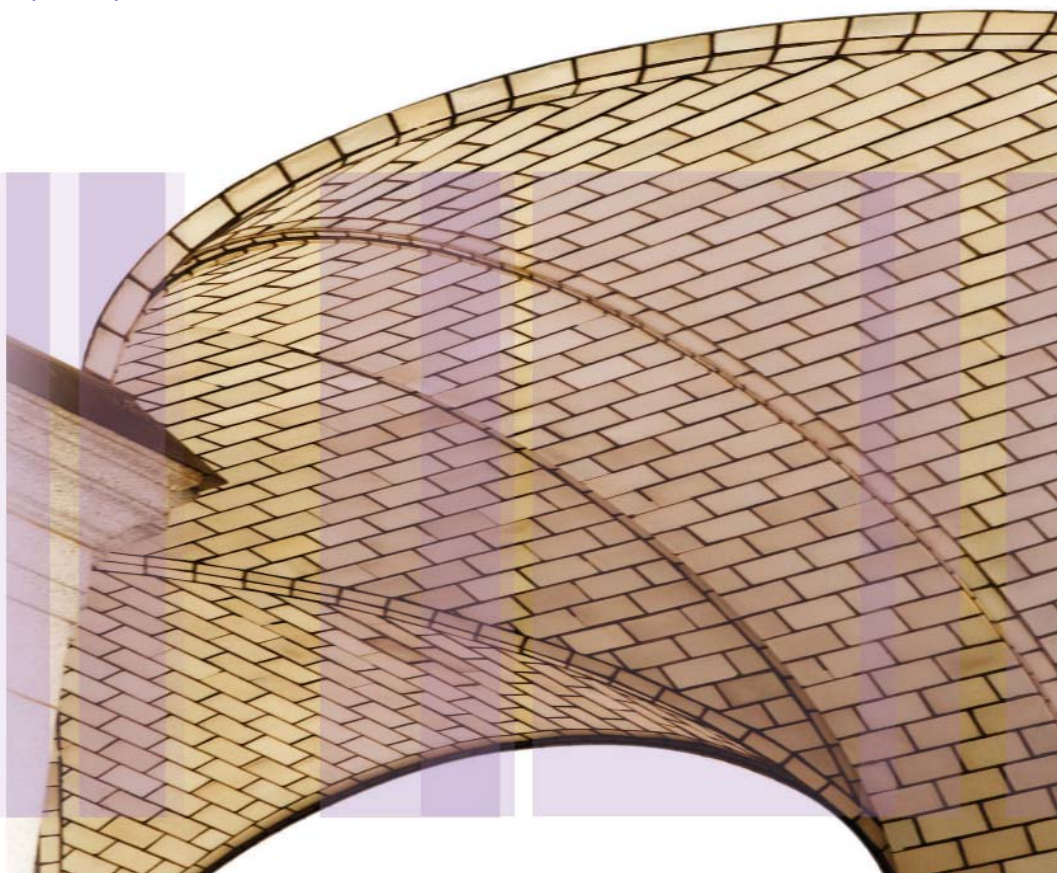
The upgrade of Gard Marine & Energy is an expression of Standard & Poor's acceptance of the increased importance of Gard Marine & Energy, which is now considered to be core to the Group. The outlook revision on the Club reflects Standard & Poor's positive view of our capital strength. Both these decisions were a strong endorsement of our capitalisation and risk control framework. In what has been a difficult year for our industry, Gard stands out for its ability to offer strengthened security to Members and clients, while the positive outlook indicates even brighter future prospects.

#### **Investments have paid off**

Our investment in the marine and energy business has proved to be a successful one from a number of different perspectives. All the legal entities in the Group, including Gard Marine & Energy, produced a profit this year, making a significant contribution to our financial strength. Secondly, the continued delivery of a number of operational synergies has meant that we are able to deliver greater efficiencies and improved service levels to our clients. This strong underlying performance, which exceeded expectations despite the net accounting effect from hurricanes Katrina and Rita, meant that we have been able to reduce the cost of insurance for mutual Members through the deferred call from 25% to 20%.



We have put together the pieces required to identify, assess and control the Group's exposures.



Our continued ability to help our clients to manage their risks requires that we have the organisation and processes in place to identify, assess and control the Group's exposures. During 2005 we created a Risk Management department to give us a deeper understanding and better co-ordination of the risk selection process across all business areas. There is a single objective in all of this, and that is to understand the true profitability of the risks that we can take, and then to build a genuine competitive advantage through the use of that knowledge. The department is a natural continuation of the steps we have already taken in terms of risk management and business analysis.

We have a clearly defined risk appetite, and regularly review our risk profile, and how we manage and mitigate our risks. The world is not getting any less risky, and building on our risk-based capital model, we are working towards the creation of a comprehensive enterprise risk management framework to ensure that we have the optimal capital structures in place. This will be broken down into two parts. The first will look at the security of our capital, ensuring we have appropriate levels of protection in place; for example – how we can protect against extreme natural catastrophes, possible overspill claims and the aggregation of losses within the retained layers.

The second will check that we have the right structures in place to allow us to access new capital in a flexible way.

### **Involvement in industry issues**

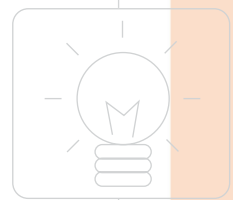
Considerable resources were devoted in the last year in the preparation of the latest edition of our Handbook on Protection of the Marine Environment, which was launched in June 2006. This book, like its predecessors, is an important part of our investment in a range of loss prevention activities.

### **People matter**

Our business is first and foremost about people, and I would like to thank all our staff for their hard work and commitment in making 2005 such a good year for the Group. As we come up to our centenary, we will be looking forward to what the next one hundred years might hold, confident that we have put the foundations in place to face the future and determined to continue to deliver on our promises – financial security and quality service.

Claes Isacson  
Chief Executive Officer

**2005** was one of the best P&I renewals for many years, both in terms of volume development and renewal percentage.



### P&I

There is no doubt that the claims environment has been difficult this year, with a sharp increase in the number of large claims. There has been much debate about the causes: some have suggested that the new vessel technology (larger, faster, more complex vessels) is generating a different risk profile and ultimately more costly claims. Others point to the boom in shipping, in part due to the China effect.

Greater traffic at sea will increase the likelihood of accidents, particularly navigation-related incidents such as groundings, collisions and strikings. One constant theme appears to be the large percentage of accidents where the cause is human error, so the ability of shipowners to recruit and retain quality crews is another issue that needs to be addressed in a busy market. Equally, good freight markets mean generally higher cargo values, which serve to increase the claims costs for loss of, damage to or delay in delivery of cargo. Both cargo and passenger ships are increasing in size and capacity, and shipowners are being asked to take on greater responsibility for events outside their immediate control.

### Steady growth

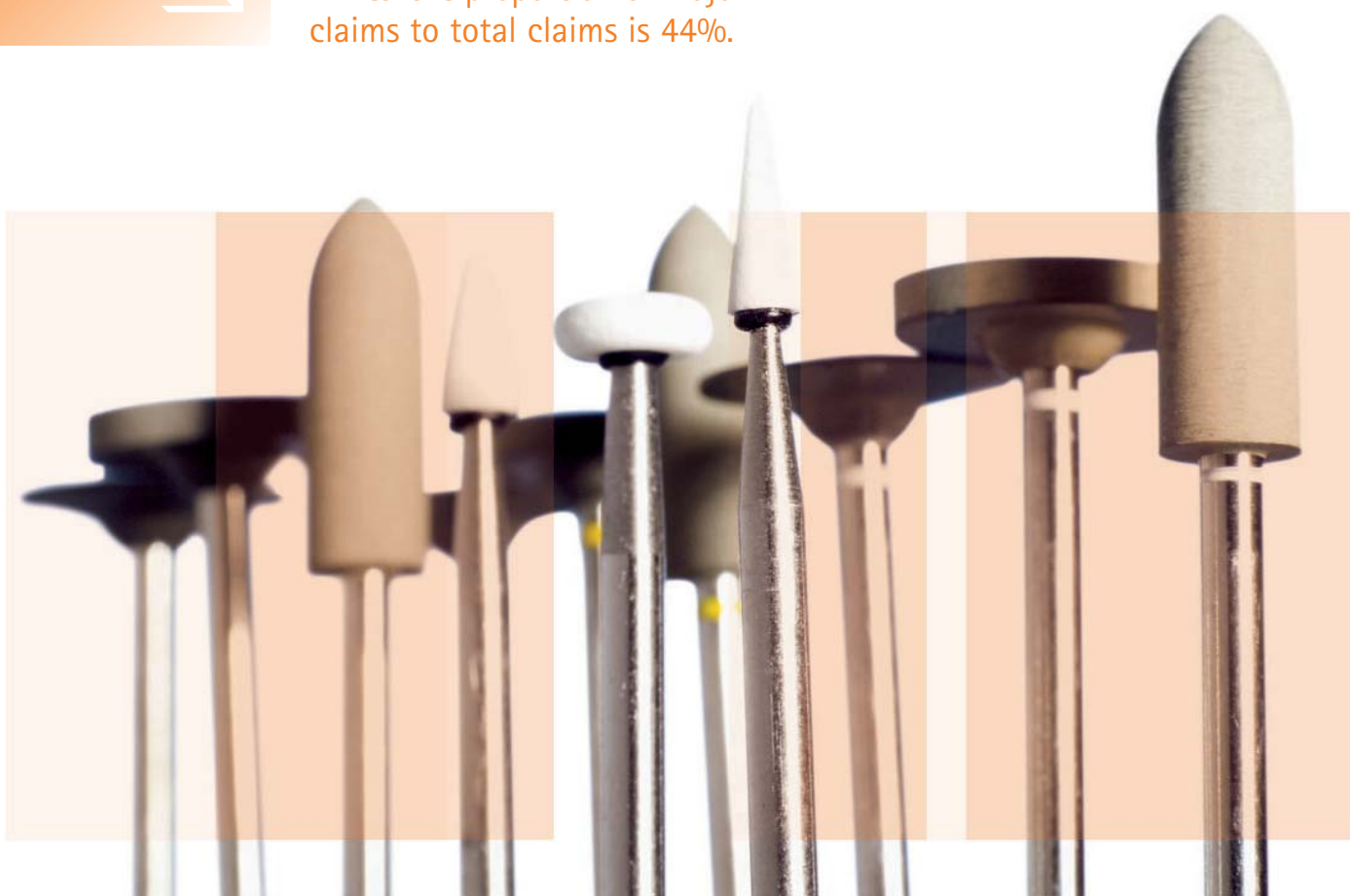
2005 was a good year for the Club with steady growth throughout the year and premium income of USD 296 million. Total tonnage is now well in excess of 130 million gt, a good result in an increasingly competitive market. The renewal on the 20th February 2006 was the culmination of a great deal of work by everyone and overall it was one of the best renewals for many years in terms of volume development, with a high renewal percentage and a net gain in premium from new Members of USD 8.2 million. Over the whole year, new gross tonnage increased by 7.6 million gt and there was a positive volume development for fixed premium products.

In claims, the key trend for the 2005 policy year was the much higher frequency of major P&I claims, with claims per gt standing at USD 1.69, around 8% up on 2004, 12 months from the inception of the underwriting year. The proportion of major claims to total claims for the same period is 44% compared to 30-33% for the three previous years. The number of major claims was 15 against 11 in 2004 and nine in 2003 – of these, eight were collision cases, in other words navigation-related.





In P&I the proportion of major claims to total claims is 44%.



### Extending our reach

In terms of geography, 2005 saw us focus on continuing to build our profile and business in several key markets. In Greece and Italy, Gard has been gaining ground and, in Italy in particular, very good progress has been made. It was only in 2000 that the first Member in Italy was entered, and the Club is now one of the market leaders in this area. This year also saw us make good progress in the Norwegian market, where net gains were made.

The size and growth of the Asia markets make them areas of significant potential for Gard, and while the professionalism, product range and financial security of our business are well respected, our profile is lower than it should be. There have been a number of marketing visits over the last year, as well as the recruitment of staff to bolster resources in the region.

### Strong record of product innovation

From the product development perspective, Gard continues to be well known for its many additional non-standard P&I covers. The Club has always responded to Members' changing needs through

innovative product development and by tailoring covers to suit the requirements of the individual operator. Many of these, developed for both owners and charterers, have resulted from ongoing dialogue with the membership.

Much of the focus in the last 12 months has been on the enhancement of the Comprehensive Charterers' Cover and the Comprehensive Carriers' Cover, with the objective of matching even more closely the needs of cargo owners and traders. There has also been an increased emphasis on product development for Members operating in the offshore energy industry.

In addition, we are developing a small craft business in the Nordic countries. By offering a distinctive product that combines both marine hull and P&I in one cover, with higher liability limits than are generally available from our competitors, we expect to deliver significant benefits to Members and clients.

Gross premium of USD 166 million was generated in Marine, from premium increases on a portfolio basis and clients adding tonnage to the slip.

## Marine

Prior to the arrival of Hurricanes Katrina, Rita and Wilma, the hull market had reached a plateau after steady premium rises during the last five years. In the six months after the hurricanes, the marine market, along with the rest of the insurance industry, has had to deal with the consequences of the enormous losses incurred. The result is that the market remains disparate, with capacity the issue for both buyers and suppliers of insurance.

General market opinion is that the sheer scale of the energy losses incurred by the industry will have some effect on the marine market. For example, it may be that composite insurers, looking for opportunities to maximise their return on capital, may shift capacity from hull underwriting to more profitable lines of business. Overall, there appears still to be an abundance of competition and capacity for hull risks around the world.

## Rising tide of interest

Local markets are providing a keen alternative to the international markets for domestic tonnage. There have been a number of high-profile entrants to the market with balance sheets unencumbered by previous losses. Existing players have

also signalled their desire to increase their portfolios. There is clear recognition that competitive pricing is a key component to getting a share of new business, which will add a dampening effect to any inflationary pressures that may be filtering through from the reinsurance market.

The key challenge for long-term players such as Gard is to maintain underwriting discipline throughout the cycle and to create a genuine difference for our clients. Over the last underwriting year, we have reviewed our operations across the entire marine segment with a view to improving the service we are able to offer clients, whilst maintaining a healthy business. We have performed a detailed analysis of the portfolio, looking at various segmentations by type of vessels, products etc., in order to achieve an understanding of which course of action will work best.

We are also working closely with our clients to understand how different marine products can be refined in order to meet specific client needs. The protection of rising asset values is but one part of the complex risk map that owners face, so our philosophy is to ensure that the coverage offered looks at the whole business picture, and is the best fit possible for the financial, ownership and chartering needs of each owner.



## A strong performance

Gross premium earned in the year was USD 166 million, excluding builders' risk, of which USD 15 million was new premium. This was generated from premium increases on a portfolio basis, clients adding tonnage to the slip throughout the year and the increase in the value of fleets. By the end of the financial year, 5,400 blue water vessels were insured with our marine division and the amount of business generated from cross sales grew by 10%.

From a claims perspective, the 2005 policy year ended very positively, with the autumn and winter seeing an atypically benign claims experience. Whilst there was an increase in the absolute number of claims, there was a significant reduction in the number of claims in excess of USD 2 million compared to the 2003 and 2004 years. Navigational claims remain the main culprit, and among the reasons for this would still appear the sheer weight of shipping traffic on some densely populated routes, and the competence of the crew in difficult situations. The general buoyancy in the shipping market means that the pressure for fast journey times and swift turnarounds remains high, so it is unlikely that any of these problems has a short-term solution.

## Focus on new markets

The focus for the coming year will be to increase our rates on the portfolio as a whole, and to pay particular attention to those clients with loss records have developed unsatisfactory. We will also be exploring opportunities to achieve managed and profitable expansion in Asia, Greece and Germany, all of which are areas where we have a particular interest in increasing our market share.

In a second year of extraordinary natural catastrophes, the energy business has shown remarkable resilience.

## Energy

The ongoing rise in the price of oil has meant that the industry trends of the last three years have continued unabated. Levels of exploration are still very high and almost everyone, both in and associated with, the oil and gas industry is operating at virtually full capacity. With income levels rising sharply and asset values increasing, the oil and gas industry's requirements for protection have resulted in increased business in property risks and more importantly, for business interruption cover.

### A year of two halves

Halfway through the year, this already difficult market was struck by the arrival of unprecedented natural catastrophes, creating a complete sea change in underwriting conditions.

In the first six months of the financial year, the energy market followed a fairly predictable path, with rates starting to soften in all sectors of the offshore market, with the exception of the Gulf of Mexico, as new capacity entered the market. This increased appetite by insurers for upstream energy risks was primarily a result of the gradual decrease in rates downstream that had been experienced over the last two years.

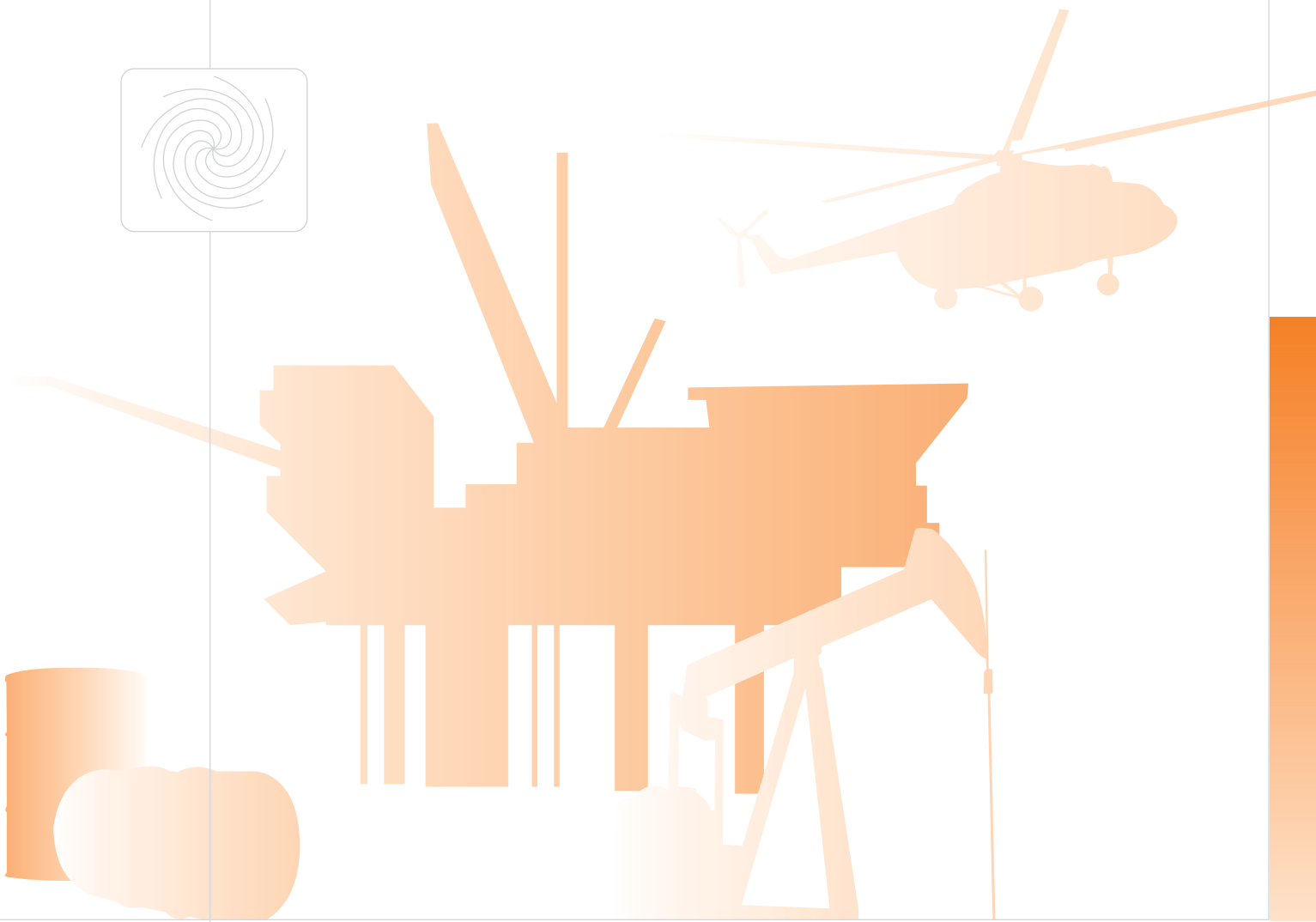
There was a tightening up of wordings for risk within the Gulf, and increases in deductibles and premiums. As oil prices

continued to escalate through the year, the impact of business interruption claims became an issue of concern for the market as a whole. We worked closely with other market participants to review business interruption cover in order to achieve clearer and more transparent wordings so that possible losses could be understood better by all parties.

### Swift market response

The frequency and severity of the 2005 hurricane season took everyone by surprise. One of the biggest differences between the losses incurred this year, and those last year as a result of Hurricane Ivan, is that this year both the on and offshore oil and gas industries were hit simultaneously; something not seen since Hurricane Andrew in 1992. For those with books of business in both up and downstream, this meant heavy losses, and has now resulted in higher reinsurance premiums.

The reaction from the market was immediate, both internationally and within the Gulf of Mexico, in both the capacity available and the terms of business. In the Gulf of Mexico, prices rose by several hundred per cent and new wordings were implemented which focused on capping losses by instituting sub-limits for windstorms. Premiums have increased by 20-40% for non-Gulf of Mexico risks, even for clients who are claim-free.



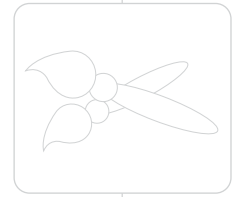
After Hurricane Ivan, we undertook a careful review of the Gulf of Mexico risks that we underwrote, and in particular, did not renew policies in the region where the leaders had not improved terms and conditions. The result was a reduction in Gard's share of risks that had increased exposures.

Gard remains the only insurer in the Scandinavian market providing extensive capacity for clients that focus on the exploration and production of hydrocarbons, both onshore and offshore, as well as support industries such as independent production contractors and mobile drilling and accommodation rig operators. With more than 30 years' experience of underwriting upstream energy risks, we have a long-term commitment to the market. Having dealt with the immediate aftermath of the hurricanes, our objective was to review a variety of different strategies that would enable us to play a supportive role in the market going forward.

Following a review of various scenarios and the state of both the direct and reinsurance markets, we have concluded that, going forward we will only continue to cover incidental Gulf of Mexico windstorm exposures. This means that coverage of windstorm will only be available to accounts with small windstorm limits and few risks in the area.

## Resilience rewarded

In a second year of extraordinary natural catastrophes, Gard's energy business has shown remarkable resilience, with gross premiums written (including builders' risks) of USD 96 million. We also expect that the 2006 underwriting year will see improved trading conditions across a number of different areas. For example, the Norwegian and international rig market is still seeing very high levels of activity as the continued high price of oil drives increased investment in the exploration and production industry. This offers good opportunities for us to increase our market share in this area.



The purchase of insurance is, first and foremost, the purchase of a promise to pay. How an insurer delivers on that promise is what differentiates one insurer from another.

### Practical and pragmatic help

Our approach is very much "hands on", especially where a claim may not be entirely straightforward. This involves the delivery of an integrated service across business lines, broad and deep expertise from an unrivalled mix of backgrounds, and an average of 15 years' service, all of which is combined with around-the-clock access to an extensive network of correspondents.

We understand the commercial realities of our clients' business, and our unique mix of experience and expertise means that whatever problem occurs - from building the ship to a total loss - assistance can be provided. By working as a single department, we are able to offer a service that can view all aspects of the loss in their totality, looking at the best overall solution to the issues.

### Creative and tailored approach

Knowing where to go for the best local expertise in a region where the casualty occurs is a core part of delivering a timely and effective response. Whether that is finding a person with the right relationships, knowing where best to source materials or understanding the local environment, delivering these "on-the-ground" skills is critical to creative claims handling.

Our effectiveness depends on our ability to understand all the issues, as well as to undertake the sheer hard work of resolving the complexities that occur where multiple parties, insurers and

liabilities are involved. With a variety of contracts, legal systems and the likelihood of multi-jurisdictional litigation, progress may not always be quick or smooth, but we commit the time and effort around the globe to achieve reasonable and timely settlements acceptable to the parties.

### Achieving the right result

Deploying our experience and knowledge to find a mutually acceptable solution is a large part of what we do. Even if we are followers on a claim, we retain an independent point of view that is ready to question and investigate to ensure that we are comfortable about any resolution proposed. The result is generally appreciated by leading underwriters, brokers and assureds alike.

### P&I

The development for the 2005 policy year has been slightly more adverse than anticipated and has, to a large extent, been fuelled by navigation-related incidents such as collisions and groundings. Net claims cost per gt have continued to increase. 12 months after inception, the claims cost was USD 1.69 per gt for the 2005 policy year, which is 8% higher than for the prior year. There has been some reduction in claims' frequency, but not sufficient to offset the increase in claims above USD 2 million, so there has been an increase in the total value of claims.



The Gard model is driven by a belief that the insurer and client can work together to get the business back on track as soon as possible, with the minimum amount of disruption.



Our overall claims costs have also been affected by the substantial increase in claims brought by other Clubs against the claims pool of the International Group. There was significant negative development during the year to 20th February 2006, and the 2004 year appears to be an exceptionally high one, although this can partly be accounted for by the fact that the three largest claims represent 60% of the total.

Pool claims for 2005 are, so far, in line with the trend for the years prior to 2004. Despite this, it would not be unreasonable to expect that similar adverse results to 2004 can be expected within a period of four to five years, as the volatility of large P&I claims is intensified by trends of higher concentrations of values and increased liabilities for shipowners.

## Marine

The 2005 policy year ended very positively, with the autumn and winter seeing an atypically benign claims experience. There has been an increase in the absolute number of claims but also a significant reduction, compared to the 2003 and 2004 years, in the number of claims in excess of USD 2 million. Navigational claims remain the most frequent.

This follows a period of increased claims and may be a normalisation towards the long-term growth trend for marine claims. There has been a modest decline in the utilisation rate which may have had a positive impact on the claims picture,

although it is still at the second-highest level since 1990. Some of the improvement can also be attributed to changes in the portfolio composition, where risks are spread over a larger number of units.

## Energy

Claims from the global upstream energy portfolio and builders' risk, as well as the run-off of old claims, have developed positively over the last year.

The overall development of the claims arising from Hurricanes Katrina and Rita have been as forecast and, as a result, the total reserves held have not been significantly changed. Although several important settlement discussions have been commenced, it is anticipated that it will take years to resolve the many issues arising and to close all pending claims.

Gard does not lead any Energy policies affected by hurricane-related claims. Nonetheless, considerable effort has been put into influencing the claim-handling process through close contact with the claims' leaders, as well as the overall market, to ensure the best possible economic outcome as well as an understanding of the exposures.



Having the right Defence cover in place means that clients can be secure in the knowledge that they have the human and financial resources available, if and when needed.

## Defence

In 2005, we embarked on a thorough review of our Defence service, including staff levels, service, product offering and relationship with the market. We made a number of new appointments, as well as promotions within the department, to increase resources and improve client service. Each member of the team is a genuine client partner, acting as both Defence claims handler and legal adviser, building up an in-depth knowledge of our clients' businesses and the situations they face.

### Close relationships improve service

The closeness of this relationship means that continuous support and advice before, during and after a claim are on offer. This can be in the form of reviewing contracts, considering potential problems at an early stage, offering guidance and assistance in averting a dispute, advising on mitigation, promoting a settlement and achieving quick payment of a debt.

Gard handles the vast majority of its Defence cases in-house, offering a cost-effective and efficient solution for clients. All our lawyers have a general knowledge of shipping law and practise in a broad range of jurisdictions worldwide. They are specialists in handling the type of disputes that fall within the scope of Defence cover, with more than 100 years' experience in total in the team. There are few scenarios they have not come across before.

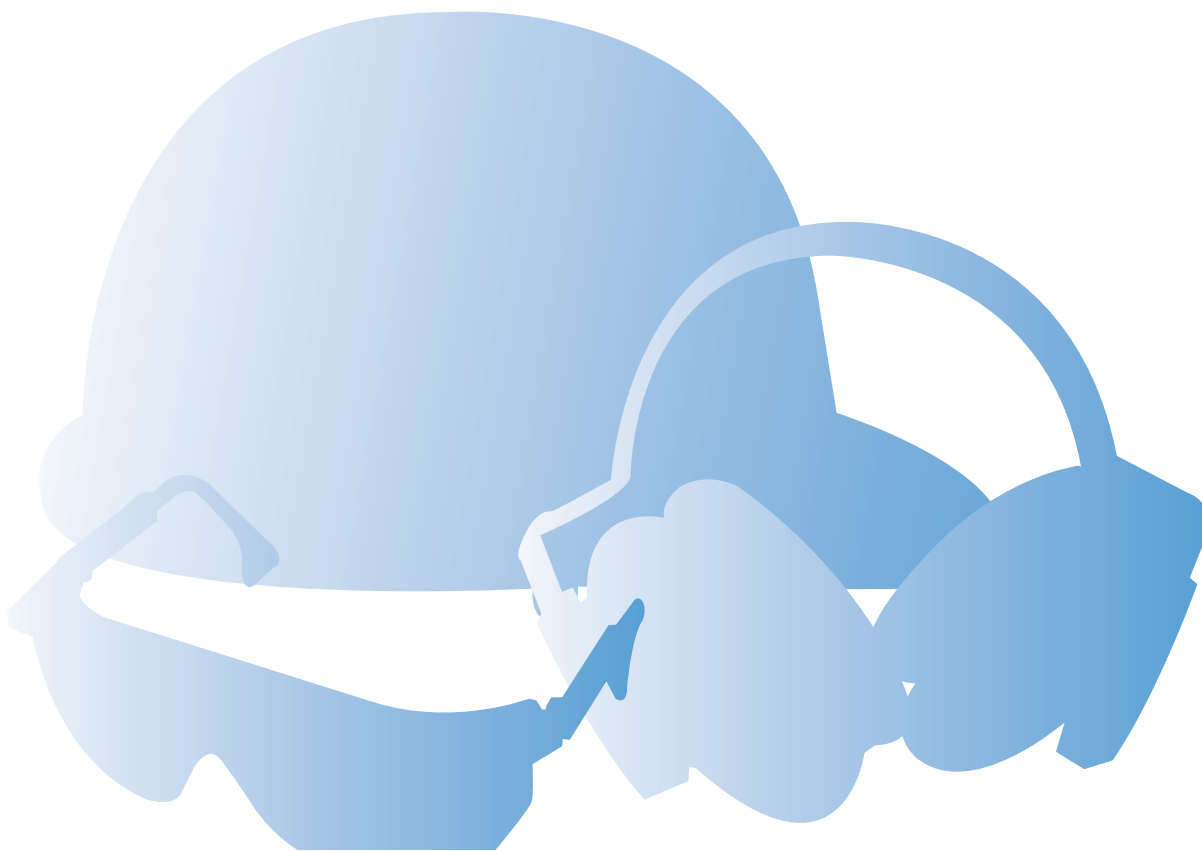
## Focus on productivity

Effectiveness and efficiency are of key importance in today's fast-moving shipping world. One of the objectives for the coming year is to optimise productivity in order to better meet clients' expectations regarding response times, accessibility and service levels. As part of this process, Gard has transferred more responsibility for defence claims-handling to our offices in New York and Hong Kong.

Gard is now licensed by the Norwegian authorities to underwrite Defence as a separate product, which means its Defence cover is available to any shipowner or charterer, irrespective of whether they have a P&I policy with the Club.

The cost of legal advice and representation today, even for a relatively small, uncomplicated dispute, can run into tens of thousands of US dollars. The legal environment is more complex now than it has ever been, and having the right Defence cover in place means that shipowners and charterers can have continuous access to legal advice, irrespective of whether or not a claim has yet arisen, and be secure in the knowledge that they have the best expertise and financial security available to help them pursue or defend a claim.





## Loss Prevention and Risk Assessment

The objective for 2005 was to ensure that the Loss Prevention and Risk Assessment department was delivering an optimal service both internally and externally. By delivering the highest possible quality loss prevention products, Gard will be able to reduce and prevent losses among vessels in the portfolio and to attract new and retain existing clients. For clients, the active use of loss prevention can deliver a genuine competitive advantage to their business.

### Improved results

The Risk Assessment and Survey sections seek to improve underwriting decision-making by identifying and quantifying risks, and by verifying the quality of vessels entered or seeking entry. To this end, we have reviewed and improved our procedures for the Internal Risk Assessment of potential new clients. In addition to conducting more than 100 of these assessments on an annual basis, a system for Internal Risk Assessment Circulars is also in place to ensure the timely transfer of important risk information from the claims department to our underwriters.

## A rapid response to a changing environment

Our team of senior claims handlers and marine lawyers from across Gard has produced a number of loss prevention circulars in 2005, covering a wide range of subjects from fully automatic container locks to navigational issues and engine-related problems. The fast-changing legal and regulatory environments in which both the maritime and insurance industries operate mean that the delivery of vital information in a timely fashion is more important than ever. It is also encouraging that an increasing number of our clients are incorporating the information from our loss prevention circulars in their own management systems.

The LPRA department has also participated in an increasing number of in-house seminars and crew conferences for clients. The presentations have covered a number of topics, including the challenges of dealing with oily water separators, media-handling in a crisis and contingency planning.

### Looking to the future

One of the clearest claims trends at the moment is the frequency of accidents resulting from navigational errors. As a result, this subject is the focus of considerable attention in the department, and a number of projects are already in place to look more closely into the causes and to share what we learn with our clients. Among other things, Gard is co-operating closely with Det Norske Veritas on this subject.



**Controlled** risk management requires a strong organisation and comprehensive risk management processes to identify, assess and control the Group's exposures.

### Managing the Group's exposures

Controlled risk management requires a strong risk management organisation and comprehensive risk management processes to identify, assess and control the Group's exposures.

For a number of years, Gard has worked on a consistent framework for controlled risk-taking throughout the organisation. All processes are described in the Quality Management System and are subject to detailed risk assessments and both internal and external audits. A key part of this framework is the risk-based capital model, which was developed two years ago. Our ability to come through the worst ever hurricane season in a strong financial position is a testament to the robustness of company-wide risk management processes.

In particular, a strong risk culture is reflected in key processes such as product development, underwriting, reinsurance purchasing and investment management. Gard's intention of providing unparalleled financial security is also reflected in the decision to hold sufficient capital to ensure that the probability that free reserves will be lost within a single year is significantly less than 0.1%, or a probability of less than 1-in-1000. This compares favourably with the requirement for a 1-in-200 level under new UK FSA requirements and expected European requirements under the future Solvency 2 regime.

### Creating a risk management department

In order to get the best understanding of the risks and rewards of various strategies, gain an optimal insight into our underwriting and grow our business profitably, a department was created last year to be responsible for risk management, management reporting, data warehousing and analysis.

The department is a natural continuation of steps that have been taken over the last few years, in particular the development of the risk-based capital model and a structured approach to monitoring the risk landscape of the Group. Its activities cover the following areas:

- Risk monitoring – identifying, measuring and monitoring exposures and risk capital.
- Reserving and actuary – proposing reserves and reserving policy.
- Product profitability and pricing – understanding segment attractiveness and maintaining rate plans.
- Management reporting and data warehouse – developing and maintaining the right data to report properly.
- Business intelligence – monitoring market trends and new emerging risk.



The launch of the Gard Common Contractual Fund should create savings of over USD 1 million a year.



Additional projects for the rest of the year will include significant enhancements to the data warehouse for internal and external information.

The single objective is to understand the exposures and profitability of different risks and then to build a genuine competitive advantage through the use of that knowledge. In nautical terms, we will have better navigational equipment to steer a better course.

### Active management of investments

The investment returns for the Group have played an important part in achieving this year's profitability, and the Group has earned a return on investment of 9.5%, which is significantly ahead of the benchmark for the fourth consecutive year. In total, USD 90 million was earned net of investment management expenses. A 9% per annum return has been made since performance measurement was outsourced to an independent service provider in 1989. Throughout this period, strategic allocation guidelines and risk targets have remained broadly unchanged; however, increased-value added has been achieved from a range of tactical asset allocation decisions and strong security selection within both fixed-interest and equity portfolios.

In the last year, a review of our investment management strategy was undertaken to achieve the optimal structure following the acquisition of all the shares in Gard M&E. It was decided to increase the range of investment managers used to bring in new expertise, as the increased assets under management allowed for the cost-efficient implementation of a more diversified investment fund.

Following this structural change we also completed a tendering process for custody, fund accounting, performance measurement and compliance-monitoring for our investment portfolio which resulted in the appointment of new service providers.

We have also standardised our investment guidelines at Group level rather than individual entity level, and are currently establishing the Gard Common Contractual Fund, a single fund based in Ireland in which all the Gard companies will own units. The primary objective is to increase the efficiency of the operations and, from July 2006 when it comes into effect, we should see a cost reduction in excess of USD 1 million per annum.



## Auditor's Report

### To Gard AS

We have audited the accompanying combined consolidated financial statements prepared from the consolidated accounts of Assuranceforeningen Gard – gjensidig – and the accounts of Gard P&I (Bermuda) Limited for the year ended February 20, 2006. We have also audited the consolidated accounts of Assuranceforeningen Gard –gjensidig– and the accounts of Gard P&I (Bermuda) Limited. The preparation and presentation of the combined financial statements is the responsibility of Gard AS. Our responsibility is to express an opinion on the combined consolidated financial statements.

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

In our opinion, the combined consolidated financial statements present fairly, in all material respects, the financial position of the two Associations as at February 20, 2006 and their revenues and expenses for the year then ended, in accordance with the basis of accounting described in the notes to the combined consolidated financial statements.

Arendal, 29 May 2006  
ERNST & YOUNG AS

Jan Dønvik

## Gard P&I and M&E – Combined consolidated income and expenditure accounts

(All amounts are stated in USD 000's)

For the years to 20 February	Notes	Parent company		Gard M&E		Combined consolidated accounts		
		Gard P&I						
		2006	2005	2006	2005	2006	2005	
<b>Technical account – General business</b>								
<b>Income</b>								
Premiums earned gross	2	254,391	242,725	241,614	236,257	496,005	478,982	
Estimated deferred calls on ETC basis	2	41,474	41,010	0	0	41,474	41,010	
Reduction in estimated deferred call (5 %)		(8,295)	0	0	0	(8,295)	0	
Premiums earned gross		287,570	283,735	241,614	236,257	529,184	519,992	
Reinsurance premiums earned		(49,064)	(63,127)	(67,910)	(54,967)	(116,974)	(118,094)	
Premiums earned net	A	238,506	220,608	173,704	181,290	412,210	401,898	
<b>Expenditure</b>								
Claims costs net*	3	225,477	194,473	148,859	147,965	374,336	342,438	
Operating expenses net	5	27,726	22,669	49,807	42,674	77,533	65,343	
	B	253,203	217,142	198,666	190,639	451,869	407,781	
Balance on general business technical account	4	A-B=C	(14,697)	3,466	(24,962)	(9,349)	(39,659)	(5,883)
<b>Non-technical account</b>								
Investment income	6	73,980	50,489	33,095	19,809	107,075	70,298	
Exchange (loss)/gain		(9,474)	9,040	299	(5,403)	(9,175)	3,637	
Investment management expenses		(5,181)	(3,625)	(2,532)	(1,241)	(7,713)	(4,866)	
Taxation		2,453	(1,587)	(380)	(570)	2,073	(2,157)	
Balance on non-technical account	D	61,778	54,317	30,482	12,595	92,260	66,912	
Excess of income over expenditure	C+D=E	47,081	57,783	5,520	3,246	52,601	61,029	
<b>General contingency reserve</b>								
at beginning of period	F	385,618	327,835	3,246	0	388,864	327,835	
Pension to be charged to the contingency reserve	G	(3,055)	0	0	0	(3,055)	0	
General contingency reserve at end of period	E+F+G=H	429,644	385,618	8,766	3,246	438,410	388,864	
Combined Ratio Net (CRN) on ETC basis		103%	98%	114%	105%	107%	101%	

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

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

(All amounts are stated in USD 000's)

As at 20 February	Notes	Parent company Gard P&I		Gard M&E		Combined consolidated accounts	
		As at 2006	As at 2005	As at 2006	As at 2005	As at 2006	As at 2005
<b>Assets</b>							
Intangible assets	7	9,034	5,284	0	0	9,034	5,284
Goodwill	7	374	704	12,315	16,507	12,689	17,211
Investments	8, 14	710,541	614,917	524,116	470,459	1,234,657	1,085,376
Due from Members		4,925	4,630	70,917	92,831	75,842	97,461
Due from reinsurers		1,866	3,189	4,137	0	6,003	3,189
Accrued deferred call	9	33,181	41,010	0	0	33,181	41,010
Sundry debtors	10	10,545	21,838	0	3,435	8,840	25,273
Investments in subsidiary	11	190,000	190,000	0*	0*	0	0
Real property and fixed assets	12	22,236	21,750	0	0	22,236	21,750
Bank balances		53,342	21,636	48,052	18,446	101,394	40,082
Accrued income		9,906	10,072	16,063	15,201	25,969	25,273
<b>Total Assets</b>		<b>1,045,950</b>	<b>935,030</b>	<b>675,600</b>	<b>616,879</b>	<b>1,529,845</b>	<b>1,361,909</b>
<b>Liabilities</b>							
<b>Owner's equity</b>							
Shares				190,000	190,000		
Profit and loss account				8,766	3,246		
<b>Total equity</b>				<b>198,766*</b>	<b>193,246*</b>		
<b>Technical reserves</b>							
Unearned premium reserve for own account		0	0	133,750	93,453	133,750	93,453
Provision for outstanding and unreported claims		536,768	497,031	321,264	304,250	858,032	801,281
General contingency reserve		429,644	385,618	0*	0*	438,410	388,864
Balance available for outstanding and unreported claims		966,412	882,649	455,014	397,703	1,430,192	1,283,598
Bank overdraft		0	838	0	0	0	838
Sundry creditors	13	79,538	51,543	21,820	25,930	99,653	77,473
<b>Total Equity and Liabilities</b>		<b>1,045,950</b>	<b>935,030</b>	<b>675,600</b>	<b>616,879</b>	<b>1,529,845</b>	<b>1,361,909</b>

\* Elimination of Gard P&I's share of Owner's equity

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

(All amounts are stated in USD 000's)

For the years to 20 February	Parent company – Gard P&I		Gard M&E		Consolidated accounts	
	2006	2005	2006	2005	2006	2005
Excess of income over expenditure before taxation	41,573	59,370	5,900	3,817	47,473	63,187
Depreciation of tangible and intangible assets	4,287	3,990	4,192	4,127	8,479	8,117
Decrease/(Increase) in accrued deferred call	7,831	(3,130)			7,831	(3,130)
Decrease in debtors	12,321	1,490	21,212	19,317	33,533	20,807
Decrease/(Increase) in accrued income	166	(1,882)	(862)	(4,906)	(696)	(6,788)
Increase in technical provisions	39,737	15,891	57,311	25,791	97,048	41,682
Increase/(Decrease) in creditors	27,995	(16,660)	(3,968)	(2,314)	24,027	(18,974)
<b>Net cash flow from operating activities</b>	<b>133,910</b>	<b>59,069</b>	<b>83,785</b>	<b>45,832</b>	<b>217,695</b>	<b>104,901</b>
<b>Cash flow statement</b>						
Net cash flow from operating activities	133,910	59,069	83,785	45,832	217,695	104,901
Taxation paid	2,453	(1,587)	(380)	(570)	2,073	(2,157)
	136,363	57,482	83,405	45,262	219,768	102,744
<b>Cash flows were invested as follows</b>						
Increase/(Decrease) in cash holding	32,544	(18,199)	29,606	(11,554)	62,150	(29,753)
Increase/(Decrease) in portfolio investments	95,624	(11,532)	53,799	26,816	149,423	15,284
Increase in investment in subsidiary	0	80,000	0	0	0	0
Repayment to minority interests	0	0	0	0	0	80,000
Repayment of subordinated loan	0	0	0	30,000	0	30,000
Increase in real property, fixed and intangible assets	8,195	7,213	0	0	8,195	7,213
	136,363	57,482	83,405	45,262	219,768	102,744



## Notes to the combined consolidated accounts

### NOTE 1 – Accounting policies

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

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

#### (II) *Consolidated accounts*

The Associations' consolidated accounts incorporate the accounts of the wholly owned subsidiary A/S Assuransegården, owner of the Association's properties and the subsidiary Gard AS, the Management Company for the Association.

Gard Marine & Energy Ltd. ("Gard M&E") was incorporated on 9 December 2003. The Association owns 15.8 per cent of the shares in Gard M&E and the Bermuda Association owns the remaining 84.2 per cent. In the combined consolidated accounts Gard M&E is consolidated as a wholly owned subsidiary by the two Associations.

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

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

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

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

#### (IV) *Portfolio investments*

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

#### (V) *Financial derivatives*

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

#### (VI) *Currencies other than US dollars*

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



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

As at 20 February		2006	2005
		USD 1	USD 1
		equals	equals
CAD	Canadian Dollar	1.1504	0.8133
CHF	Swiss Franc	1.3064	1.1830
EUR	Euro Currency Unit	0.8371	0.7654
GBP	Pound Sterling	0.5731	0.5279
JPY	Japanese Yen	118.2650	105.7450
NOK	Norwegian Krone	6.7493	6.3413
SEK	Swedish Krone	7.8320	6.9651

*(VII) Basis of accounting*

All items of income and expenditure are accounted for on an accrual basis and reflect any adjustments relating to earlier years.

Deferred/supplementary calls are brought into account when charged to Members except that the deferred call approved by the Committee at their meeting in May for the policy year just ended is brought into account in the financial year ending on the same date as the policy year.

*(VIII) Technical reserves*

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

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

The general contingency reserve is retained to meet;

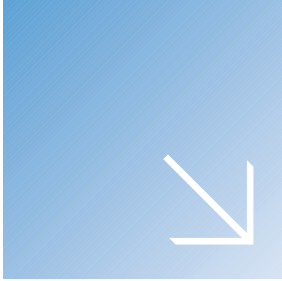
(i) losses which may fall outside the Association's reinsurance programme; for example failure of a "first class" bank or hull insurer to honour a collision guarantee; (ii) unforeseen fluctuations in the Association's claims exposure and; (iii) a possible catastrophe claim. The Association is liable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

*(IX) Related party disclosure*

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

*(X) Designated reserves*

Given the level of Pool retentions and the participation of the International Group in the General excess loss reinsurance contract, all parties to the Pooling Agreement have entered into arrangements, under an agreement dated 20 February 1996, to provide security by way of letters of credit or security bonds to other Pooling members to cover a significant



proportion of their potential liabilities under the Pooling Agreement. Such letters of credit/security bonds can only be drawn upon in the event that an Association fails to meet a call upon it in relation to its obligations under the Pooling Agreement. The Association currently has a contingent liability under a bank guarantee in the amount of USD 28 million relating to its participation in this arrangement. The bank guarantee does not constitute a formal charge on the assets of the Association as no counter security has been required.

*(XI) Long-term shareholdings*

The investment in the subsidiary companies is assessed in accordance with the cost-method. The investment is being revaluated to actual value if the drop in value is permanent.

*(XII) Fixed assets, goodwill and depreciation*

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

*(XIII) Change in accounting principles*

The company's pension scheme has become undercapitalized as a result of the decrease of the discount rates over the last couple of years. Since 2003 the discount rate has been reduced two times from 7 per cent to 5 per cent. This, combined with the new international accounting standard IFRS, which is expected to enter into force in Norway during the next few years, implies that the accounts for the 2005 year ought to reflect the expected new requirements even if not strictly required at this stage.

Pursuant to generally accepted accounting principles in Norway the costs of a shortfall in the pension scheme can be distributed over a shorter period of time than the expected average remaining period of service for the employees, being in the case of Gard AS 14 years. Furthermore, costs arising out of a change in practice can be charged directly against the company's equity capital.

Against this background the shortfall will be distributed over a period of 5 years. In the accounts for the year to 20 February 2006 the effect is that USD 2.6 million is recorded as additional operating expenses and that USD 3.0 million is charged directly against the general contingency reserve.

## NOTE 2 – Premiums earned gross on ETC basis

(All amounts are stated in USD 000's)

For the years to 20 February	Parent company – Gard P&I		Gard M&E		Consolidated accounts		
	2006	2005	2006	2005	2006	2005	
<b>Mutual premiums</b>							
Owners' entries							
Premiums	174,323	169,287	0	0	174,323	169,287	
Additional calls	989	1,490	0	0	989	1,490	
Estimated deferred call	40,122	39,670	0	0	40,122	39,670	
					0	0	
Defence entries							
Premiums	5,446	5,473	0	0	5,446	5,473	
Additional calls	39	88	0	0	39	88	
Estimated deferred call	1,352	1,340	0	0	1,352	1,340	
	<b>A</b>	<b>222,271</b>	<b>217,348</b>	<b>0</b>	<b>0</b>	<b>222,271</b>	<b>217,348</b>
<b>Fixed premiums</b>							
Mobile offshore unit entries	25,548	20,987	0	0	25,548	20,987	
Charterers' entries	38,550	36,082	0	0	38,550	36,082	
US oil pollution premiums	6,304	7,101	0	0	6,304	7,101	
Defence entries	3,192	2,217	0	0	3,192	2,217	
Marine	0	0	158,765	176,015	158,765	176,015	
Energy	0	0	82,849	60,242	82,849	60,242	
	<b>B</b>	<b>73,594</b>	<b>66,387</b>	<b>241,614</b>	<b>236,257</b>	<b>315,208</b>	<b>302,644</b>
<b>Total on ETC basis</b>	<b>A+B</b>	<b>295,865</b>	<b>283,735</b>	<b>241,614</b>	<b>236,257</b>	<b>537,479</b>	<b>519,992</b>
Reduction in estimated deferred call		(8,295)	0	0	0	(8,295)	0
<b>Total</b>	<b>A+B</b>	<b>287,570</b>	<b>283,735</b>	<b>241,614</b>	<b>236,257</b>	<b>529,184</b>	<b>519,992</b>

**NOTE 3 – Claims costs net\***

(All amounts are stated in USD 000's)

For the years to 20 February	Parent company – Gard P&I		Gard M&E		Consolidated accounts		
	2006	2005	2006	2005	2006	2005	
<b>Claims paid gross</b>							
Claims	172,789	206,643	198,062	188,451	370,851	395,094	
Group pooling arrangements	29,644	24,360	0	0	29,644	24,360	
	<b>A</b>	<b>202,433</b>	<b>231,003</b>	<b>198,062</b>	<b>188,451</b>	<b>400,495</b>	<b>419,454</b>
<b>Reinsurers' share</b>							
Group pooling arrangements	12,699	26,363	0	0	12,699	26,363	
Market underwriters	(175)	25,253	71,055	43,684	70,880	68,937	
Other P&I Associations	4,169	804	0	0	4,169	804	
	<b>B</b>	<b>16,693</b>	<b>52,420</b>	<b>71,055</b>	<b>43,684</b>	<b>87,748</b>	<b>96,104</b>
<b>Claims paid net</b>	<b>A-B=C</b>	<b>185,740</b>	<b>178,583</b>	<b>127,007</b>	<b>144,767</b>	<b>312,747</b>	<b>323,350</b>
<b>Change in provision for gross claims</b>							
Provision carried forward	568,976	530,188	580,855	425,580	1,149,831	955,768	
Provision brought forward	(530,188)	(544,093)	(425,580)	(414,165)	(955,768)	(958,258)	
	<b>D</b>	<b>38,788</b>	<b>(13,905)</b>	<b>155,275</b>	<b>11,415</b>	<b>194,063</b>	<b>(2,490)</b>
<b>Less movement in provision for reinsurers' share</b>							
Provision carried forward	(52,621)	(52,274)	(254,753)	(121,330)	(307,374)	(173,604)	
Provision brought forward	52,274	81,458	121,330	115,141	173,604	196,599	
	<b>E</b>	<b>(347)</b>	<b>29,184</b>	<b>(133,423)</b>	<b>(6,189)</b>	<b>(133,770)</b>	<b>22,995</b>
<b>Change in provision for claims management costs</b>	<b>F</b>	<b>1,296</b>	<b>611</b>	<b>0</b>	<b>0</b>	<b>1,296</b>	<b>611</b>
<b>Currency valuation – Reserves</b>	<b>G</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,029)</b>	<b>0</b>	<b>0</b>
<b>Changes in claims provision net</b>	<b>D+E+F+G=H</b>	<b>39,737</b>	<b>15,890</b>	<b>21,852</b>	<b>3,198</b>	<b>61,589</b>	<b>21,117</b>
<b>Claims costs net*</b>	<b>C+H</b>	<b>225,477</b>	<b>194,473</b>	<b>148,859</b>	<b>147,965</b>	<b>374,336</b>	<b>342,438</b>

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

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

(All amounts are stated in USD 000's)

For the years to 20 February	P&I		Marine		Energy		
	2006	2005	2006	2005	2006	2005	
Premiums written gross on ETC basis	295,865	283,735	166,463	184,292	95,946	63,189	
Premiums earned gross on ETC basis	295,865	283,735	158,766	176,015	82,849	60,242	
Reduction in estimated deferred call	(8,295)	0	0	0	0	0	
<b>Premiums earned net</b>	<b>A</b>	<b>238,506</b>	<b>220,608</b>	<b>141,851</b>	<b>147,877</b>	<b>31,853</b>	<b>33,413</b>
Claims incurred net	204,977	177,073	104,590	116,435	43,208	30,030	
Claims handling costs*	20,500	17,400	211	573	850	927	
<b>Claims costs net</b>	<b>B</b>	<b>225,477</b>	<b>194,473</b>	<b>104,801</b>	<b>117,008</b>	<b>44,058</b>	<b>30,957</b>
Acquisition costs allocated	6,500	5,600	3,577	3,976	2,118	1,955	
Internal expenses allocated	14,039	11,748	12,072	10,574	6,315	2,671	
Commission earned net	7,187	5,321	12,898	14,080	8,635	5,291	
<b>Operating expenses net – excl. claims handling costs</b>	<b>C</b>	<b>27,726</b>	<b>22,669</b>	<b>28,547</b>	<b>28,630</b>	<b>17,068</b>	<b>9,917</b>
<b>Balance on general business technical account</b>	<b>A-B-C</b>	<b>(14,697)</b>	<b>3,466</b>	<b>8,503</b>	<b>2,239</b>	<b>(29,273)</b>	<b>(7,461)</b>
Claims ratio net on ETC basis	91.4%	88.2%	73.9%	79.1%	138.3%	92.6%	
Expense ratio net on ETC basis	11.2%	10.3%	20.1%	19.4%	53.6%	29.7%	
Combined ratio net on ETC basis	102.6%	98.4%	94.0%	98.5%	191.9%	122.3%	

\*Claims handling costs share of net operating expenses is included in Net claims costs.  
Depreciation of goodwill has not been allocated to the Marine and Energy business lines.

**NOTE 5 – Operating expenses**

(All amounts are stated in USD 000's)

For the years to 20 February	Parent company – Gard P&I		Gard M&E		Consolidated accounts	
	2006	2005	2006	2005	2006	2005
Acquisition costs allocated	6,500	5,600	5,695	5,931	12,195	11,531
Administrative expenses allocated	14,039	11,748	22,579	17,372	36,618	29,120
Commission earned net	7,187	5,321	21,533	19,371	28,720	24,692
Operating expenses net	27,726	22,669	49,807	42,674	77,533	65,343
Claims handling costs	20,500	17,400	1,061	1,500	21,561	18,900
Investment management expenses	5,181	3,625	2,532	1,241	7,713	4,866
<b>Operating expenses total</b>	<b>53,407</b>	<b>43,694</b>	<b>53,400</b>	<b>45,415</b>	<b>106,807</b>	<b>89,109</b>
a) Operating expenses include:						
Wages and salaries	28,478	26,202	0	0	28,478	26,202
Social security costs	6,039	5,669	0	0	6,039	5,669
Remuneration of Committee and Executive Committee	426	404	0	0	426	404
Pension contributions	7,758	2,959	0	0	7,758	2,959
Auditors' fees – audit services	200	175	72	25	272	200
Auditors' fees – non audit services	7	29	3	20	10	49
Depreciation	4,287	3,990	4,192	4,127	8,479	8,117

**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 2006. The Ratio of 8.6 per cent (8.2 last year) has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant Financial Statements.

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

**NOTE 6 – Investment income**

(All amounts are stated in USD 000's)

For the years to 20 February	Parent company – Gard P&I		Gard M&E		Consolidated accounts	
	2006	2005	2006	2005	2006	2005
Interest earned	18,510	18,523	15,116	14,977	33,626	33,500
Dividends	5,064	4,870	2,334	1,194	7,398	6,064
Profits less losses on realisation of investments	33,789	21,119	6,439	(675)	40,228	20,444
Change in difference between cost and market value of investments	16,617	5,977	9,206	4,313	25,823	10,290
<b>Total</b>	<b>73,980</b>	<b>50,489</b>	<b>33,095</b>	<b>19,809</b>	<b>107,075</b>	<b>70,298</b>

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

## NOTE 7 – Intangible assets and goodwill

(All amounts are stated in USD 000's)

	Parent company – Gard P&I		Gard M&E		Consolidated accounts	
	2006		2006		2006	
<b>Specification of goodwill</b>						
Cost as at 20 February 2005		1,416		16,507		17,923
Change in cost due to exchange rates		28		0		28
Accumulated depreciation and write down		755		0		755
Change in depreciation due to exchange rates		21		0		21
Charge for the year		294		4,192		4,486
<b>Net book value as at 20 February 2006</b>		<b>374</b>		<b>12,315</b>		<b>12,689</b>
<b>Specification of intangible assets</b>						
Cost as at 20 February 2005		12,242		0		12,242
Net purchases in the year		4,258		0		4,258
Accumulated depreciation and write down		5,478		0		5,478
Charge for the year		1,988		0		1,988
<b>Net book value as at 20 February 2006</b>		<b>9,034</b>		<b>0</b>		<b>9,034</b>

The company applies a linear depreciation plan

## NOTE 8 – Investments

(All amounts are stated in USD 000's)

As at 20 February	Parent company – Gard P&I		Gard M&E		Consolidated accounts	
	2006	2005	2006	2005	2006	2005
<b>Quoted investments</b>						
Net Equities at market value / Equities at cost	189,614	161,006	154,435	59,011	344,049	220,017
Net Bonds at market value / Bonds at cost	484,606	410,210	338,604	407,135	823,210	817,345
Unit trusts*	17,695	0	31,077	0	48,772	0
Difference between cost and market value of investments	N/A	25,860	N/A	4,313	N/A	30,173
	<b>A</b>	<b>691,915</b>	<b>597,076</b>	<b>524,116</b>	<b>470,459</b>	<b>1,216,031</b>
<b>Unquoted investments</b>						
Property mortgages	13,854	13,416	0	0	13,854	13,416
Miscellaneous investments	4,772	4,425	0	0	4,772	4,425
	<b>B</b>	<b>18,626</b>	<b>17,841</b>	<b>0</b>	<b>0</b>	<b>18,626</b>
<b>Total</b>	<b>A + B</b>	<b>710,541</b>	<b>614,917</b>	<b>524,116</b>	<b>470,459</b>	<b>1,234,657</b>

\* Unit trusts contain investments in market neutral pooled vehicles targeting a return in excess of cash deposits.

**NOTE 9 – Accrued deferred call: "Parent company" – Gard P&E**

The Committee has decided to levy a 20 per cent deferred call in respect of the 2005 policy year, payable in 2006. The original estimate for the year was set to 25 per cent.

**NOTE 10 – Sundry debtors**

(All amounts are stated in USD 000's)

As at 20 February	Parent company – Gard P&E		Gard M&E		Consolidated accounts	
	2006	2005	2006	2005	2006	2005
Prepaid pensions	1,626	11,629	0	0	1,626	11,629
Investment transactions in progress	0	5,284	0	0	0	5,284
Sundry debtors	8,919	4,925	0	3,435	7,214	8,360
<b>Total</b>	<b>10,545</b>	<b>21,838</b>	<b>0</b>	<b>3,435</b>	<b>8,840</b>	<b>25,273</b>

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

**NOTE 11 – Shares in subsidiary company**

(All amounts are stated in USD 000's)

As at 20 February 2006	Combined ownership	Share capital	Cost price	Share of total equity	Share of profit
Gard Marine Et Energy Ltd.	100%	USD 190,000	190,000	198,766	8,766
<b>Total</b>			<b>190,000</b>	<b>198,766</b>	<b>8,766</b>



## NOTE 12 – Real property and fixed assets

(All amounts are stated in USD 000's)

		2006 Real property and fixed assets	2005 Real property and fixed assets
<b>Cost</b>			
As at 20 February 2005		34,889	35,280
Purchases in the year		4,228	2,189
Sales in the year		(657)	(640)
As at 20 February 2006	A	38,460	36,829
<b>Depreciation</b>			
As at 20 February 2005		14,219	12,691
Depreciation on sold assets		0	0
Charge for the year		2,005	2,388
As at 20 February 2006	B	16,224	15,079
<b>Net book value</b>			
As at 20 February 2005		20,670	22,589
As at 20 February 2006	A-B=C	22,236	21,750

## NOTE 13 – Sundry creditors

(All amounts are stated in USD 000's)

As at 20 February	Parent company – Gard P&I		Gard M&E		Consolidated accounts	
	2006	2005	2006	2005	2006	2005
Creditors : direct insurance	6,571	1,972	671	1,280	7,242	3,252
Creditors : reinsurance operations	44	543	4,380	21,354	4,424	21,897
Investment transactions in progress	27,948	10,246	0	0	27,948	10,246
Accrued taxes	(1,831)	981	0	0	(1,831)	981
Pension liabilities	9,607	9,479	0	0	9,607	9,479
Sundry creditors	27,771	16,662	15,552	2,325	41,618	18,986
Deferred income	0	0	0	0	0	0
Accrued expenses	9,428	11,660	1,217	971	10,645	12,631
<b>Total</b>	<b>79,538</b>	<b>51,543</b>	<b>21,820</b>	<b>25,930</b>	<b>99,653</b>	<b>77,473</b>

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

## NOTE 14 – Financial investments by currencies

(All amounts are stated in 000's)

Currency	Parent company – Gard P&I				Combined consolidated accounts			
	Net assets	Forward exchange contracts	Net exposure in currency	USD	Net assets	Forward exchange contracts	Net exposure in currency	USD
AUD	6,118	310	6,428	4,767	96,036	(78,204)	17,832	13,222
BRL	13,745	540	14,285	6,740	23,006	540	23,546	11,109
CAD						17,392	17,392	15,142
CHF	31,765	(21,149)	10,616	8,385	35,112	(21,149)	13,963	10,947
CLP	58,368	93,500	151,868	290	58,368	93,500	151,868	290
DKK	15,576	(13,796)	1,780	285	19,601	(16,088)	3,513	562
CNY		3,871	3,871	481		3,871	3,871	481
EGP	2,341		2,341	409	2,341		2,341	409
EUR	112,681	(80,069)	32,611	38,959	128,363	(70,746)	57,617	68,833
GBP	41,634	(41,869)	(235)	(410)	47,771	(44,042)	3,729	6,506
HKD	54,814	47	54,862	7,069	203,509	(147,045)	56,464	7,276
HUF	248,508		248,508	1,180	431,523		431,523	2,048
IDR	10,313,058		10,313,058	1,117	19,636,870		19,636,870	2,127
ILS	9,863		9,863	2,097	17,014		17,014	3,617
INR	106,264	6,978	113,243	2,554	106,264	6,978	113,243	2,554
JPY	2,632,925	632,285	3,265,210	27,737	18,729,549	(12,027,715)	6,701,834	56,795
KRW	12,321,931	547,458	12,869,389	13,298	18,404,385	547,458	18,951,843	19,583
MXN	25,564	(2,974)	22,589	2,163	45,966	(8,145)	37,821	3,622
MYR	1,881	136	2,016	542	1,998	136	2,133	574
NOK	183,280	(12,200)	171,080	24,920	185,715	87,400	273,115	40,038
NZD	514	(304)	211	141	3,757	(3,099)	657	440
PEN		500	500	152		500	500	152
PHP	26,699		26,699	514	51,652		51,652	994
PLN	1,559	(1,083)	476	151	1,559	(1,083)	476	151
RUB		5,034	5,034	179		5,034	5,034	179
SEK	49,020	(47,122)	1,898	242	54,777	(47,122)	7,655	977
SGD	3,249	212	3,461	2,125	31,527	(14,468)	17,060	10,473
SKK		4,768	4,768	153		4,768	4,768	153
THB	100,910		100,910	2,566	174,076		174,076	4,427
TRY	3,673		3,673	2,786	5,641		5,641	4,279
TWD	306,296	2,996	309,292	9,548	545,822	2,996	548,818	16,942
USD	345,242	190,065	535,307	535,980	557,531	352,630	910,160	910,834
ZAR	80,914	1	80,915	13,422	114,069	1	114,070	18,921
<b>Total financial investments</b>				<b>710,541</b>				<b>1,234,657</b>

## Policy year accounts

### A. Development of open policy years

(All amounts are stated in USD 000's)

Policy year	2005	2004	2003	Total	
<b>Premiums and calls:</b>					
Invoiced in prior years	0	237,569	220,732		
Invoiced in current year	260,195	2,691	34		
	260,195	240,260	220,766		
Additional calls debited	851	41,896	39,281		
Estimated deferred call	33,180	0	0		
Total premiums and deferred calls	294,226	282,156	260,047		
Reinsurance premiums	(62,364)	(61,026)	(61,718)		
	<b>A</b>	231,862	221,130	198,329	
<b>Incurred claims net:</b>					
Claims paid	28,108	103,833	104,540		
Estimates on outstanding claims	121,769	94,446	44,995		
IBNRs	62,975	17,253	10,032		
Future claims management costs	7,148	4,468	2,201		
	220,000	220,000	161,768		
Operating expenses	45,774	41,655	37,783		
	<b>B</b>	265,774	261,655	199,551	
Investment income	<b>C</b>	59,325	55,902	119,551	
Surplus on open policy years	<b>A-B+C=D</b>	25,413	15,377	118,329	159,119
<b>Closed policy years:</b>					
Surplus in respect of 2001 and prior years as at 20 February 2005				240,929	
Transfer on closure of 2002 policy year				21,180	
Changes to policy years prior to 2002				11,471	
				432,699	
Pension to be charged to the contingency reserve				(3,055)	
General contingency reserve as at 20 February 2006				429,644	



## Policy year accounts

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

(All amounts are stated in USD 000's)

Policy year	2005	2004	2003	Closed years	Total
<b>Gross estimated outstanding and unreported claims :</b>					
Own claims	163,887	97,935	60,200	163,095	485,117
Pool claims	24,285	23,406	10,186	25,981	83,858
<b>Estimated reinsurance recoveries due from :</b>					
The Pool	3,429	7,219	11,963	15,832	38,443
The Group excess loss reinsurance contract	0	0	2,155	(1,369)	786
Others	0	2,423	1,240	9,727	13,390
<b>Net estimated outstanding and unreported claims</b>					
Future claims management costs	7,148	4,468	2,201	6,595	20,413
<b>Provision for outstanding and unreported claims</b>					
General contingency reserve	25,413	15,377	118,329	273,580	432,699
Pension to be charged to the contingency reserve					(3,055)
<b>Balance available for outstanding and unreported claims as at 20 February 2006</b>					
	217,304	131,544	175,558	445,061	966,412

### Notes to the policy year accounts

1. Premiums, supplementary calls, reinsurances and claims are credited/charged to the policy year to which they relate. Operating expenses and investment income are charged/credited to the same policy year as the financial year in which they are brought to account.
2. The annual accounts include the 20 per cent deferred call levied for the 2005 policy year. The original estimate for the year was set to 25 per cent.
3. The approximate yield of a 10 per cent supplementary call on the open policy years would be:  
2003 policy year USD 14.9 million  
2004 policy year USD 15.5 million  
2005 policy year USD 16.0 million

4. "Incurred claims net" comprises claims paid (net of reinsurance recoveries), together with contributions to other P&I Associations under the Group Pooling arrangement and net estimates for outstanding and unreported claims.

Estimates on outstanding claims refer to those incidents which have been notified to the Association and on which estimates of the expected exposure have been placed. Incurred but not reported claims ("IBNRs") have been calculated on a basis approved by the Association's consulting actuaries.

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

5. Provision for outstanding and unreported claims for closed years, USD 171.5 million, consists of estimated outstanding claims in the amount of USD 121.3 million, estimates for IBNR claims of USD 43.5 million and provision for future claims management costs of USD 6.7 million.





## Committees and boards of the Gard Group – 2005/2006 – retiring by rotation / recommended for election 2006/2007

### THE COMMITTEE

**Stephen Pan, Chairman**

World-Wide Shipping Agency Limited, Hong Kong

**Ricardo Claro Valdés, Deputy Chairman**

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

**Basil A. Abul-hamayel\***

Saudi Arabian Oil Company, Dhahran, Saudi Arabia

**Alain Bernard**

Olympic Shipping and Management S.A., Athens

**Ian Beveridge\***

Bernhard Schulte, Hamburg

**Robert Gerald Buchanan**

Genco Shipping & Trading, Inc., New York

**K.C. Chang**

Evergreen Marine Corp. (Taiwan) Ltd., Taipei

**Nicolas Frangistas**

Franco Compania Naviera, Athens

**Sjur Galtung**

Wilh. Wilhelmsen ASA, Oslo

**Hannu Haapanen**

Neste Oil Oy, Finland

**Herbjørn Hansson**

Nordic American Tanker Shipping Ltd., Bermuda

**Folke Hermansen\***

DSD Shipping AS, Stavanger, Norway

**Morten Høegh**

Leif Høegh & Co., AS, Oslo

**Atle Jebsen**

Jebsens Management AS, Bergen

**Hans Peter Jebsen**

Kristian Gerhard Jebsen Skipsrederi AS, Bergen

**Robert E. Johnston\***

OSG Ship Management, New York/Newcastle

**Tom Erik Klaveness**

The Torvald Klaveness Group, Oslo

**Jan Lissow**

Interorient Navigation Co., Ltd

**Sergio Machado**

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

**Takeshi Matsui**

The Sanko Steamship Co. Ltd., Tokyo

**Tadeusz Niszczoła\***

Polish Steamship, Szczecin

**Nicolas Pateras**

Pacific & Atlantic Corporation, Athens

**Jamal A Al-Rammah\*\***

Saudi Arabian Oil Company, Dhahran, Saudi Arabia

**Michael Say\*\***

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

**Heinrich Schulte\*\***

Bernhard Schulte, Hamburg

**Oscar Spieler**

Frontline Management AS, Oslo

**Craig H. Stevenson\***

OMI Corporation, Stamford, CT, USA

**Jane Sy**

Stolt-Nielsen Transportation Group Ltd., Rotterdam

**Kazuya Uchida\***

Meiji Shipping Co., Ltd. Tokyo

**Hans Ivar Vigen**

JJ Uglund Companies, Grimstad

**Lynn White**

Royal Caribbean Cruises Ltd., Miami

### THE EXECUTIVE COMMITTEE

**John Hatleskog, Chairman**

Havinvest A/S, Oslo

**Trond Eilertsen**

Oslo

**Axel C. Eitzen**

Camillo Eitzen & Co ASA, Oslo

**Hans Ditlef Martens\*\***

Bergesen Worldwide Gas ASA, Oslo

**Bengt Hermelin**

Saudi Maritime Holding Co, London

**Michael Say\***

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

**Claes Isacson, Managing Director**

Arendal

#### THE SUPERVISORY COMMITTEE

Stephen Knudtzon, *Chairman*  
Oslo

Skule Adolfsen  
Höegh Fleet Services AS, Oslo

Kåre Franseth  
Klaveness Maritime Logistics AS, Oslo

Anders Chr. Stray Ryssdal\*\*  
Oslo

Arne Falkanger Thorsen\*  
Bergesen Worldwide Gas ASA, Oslo

#### THE ELECTION COMMITTEE

John Hatleskog, *Chairman*  
Havinvest A/S, Oslo

Stephen Pan  
World-Wide Shipping Agency Limited, Hong Kong

Ricardo Claro Valdés\*\*  
Compañía Sud Americana de Vapores S.A. (CSAV), Valparaíso

Alain Bernard\*  
Olympic Shipping and Management S.A., Athens

Herbjørn Hansson  
Nordic American Tanker Shipping Ltd., Bermuda

#### GARD P&I (BERMUDA) LIMITED

Stephen Pan, *Chairman*  
World-Wide Shipping Agency Limited, Hong Kong

John Hatleskog, *Deputy Chairman*  
Havinvest AS, Oslo

Trond Eilertsen  
Oslo

Sir David Gibbons  
Bermuda

Claes Isacson, *President*  
Arendal

Timothy Faries, *Vice-President*  
Bermuda

#### GARD MARINE & ENERGY LIMITED

John Hatleskog, *Chairman*  
Havinvest AS, Oslo

Bengt Hermelin  
Saudi Maritime Holding Co, London

Trond Eilertsen  
Oslo

Claes Isacson  
Arendal

Timothy Faries  
Bermuda

#### GARD AS

John Hatleskog, *Chairman*  
Havinvest AS, Oslo

Bengt Hermelin  
Saudi Maritime Holding Co, London

Trond Eilertsen  
Oslo

Claes Isacson  
Arendal

Andreas Brachel  
employee representative

Reidar Ebbesvik  
employee representative

\* Recommended for election at the Annual General Meeting in August 2006

\*\* Retiring at the Annual General Meeting in August 2006



## Meeting dates year to 20 February 2006

### ASSURANCEFORENINGEN GARD – GJENSIDIG

#### THE COMMITTEE

Monday 30 May 2005, Copenhagen

Monday 31 October 2005, Florence

#### THE ANNUAL GENERAL MEETING

Friday 19 August 2005, Arendal

#### THE EXECUTIVE COMMITTEE

Wednesday 20 April 2005, Oslo

Saturday 28 May 2005, Copenhagen

Thursday 18 August 2005, Arendal

Thursday 29 September 2005, Stockholm

Saturday 29 October 2005, Florence

Thursday 2 February 2006, Copenhagen

#### THE SUPERVISORY COMMITTEE

Wednesday 20 April 2005, Oslo

Friday 30 September 2005, Gardermoen

### GARD P&I (BERMUDA) LIMITED

#### Board of Directors meeting and Annual General Meeting

Tuesday 26 April 2005, Bermuda

### GARD MARINE & ENERGY LIMITED

#### The Board of Directors

Tuesday 26 April 2005, Bermuda

Thursday 29 September 2005, Stockholm

Thursday 2 February 2006, Copenhagen

### THE AGM

Tuesday 26 April 2005, Bermuda

### GARD AS

#### THE BOARD OF DIRECTORS

Wednesday 20 April 2005, Oslo

Thursday 18 August 2005, Arendal

Thursday 29 September 2005, Stockholm

Thursday 2 February 2006, Copenhagen

### THE AGM

Wednesday 20 April 2005



Gard AS  
Servicebox 600  
NO-4809 Arendal, Norway  
Phone: +47 37 01 91 00  
Fax: +47 37 02 48 10

Gard AS  
Skipsbyggerhallen  
Solheimsgaten 11  
NO-5058 Bergen, Norway  
Phone: +47 37 01 91 00  
Fax: +47 55 17 40 01

Gard AS  
Støperigt 2, Aker Brygge  
NO-0250 Oslo, Norway  
Phone: +47 37 01 91 00  
Fax: +47 24 13 22 33 (Energy)  
Fax: +47 24 13 22 77 (Marine)

Gard (UK) Limited  
85 Gracechurch Street  
London EC3V 0AA  
United Kingdom  
Phone: +44 (0)20 7444 7200  
Fax: +44 (0)20 7623 8657

Gard P&I Japan and Far East  
Tokyo Sakurada Bldg, 8th Floor  
1-1-3 Nishi-Shinbashi  
Minato-ku  
Tokyo 105-0003  
Japan  
Phone: +81 (0)3 3503 9291  
Fax: +81 (0)3 3503 9655

Gard (Sweden) AB  
Västra Hamngatan 5  
SE-41117 Gothenburg, Sweden  
Phone: +46 (0)31 60 96 90  
Fax: +46 (0)31 711 3955

Gard (HK) Ltd  
Room 3505, 35F  
The Centrium, 60 Wyndham Street  
Central, Hong Kong  
Phone: +852 2901 8688  
Fax: +852 2869 1645

Oy Gard (Baltic) AB  
Bulevardi 46  
FIN-00120 Helsinki, Finland  
Phone: +358 9 6188 380  
Fax: +358 9 6121 000

[www.gard.no](http://www.gard.no)

This report, apart from the statement by the Chairman, has been prepared by Gard AS, managers of Assuranceforeningen Gard (the Association), from data and accounts provided by the Association and by its 'sister' company, Gard P&I (Bermuda) Limited (the Bermuda Association). The Bermuda Association's principal activity is as reinsurer of thirty per cent of the Association's retained risks. The report combines the activities of the two Associations in accordance with standard principles of consolidation. It has no formal legal significance, but is provided with the aim of giving Members an easily assimilated summary of the overall financial position of their P&I insurer. The report and accounts of the Association prepared in the Norwegian language have been filed with the relevant authorities, as required by Norwegian law. Those accounts, which are available to Members on request, will be submitted for approval to the Association's Annual General meeting in Arendal on 18 August 2006. The accounts of the Bermuda Association have already been approved in General Meeting.

## Notes