gardp&i

The Gard P&I Annual Report

20th February 2003

Contents

Highlights

Summary

A very positive year with a strong growth in tonnage combined with a boost to the general contingency reserve.

Funds

The total funds available to pay claims stand at USD 674 million.

General contingency reserve

Increases by USD 47 million to USD 242 million. The contingency reserve is again within the self-imposed "comfort zone" set by the Committee.

Supplementary calls

The full forecast supplementary call of 25 per cent has been ordered for the 2002 policy year. No further calls are expected for any open years.

Claims

Despite involvement in a number of high profile cases, claims overall are within the projections made. Prior years continue to improve.

Entered tonnage

The steady growth in tonnage continues. At the renewal on 20th February 2003, entered tonnage reaches record levels.

Investment returns

Investment returns are positive, but mainly due to exchange gains.

Gard Services AS

Synergies resulting from the operation are becoming more evident.

Committees and Board

Membership

The Committee

Leif Terje Løddesøl, *Chairman*
Wilh. Wilhelmsen ASA, Oslo

Stephen Pan, *Deputy Chairman*
World-Wide Shipping Agency (S) Pte. Ltd., Singapore

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

Pawel Brzezicki
Polish Steamship Company, Szczecin

Robert Gerald Buchanan
Wallem Shipmanagement Ltd., Hong Kong

Mauro Orofino Campos
Petroleo Brasileiro SA – Perobras, Rio de Janeiro

K C Chang
Evergreen Marine Corp. (Taiwan) Ltd., Taipei

Christian Cigrang**
Cobelfret, Antwerp

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

Trond Eilertsen*
Oslo

Øystein Eskeland**
Oslo

Hannu Haapanen
Fortum Oil and Gas OY, Espoo

Herbjørn Hansson
Ugland Nordic Shipping AS, Sandefjord

Abdulaziz K Al-Hashimi**
Saudi Arabian Oil Company, Dhahran

Bengt Hermelin**
Saudi Maritime Holding Company (SAMCO), London

Atle Jebsen
Jebsen Management AS, Bergen

Hans Peter Jebsen
Kristian Gerhard Jebsen Skibsrederi A/S, Bergen

Tom Erik Klaveness
Torvald Klaveness & Co. AS, Oslo

Øivind O Larsen
The J J Ugland Companies, Grimstad
Ola Lorentzon
Frontline Management AS, Oslo
Takeshi Matsui
The Sanko Steamship Co. Ltd., Tokyo
Nicolas Pateras
Pacific & Atlantic Corporation, Piraeus
Jamal A Al-Rammah*
Saudi Arabian Oil Company, Dhahran
Ariel Recanati**
OSG Ship Management Inc., New York
Heinrich Schulte
Bernhard Schulte, Hamburg
Jane Sy
Stolt Nielsen Transportation Group Ltd, Rotterdam
Peter Swift*
OSG Ship Management Inc., Newcastle
Lynn White
Royal Caribbean Cruises Ltd., Miami
Shinichiro Yamashita
Tokyo

The Executive Committee

John Hatleskog, *Chairman*
Havinvest A/S, Oslo
Dieter Ostendorf, *Deputy Chairman*
Aug. Bolten Wm. Miller's Nachfolger, Hamburg
Gunnar Brøvig**
Brøvigs Rederi AS, Farsund
Axel C Eitzen
Tschudi & Eitzen Holding AS, Oslo
Bengt Hermelin*
Saudi Maritime Holding Company (SAMCO), London
Jane Hinkley**
London
Brynjulf Marcussen**
C H Sørensen & Sønner AS, Arendal
Hans Ditlef Martens
Bergesen d.y. ASA, Oslo
Claes Isacson, *Managing Director*
Arendal

The Supervisory Committee

Øystein Eskeland, *Chairman*
Oslo
Kaare E Borch, *Deputy Chairman*
Oslo
Skule Adolfsen
Höegh Fleet Services AS, Oslo
Anders Chr. Stray Ryssdal
Oslo

The Election Committee

John Hatleskog, *Chairman*
Havinvest AS, Oslo
Leif Terje Løddesøl, *Deputy Chairman*
Wilh. Wilhelmsen ASA, Oslo
Dieter Ostendorf
Aug. Bolten Wm. Miller's Nachfolger, Hamburg
Stephen Pan*
World-Wide Shipping Agency (S) Pte. Ltd., Singapore

The Board of the Bermuda Association

Leif Terje Løddesøl, *Chairman*
John Hatleskog, *Deputy Chairman*
Øystein Eskeland
Stephen Pan
Sir David Gibbons
Claes Isacson, *President*
Timothy Faries, *Vice-President*

* Nominated for election at the forthcoming Annual General Meeting of the Association.

** Retires at the forthcoming Annual General Meeting of the Association.

The Committee of the Association

The Committee of the Association is as set out on page 4. At the Committee meeting in Lisbon in October 2002, Mr Leif Terje Løddesøl of Wilh. Wilhelmsen ASA, Oslo, and Mr Stephen Pan of World-Wide Shipping Agency (S) Pte. Ltd., Singapore, were re-elected as Chairman and Deputy Chairman respectively of the Committee.

Mr Erik Lee Johnsen retired from the Committee at the renewal as the company he represents ceased to be a Member of the Association. Furthermore, Mr Abdulaziz K Al-Hashimi has informed the Association that he wishes to retire from the Committee.

At the Annual General Meeting in August 2003, the following will retire by rotation:

Mr Alain Bernard
Mr Christian Cigrang
Mr Øystein Eskeland
Mr Stephen Pan
Mr Ariel Recanati
Ms Lynn White.

Messrs Cigrang, Eskeland and Recanati have advised the Association that they wish to retire from the Committee at the forthcoming Annual General Meeting. The other Committee members retiring by rotation, but, being eligible, offer themselves for re-election. The Association thanks all the retiring gentlemen for the contributions they have made.

The following have been nominated for election to the Committee:

Jamal A Al-Rammah, Saudi Arabian Oil Company, Dhahran
Trond Eilertsen, Oslo
Ola Lorentzon, Frontline Management AS, Oslo
Peter Swift, OSG Ship Management Inc., Newcastle.

The Executive Committee of the Association

The Executive Committee of the Association is as set out on page 5. At the Executive Committee meeting held in September 2002, Mr John Hatleskog was re-elected as Chairman and Mr Dieter Ostendorf was elected Deputy Chairman.

Mr Gunnar Brøvig will retire by rotation at the forthcoming Annual General Meeting and does not offer himself for re-election. Furthermore, Ms Jane Hinkley and Mr Brynjulf Marcussen have informed the Association that they wish to resign from the Executive Committee at the forthcoming Annual General Meeting. The Association thanks them all for their many years of contributions.

Mr Bengt Hermelin, currently a member of the Committee, has been nominated for election to the Executive Committee. He will resign from the Committee once he becomes a member of the Executive Committee.

The Supervisory Committee of the Association

The Supervisory Committee of the Association is as set out on page 5. At the forthcoming Annual General Meeting of the Association, Mr Anders Chr. Stray Ryssdal will retire by rotation, but, being eligible, offers himself for re-election.

The Election Committee of the Association

The Election Committee of the Association is as shown on page 5. At the forthcoming Annual General Meeting, Mr Dieter Ostendorf will retire by rotation, but, being eligible, offers himself for re-election.

Mr Stephen Pan has been nominated for election to the Election Committee to replace Mr Erik Lee Johnsen.

The Board of Gard P&I (Bermuda) Limited

The Board of Gard P&I (Bermuda) Limited is as shown on page 5.

At the Annual General Meeting held in Bermuda on 28th April 2003, the officers of the Bermuda Association were re-elected. At the Board meeting that followed the Annual General Meeting, Messrs Løddesøl and Hatleskog were re-elected Chairman and Deputy Chairman respectively.

The Committee of the Association

The Committee met on two occasions during the year to 20th February 2003 to conduct the business of the Association.

At the meetings held in Berlin in the spring and Lisbon in the autumn, reports were received and considered on, *inter alia,* tonnage entered and tonnage changes in the Association; claims falling on the Association and those reaching the Association through the Pool; the financial position of the Association and the management of the investment portfolio; the progress of all open policy years including the setting of release calls; the Association's reinsurances; major developments in maritime legislation; and, finally, the operation of Gard Services AS, the management company owned jointly by the Association and If P&C Insurance Ltd. (publ) ("If"). Gard Services AS is delegated with the authority to manage the activities of the Association and the marine and energy activities of If, apart from fund management, accounting and statutory reporting functions.

With regard to finances and fund management, the Committee confirmed the existing investment guidelines which require the Association to pursue a broadly neutral stance in relation to currency exposure and to restrict equity exposure to no more than 35 per cent of the investment portfolio. The guidelines also permit investments in futures, options and other derivatives for the sole purposes of risk management and for improving the efficiency and liquidity of the portfolio. The fund managers appointed are specialist managers focusing on either fixed income or equity investments.

At the May meeting, the Committee received, as usual, a report from the Supervisory Committee and was pleased to note that the Supervisory Committee remained satisfied with the Executive Committee's administration of the day to day business of the Association. The Committee accordingly accepted the Executive Committee's recommendation that the Report and Accounts for the year to 20th February 2002, which were prepared on the basis of a 25 per cent supplementary call for the 2001 policy year, be approved. The Committee recommended the Accounts to the Annual General Meeting where they were subsequently adopted.
The Committee also received and approved

the report of the Election Committee and, on the basis of that report, made its recommendations to the Annual General Meeting.

At the meeting held in October 2002, the Committee, based on recommendations made by the Executive Committee, determined underwriting guidelines; changes to the Rules for the P&I Cover for Ships; the premium policy for the 2003 policy year and the closing of the 1999 policy year without the levying of a further supplementary call.

At the October meeting, the Committee also decided to adopt new terminology with regard to mutual premiums and calls. Hereafter, the estimated total call (ETC premium) for a mutual entry at the commencement of the policy year will consist of two elements, the *advance call* and the *deferred call*. If premium in excess of the ETC premium is required in respect of a policy year, then the term *supplementary call* will be used to describe such premium. In practice, the term *deferred call* corresponds to the existing forecast supplementary call determined prior to the commencement of the policy year. The new terminology came into force on 20th February 2003 and applies to the 2003 policy year.

The Executive Committee of the Association

The Executive Committee held six formal meetings in the course of the year, though, as usual, it remained in more frequent touch with the Administration. In addition to reviewing the day to day business of the Association, including claims compensations and claims development; reinsurance contracts; tonnage entered; investment returns and the Accounts; and the financial situation of the Association, the Executive Committee made recommendations to the Committee on a wide range of matters including the adoption of the Accounts for the year to 20th February 2002; changes to the Rules; the closing of the 1999 policy year; supplementary calls and release calls for open policy years; and the premium policy for the 2003 policy year.

The Board of Gard P&I (Bermuda) Limited

The Bermuda Association's primary function is the reinsurance of 30 per cent of the Association's retained risk and the proper management of its own funds.

The Board of Gard P&I (Bermuda) Limited approved the financial statements for the year to 20th February 2003 and their inclusion in this report. The Board also reviewed the mandates and performance of the investment managers and possible changes to the fund management structure.

Review
of operations

Summary

The Association continues to grow. Tonnage has again reached record levels and with a large influx of newbuildings, the average age of the entered fleet is reduced. This trend compares favourably with that of the world fleet.

During the second half of the year, the Association suffered some large and well publicised claims. The impact on the overall claims volume was ameliorated by a first half year which was exceptionally favourable. Hence, claims per entered ton were not materially different from previous years, and well within the projections made. Notwithstanding the fact that the general premium increase ordered for the year of 25 per cent was achieved, the year nonetheless showed another negative technical underwriting result, offset by significant improvements in earlier years.

The investment markets have continued to be difficult. However, the Association has benefited from a fall in the US dollar measured against most other currencies and has posted a currency exchange gain in the Accounts. Whereas the last two policy years have ended in deficit, the 2002 policy year is expected to yield a surplus. Claims are still reserved on a worst likely outcome basis. In most years, results will therefore improve as the year matures. For the financial year to 20th February 2003 there have been substantial claims run off gains against previous years, resulting in a total surplus for the year of USD 47 million. This surplus has been transferred to the contingency reserve of the Association which stands at USD 242 million, which is within the strategic level set by the Committee of the Association. However, it is important to bear in mind that this reserve has to support a growing tonnage base and increased exposure as the International Group increases its participation in the excess of loss reinsurance programme.

At the commencement of the 2003 policy year, owners' entered tonnage, including owners' non-poolable entries, stood at 71.9 million gt and total tonnage amounted to 112.1 million gt. See Table A. Both of these figures are again records for the Association. The growth in owners' tonnage since 20th February 2002 was 6.1 million gt, of which 3.0 million gt were net gains during the course of the year and 3.1 million gt were gained at renewal.

Additional vessels have been entered both by existing and new Members. At the renewal on 20th February 2003, 30 new Members joined the Association. We are proud to have them entered with the Association and look forward to a long and mutually rewarding

Table A – Entered tonnage as at 20th February

	gt (000) 2003	gt (000) 2002
Owners' entries		
Tankers	26,077	24,346
Bulk carriers	12,321	11,530
Obo/Ore/Oil carriers	1,511	1,812
Gas carriers	2,330	1,951
Dry cargo vessels	17,965	15,681
Miscellaneous vessels	5,007	4,866
	65,211	60,186
Owners' non-poolable		
Mobile offshore units	6,686	4,853
Reinsurance	0	0
Others		41
	6,686	5,613
Charterers' poolable		
Tankers	10	10
Dry cargo vessels	1,877	1,367
	1,887	1,377
Charterers' non-poolable		
Tankers	16,951	12,709
Dry cargo vessels	21,385	17,812
	38,336	30,521
Total	**112,120**	97,697

relationship. At the start of the 2003 policy year the total number of ships entered was 6,007 – yet another record.

The Association is pleased to note that newbuildings made up a substantial percentage of the tonnage entered during the 2002 policy year. The newbuilding tonnage entered with Gard during the policy year totalled some five million gt, the highest figure ever achieved and the fourth consecutive year when the proportion of newbuildings have significantly exceeded the Association's market share of the world fleet. This influx of new tonnage has had a positive impact on the age profile of the fleet entered in the Association, as can be seen in Table B. Whilst the average age of the world fleet continues to increase, the average age of vessels entered with Gard fell from 13.9 to 13.3 years.

Mobile Offshore Units

The shift in tonnage towards floating production vessels continues and the Association has experienced growth in this segment of approximately one million gt in the course of the policy year. Gard's proportion of P&I insurance for the floating production segment is approximately 70 per cent.

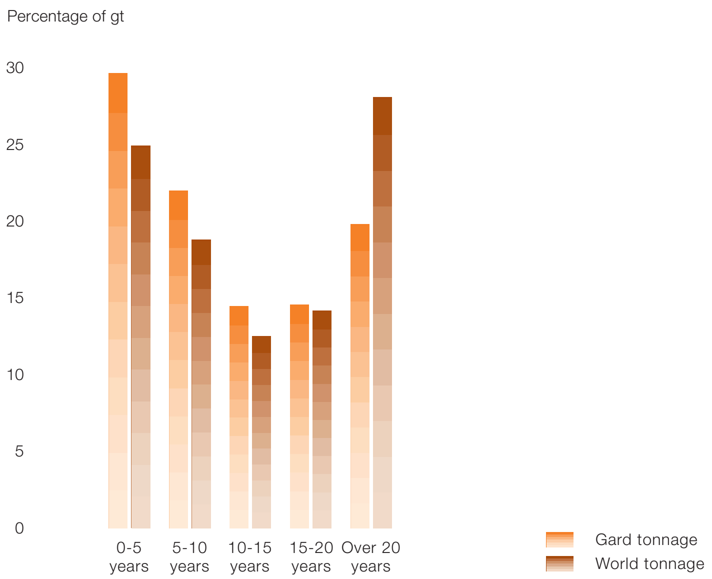
During the 2002 policy year a number of new entries were received and the total number of units entered rose from 147 to 175 units. Total tonnage increased from 5.6 million gt to 6.7 million gt during the same period. In addition, the Association participates as co-insurer for 30 units entered with Assuranceforeningen Skuld. A total of 205 units were insured by the Association and Skuld under the insurance programme for Mobile Offshore Units as at 20th February 2003.

Product Development

The development of additional products covering the Members' need for liability covers for risks not covered under the standard P&I cover remains an important part of the Association's business and strategy. Gard's aim is to continue the refinement and development of insurance products needed in the industry. During 2002, both the Extended Crew Cover and the Tour Operator Passenger Liability Cover have been refined with new options as requested by the Members. The Comprehensive Charterers' Liability Cover remains one of the largest facilities for operators – in particular for those requiring comprehensive terms and high limits. The maximum limit of this cover is currently USD 700 million.

Table B – Age profile of entered vessels and world fleet as at 20th February 2003

(Vessels below 1,000 gt not included)



Premiums and calls – Review of the development of policy years

The Association's enviable record of predictable and stable calls continues. As can be seen from Table C, the estimated supplementary call has been exceeded in only three of the last 24 years, most recently in 1991. In fact, in the majority of these years, the actual call made has been less than that forecast. For the third year in succession, Members are required to pay the supplementary call as forecast, i.e. 25 per cent of the advance call.

The 1999 policy year was closed in October 2002 with no further call apart from the 15 per cent already levied. This compares with a forecast call of 25 per cent for the year. Twelve months from inception, the estimated surplus for the 1999 policy year was USD 2 million. Since that point in time, claims have progressed favourably and the year is now expected to produce a surplus of USD 19 million. This year has the lowest claims both in number and volume in the last decade.

The 2000 policy year is a good example of the volatility and the rapid changes which can occur in P&I. Claims reserves at the end of the policy year were at a level higher than ever before in the history of the Association. The subsequent 24 months have proved the initial reserving to be conservative and the year has steadily improved. Whilst the originally estimated deficit was USD 69 million, this has now been reduced to USD 42 million.

It has become clear to the Association that the reserves initially raised for incurred but not reported claims (IBNRs) were too cautious. These reserves were based on the highest ever level of reported claims during the first twelve months of any policy year. The then existing model for calculating IBNR claims has since been refined. The total value of claims for the year is still high, but compared with the increase in both tonnage and number of vessels, the figures are not disproportionate when compared to other years in the past decade.

In comparison with the 2000 policy year, claims on the 2001 policy year developed more favourably in the first twelve months. Total claims amounted to USD 148 million at 20th February 2002, up eight per cent on 1999, but down nine per cent on the year before. Together with a negative investment return of USD 12 million, this produced an estimated negative result for the year of USD 50 million. As the IBNRs were originally

Table C – Record of estimated and actual supplementary calls

	Estimated at inception	Actual
1979	15%	10%
1980	15%	25%
1981	15%	15%
1982	15%	5%
1983	15%	5%
1984	15%	5%
1985	15%	0%
1986	20%	0%
1987	20%	0%
1988	20%	0%
1989	20%	20%
1990	20%	105%
1991	30%	60%
1992	30%	15%
1993	40%	30%
1994	40%	35%
1995	30%	15%
1996	30%	0%
1997	30%	0%
1998	30%	0%
1999	25%	15%
2000	25%	25% *
2001	25%	25% *
2002	25%	25% *

* Year not closed: no further calls expected.

fixed on a worst likely outcome basis and claims have developed as normal during the period 12 to 24 months from inception, the total claims reserve has now been reduced and the estimated deficit for the year is expected to be USD 31 million.

The 2002 policy year is yet another example of the volatility in P&I insurance. During the latter part of the year, a string of large claims was reported to the Association. What at the beginning of the year appeared to be signs of an exceptionally favourable claims year, turned out to be no better than an average year, measured on a mutual per gt basis. Even with the premium increases achieved at renewal, the year still shows a deficit on the technical account. However, given the positive return on investments, the year is estimated to produce a profit of USD 5 million based on the forecast supplementary call of 25 per cent being levied.

At this early stage of the current policy year, it is too early to make any predictions as to the final claims outcome for the year. However, claims are currently showing no exceptional trends either way and Members are advised to budget for the full 25 per cent deferred call.

Contingency reserve

The Committee and the Executive Committee have established target levels for the contingency reserve to be held by the Association, expressed as both minimum and maximum percentages of the reserves set aside for claims.

Following an unprecedented run of four consecutive years of negative results, totalling USD 71 million in aggregate, the positive result of USD 47 million for the 2002 financial year increased the contingency reserve to USD 242 million. This is USD 25 million above the lower threshold of the self imposed ”comfort zone” of USD 217 million. The year has thus further strengthened the financial position of the Association. The Association’s financial position remained solid during the preceding

period as the "comfort zone" is set well above any statutory requirements for the level of the Association's free reserves.

It is pleasing that the contingency reserve has been brought back into the "comfort zone" without the Association having to resort to unforecast supplementary calls. With the rapid increase in both tonnage and number of vessels insured and also in view of the increased reinsurance liabilities absorbed by all P&I Clubs, it is desirable to strengthen the reserve further and move it towards the upper end of the "comfort zone", as long as this can be achieved within budgeted premium levels.

The claims figures below relate only to owners' and charterers' claims, they differ, therefore, from those shown in Appendix A where claims from all sources are included.

2001 policy year

The estimated net aggregate liability for reported claims was USD 87 million 24 months from inception. This was 12 per cent below the level for the 2000 policy year at the same time. 18 months from inception, the estimated net aggregate liability for reported claims was USD 85 million. Hence, it appears that claims on the 2001 policy year have abated and stabilised. See Table D.

2002 policy year

12 months from inception, the estimated net aggregate liability of reported claims was USD 78 million or eight per cent up on the comparative figure for the 2001 policy year. The three largest claims on the 2002 policy year accounted for 29 per cent of the total estimated net aggregate liability as at 12 months from inception.

As can be seen in Table E, the total value of claims within the various value bands has been comparatively stable since the 1998 policy year, with the largest variations being within the large claims band.

Frequency of Membership claims

Table F sets out the development in the number of reported claims as at 12 months from inception of each policy year. There has been an increase of 10 per cent in the number of reported claims for the 2002 policy year when compared with the 2001 policy year.

Table D – Reported claims for the 1998 to 2002 policy years. Owners' and Charterers' entries. Figures net of reinsurance (No adjustment for inflation)

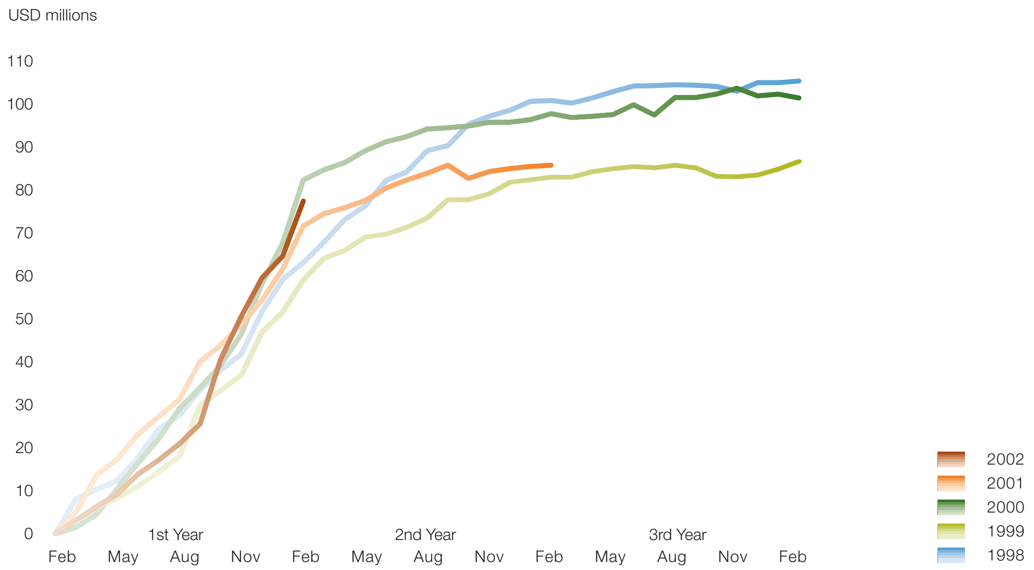


Table E – Value of net reported claims by range, at 12 months from inception of policy year. Owners' and charterers' entries

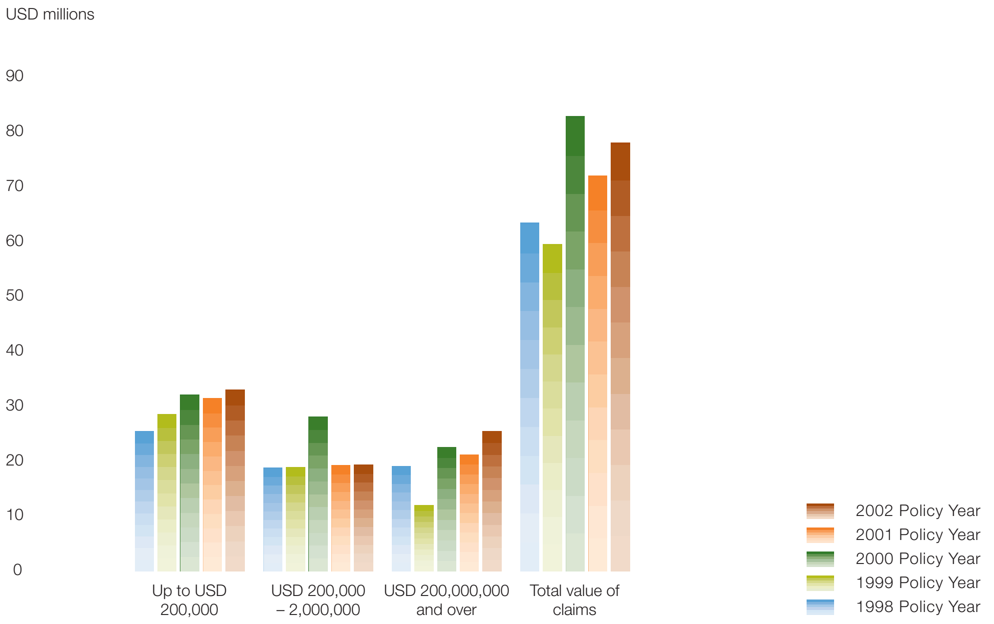


Table F – Number of reported P&I claims 12 months from inception. Policy years 1998 to 2002

Policy year	1998	1999	2000	2001	2002
Incidents showing nil estimates	2256	2258	2216	2157	2146
Claims up to USD 200,000	2528	2653	3050	3445	4017
Claims USD 200,000 – USD 2 million	42	39	47	41	41
Claims exceeding USD 2 million*	6	4	6	6	6
Total number of claims	**4832**	**4954**	**5319**	**5649**	**6210**
* of which are Pool claims	1	0	3	1	3

In the same period, the number of vessels and total gross tonnage entered have increased by seven and 15 per cent respectively. The comparative figures for the period 1998 to 2002 is a 25 per cent increase in the number of reported claims, a 23 per cent increase in the number of vessels entered and a 25 per cent increase in gross tonnage, respectively.

As can be seen in Table G, some 77 per cent of the total number of claims for any policy year are, on average, reported within 12 months from inception.

Table G – Number of P&I claims reported as per time of reporting (in months from inception)

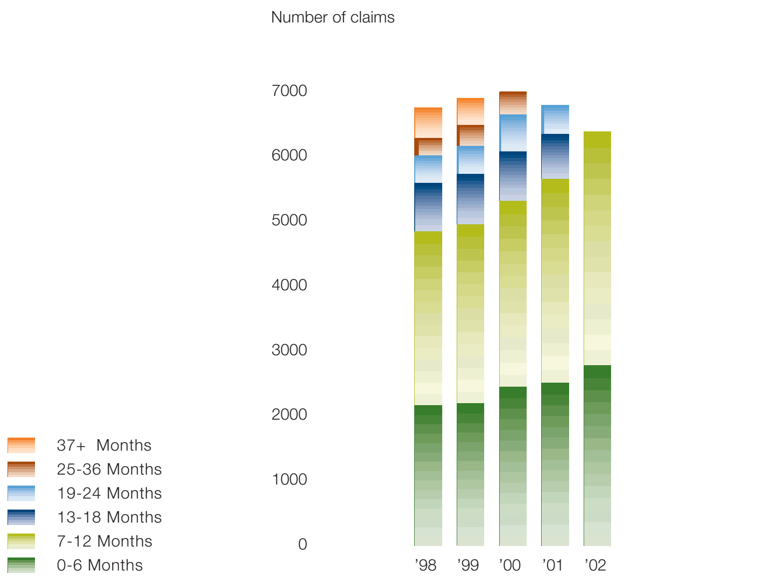


Table H provides a summary of the net costs of reported claims per entered gross ton of owned entries over a period of eight policy years, and measured 12 months from inception of each policy year. An average US dollar inflation rate of two per cent per annum has been applied.

Liability to the Pool

Table I illustrates the development of the Pool as at 20th February 2003, for the policy years 1995 onwards.

The Association has reported three claims to the Pool for the 2002 policy year. Two of the claims involved total losses. The first of these is the M/V “HUAL EUROPE” which grounded in heavy weather off Oshima Island, Japan in October 2002 with almost 4,000 vehicles on board. The vessel could not be salved. In November 2002, a fire occurred on board the wreck that further destroyed both the superstructure and cargo on board. Japanese authorities have ordered the removal of the wreck, cargo and any debris on the seabed. It is anticipated this operation may take as long as two years.

In December 2002, whilst laden with almost 3,000 vehicles, the M/V “TRICOLOR” and the general cargo vessel M/V “KARIBA” were in collision in the French Exclusive Economic Zone of the English Channel. As a result thereof, the “TRICOLOR” sank. French authorities have ordered the wreck to be removed, as it represents a navigational and environmental hazard. Removal of bunker oil from the wreck was undertaken in the period from December 2002 to February 2003. The removal of the wreck and cargo is scheduled for the summer and autumn of 2003.

Table H – Net reported claims per gt. Owners' mutual entries. 12 months from inception. Inflation adjusted figures (2 per cent per annum)

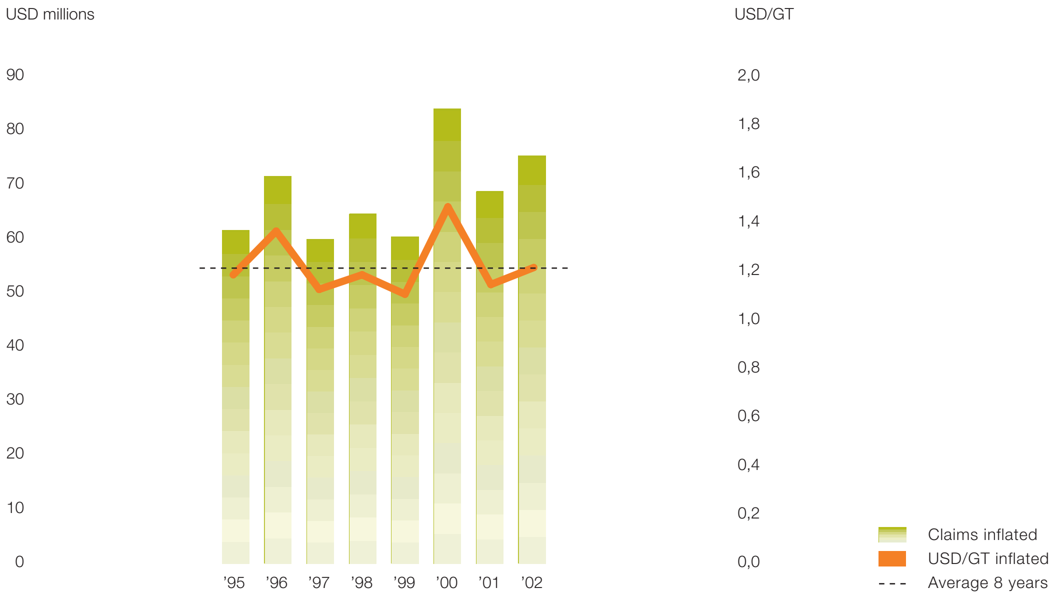
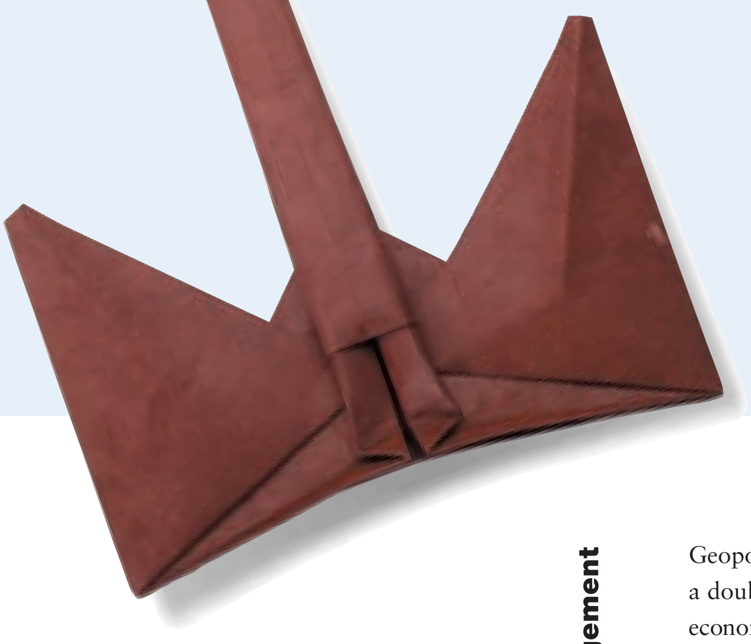


Table I – Development of the pool as at 20th February 2003. Estimated costs of notified Pool claims, as estimated at the following periods after the inception of the 1995 – 2002 policy year

USD millions

Policy year	1995	1996	1997	1998	1999	2000	2001	2002
One year	0	34	13	18	0	9	8	0
Two years	89	101	61	25	21	101	35	97
Three years	86	116	119	87	41	137	43	
Four years	96	127	144	103	50	136	42	
Five years	103	148	155	106	78	141		
Six years	125	158	161	110	90	144		
Seven years	132	148	154	112	95			
Eight years	133	158	164	118	95			
Nine years	132	157	163	122				
Ten years	133	155	156	128				
Eleven years	130	159	160					
Twelve years	130	158	166					
Thirteen years	134	156						
Fourteen years	123	159						
Fifteen years	140							
Sixteen years	139							



Geopolitical uncertainty, continued fears of a double-dip recession in the US and stagnant economic growth in Europe and Japan weighed on the global economy during the period. With decisive moves towards a war in Iraq and nervousness about North Korean brinkmanship, the prices of oil and gold soared. Crude oil prices approached USD 40 per barrel around the time of the Association's fiscal year-end despite OPEC agreeing to increase production. This was primarily the result of the impending military action in Iraq and the associated risks of disruptions to the supply from the entire Gulf region. Added to this was the general strike in Venezuela, the world's fifth largest oil producer. After the end of February and at the time of writing this report, oil prices had fallen back into OPEC's long-term target range of USD 22-28 per barrel.

As if the negative geopolitical and macro economic situation was not enough, stocks and corporate bonds had to fight further headwind throughout the first half of the period in the form of a string of accounting scandals in the USA. An unprecedented number of companies fell below investment grade credit rating leading to a flight into the safety of government bonds.

Most of Europe and Japan remained mired in stagnation and inaction, with the UK and countries outside the core European continent again experienced the best economic performance.

Emerging markets, particularly in Asia, continued to exhibit remarkable resilience in this difficult economic environment. The effect of China as a regional engine of growth is becoming increasingly evident in the region's economic data. Following austerity measures in Argentina and election anxiety in Brazil, the Latin American region was showing signs of improvement towards the end of the period.

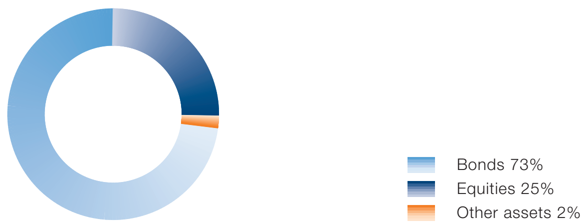
The US dollar fell in value against other major currencies during the period. The concerns over a potential war in Iraq and unexpectedly large cuts in interest rates, kept US money market yields lower than those in Europe and led to the US dollar losing ground. The dollar hit a three year low against the pound and hovered around recent lows against the euro. The euro's rally built upon the gains made during summer 2002, when fears over the ballooning US trade deficit pushed the euro above parity level for the first time since February 2000.

Against this background, the Association's combined net financial income after deduction of investment management expenses amounted to USD 38.3 million, mainly as a result of currency gains due to the weak US dollar. The investment return for assets under investment management was 4.9 per cent compared to 4.4 per cent on the relevant benchmark. Table J sets out the portfolio allocation, by currency and instrument, at the end of the policy year.

Table J – Portfolio allocation

Portfolio by currency

Portfolio by instrument



The Accounts and Notes that appear on pages 38 to 51 have been prepared by combining the consolidated accounts of the Association with the accounts of the Bermuda Association. All transactions between the two Associations have been eliminated in accordance with normal consolidation principles. The combined consolidated accounts carry a report from the Associations' auditors.

Premiums and calls

Gross premiums, including a 25 per cent supplementary call, increased by some 25 per cent compared with last year. This increase was as a result of the decision made by the Committee in October 2001 to impose a general premium increase of 25 per cent for the 2002 policy year as well as due to new tonnage being entered during the policy year. The entry of tonnage during the year, which continued to contribute to the positive development of the average age profile of the entered fleet, coupled with the acquisition of a satisfactory share of newbuildings, created some pressure on the premiums due to the perceived higher operational quality of the acquired tonnage and continued strong competition in the market.

Claims

Net claims incurred during the financial year decreased by 10 per cent compared with the average of the preceding three years. However, there was an increase of USD 15 million when compared with the year to 20th February 2002 and net claims incurred amounted to USD 117 million at the end of the year to 20th February 2003. The main cause of this negative development is an increase in claims in the 2002 policy year, where, at 12 months from inception, claims incurred were eight per cent or USD 12 million above the level of the 2001 policy year at the same point in time. Additionally, run-off savings on prior policy years continue to be substantial. In summary, the Association's technical result on general business was virtually unchanged. In view of the prevailing uncertainties surrounding investment income and the substantial deficits on the two previous policy years, the Committee, at their meeting last October, decided to impose a general premium increase of 15 per cent for the 2003 policy year to further improve the technical underwriting result and to contribute to a further consolidation of the contingency reserve. The primary purpose of the contingency reserve is to protect the Membership from unbudgeted supplementary calls.

Operating expenses

Operating expenses for the year to 20th February 2003 amounted to USD 28 million, an increase of 23 per cent on last year. Due to the fact that a major part of the operating expenses is paid in NOK, but reported in the accounts in USD, this increase is largely due to the variation in exchange rates between NOK and USD in the course of the year. The average exchange rate between NOK and USD for the year to 20th February 2003 decreased by 15 per cent to NOK 7.64 from NOK 9.00 last year. The remaining part of the increase complied with the budget and was primarily a result of increased commissions due to a higher premium level and the completion of the fifth edition of the P&I Handbook.

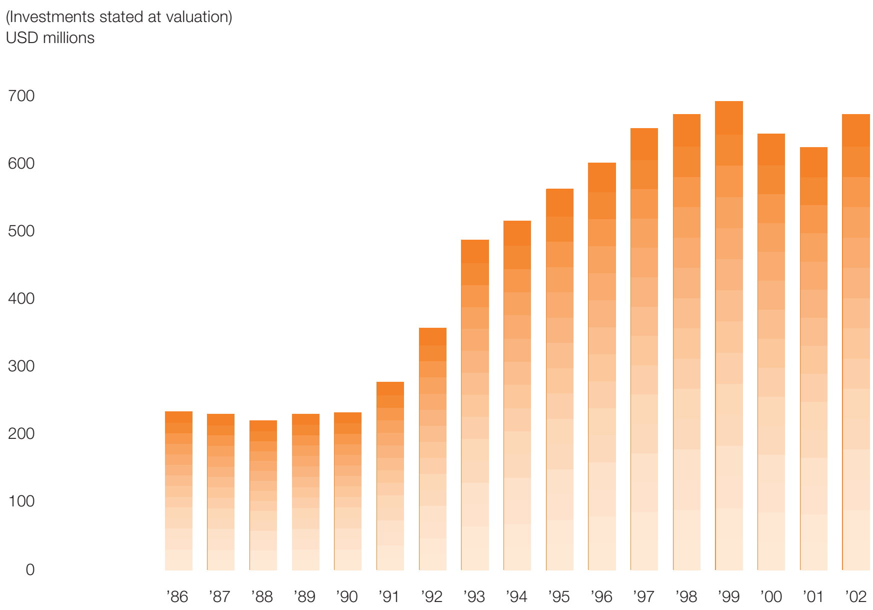
Investment income

Net investment income increased by USD 51 million to USD 38.3 million, including currency exchange gains of USD 39.8 million. These gains were occasioned by the weakening of the US dollar against most other currencies. As the Association aims to match the currency composition of its assets and liabilities, the increase in the value of non-US currency assets should be offset by an increase in the US dollar value of provisions for claims in those currencies. Such an allowance is, however, not reflected in the accounts as presented.

Funds

The Association's net funds amounted to USD 674 million compared with USD 626 million last year. Table K sets out the record of funds available to meet outstanding and unreported claims since 1986.

Table K – Funds available to meet outstanding and unreported claims at policy year ends



Reinsurance

Table L sets out the recent history of retention and reinsurance levels of the Association.

For the first time in the last three years, the International Group's excess of loss programme was renewed without any previously agreed conditions. The renewal took place in a significantly hardening market and this heavily influenced the final outcome. The contract had been placed with the same leader for more than 50 years. On this occasion, however, in order to minimise the premium increases as far as possible, a shift to a new leader proved necessary.

The overall average premium increase was 38 per cent, split between the four vessel categories used for reinsurance purposes. In view of the fact that the Group has accumulated a substantial credit balance with the reinsurance market over the last ten years, the renewal result can only be described as less than satisfactory.

In order to lessen the impact of the premium increases and to demonstrate to the market that the Group considers this to be a good risk, the Clubs decided to increase their participation in the reinsurance contract by absorbing a 25 per cent vertical share of the first USD 500 million tranche of the contract. The absorption of this risk, however, is partly protected by a special reinsurance arrangement.

The Association has in place an overspill cover also for the 2003 policy year, protecting the Members against the Association's liability for its share, to a maximum of USD 50 million, of any overspill claim in excess of USD 2.03 billion. The Membership is thus covered by way of reinsurance against any claim up to approximately USD 2.43 billion.

The Association offers its Members a number of additional insurance products, all of which are reinsured with retentions of USD 1 million any one incident. The rates offered reflect the general hardening of the reinsurance market, but the contracts have been renewed on satisfactory terms.

Table L – Retentions and reinsurances

USD millions

	Club retention	Pool tranche	Excess reinsurance tranche	Overspill cover	Total
1983	0.9	7.1	750	–	758
1984	1	7	750	250	1,008
1985	1.2	10.8	750	250	1,012
1986	1.2	10.8	750	250	1,012
1987	1.2	10.8	1,000	220	1,232
1988	1.2	10.8	1,250	–	1,262
1989	1.2	10.8	1,250	300	1,562
1990	1.6	10.4	1,250	300	1,562
1991	1.6	10.4	1,250	200	1,462
1992	2	13	1,050	300	1,365
1993	3	22	1,050	300	1,375
1994	4	26	1,150	350	1,530
1995	5	25	1,500	500	2,030
1996	5	25	1,500	500	2,030
1997	5	25	2,000	–	2,030
1998	5	25	2,000	–	2,030
1999	5	25	2,000	1,000	2,030
2000	5	25	2,000	1,000	3,030
2001	5	25	2,000	1,000	3,030
2002	5	25	2,000	430	2,460
2003	5	25	2,000	400	2,430

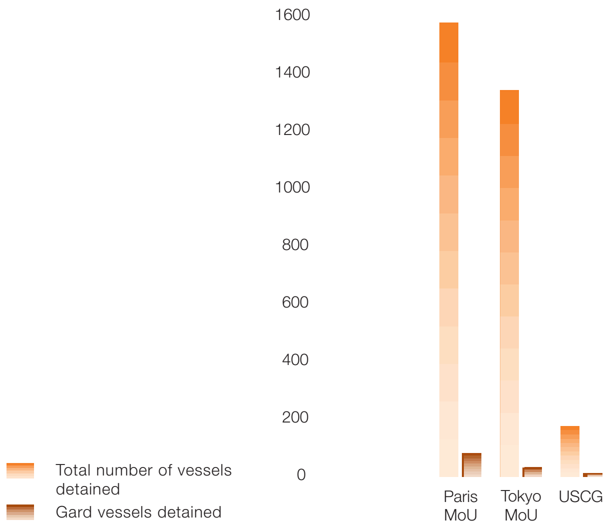
Claims prevention – Loss prevention

Gard Services continued its loss prevention initiatives during 2002 to bring its claims prevention knowledge and experience to the Members. Among the initiatives was the setting up of a Loss Prevention Committee with representatives from the various sections of the claims department throughout the Gard Services organisation. The Committee's primary mandate is to develop and deliver loss prevention products and services to the Membership.

Condition surveys – the cornerstone of claims prevention

84 condition surveys were performed on vessels entered in the Gard P&I portfolio during 2002. Condition surveys on Member vessels 15 years of age or older entering the portfolio for the first time remains one of the most important areas of claims prevention. The significant increase in the tonnage and number of vessels in the Gard P&I portfolio at the February 2003 renewal provides an even greater challenge to the Technical Department in support of the underwriting and claims activities.

Table M – Port State control detentions during the 2002 year



Publications

In June 2002, the Association published the fifth edition of the P&I Handbook. The new edition was well received in the market and follows the tradition established some 30 years ago when Gard was the first Club to publish a Handbook on P&I Insurance. Gard Services is also producing a number of other publications, including various circulars and newsletters such as Gard News and loss prevention circulars for clients and Members on a range of subjects related to both P&I and hull and machinery. Since 2002, Gard Services has issued 17 circulars on a variety of topics such as Severe Acute Respiratory Syndrome (SARS), bills of lading, automated ballast control systems, oily water separation, use of dunnage air bags, safety of surveyors onboard, and other important claims prevention subjects.

Port state control

As part of the ongoing safety and quality monitoring of the Gard P&I fleet, the Association monitors port state detentions of Members' vessels. In 2002, of the 3,131 total detentions in the Paris MoU, Tokyo MoU and USCG jurisdictions, only 129, 4.1 per cent of total detentions were vessels entered in the Gard P&I portfolio. See Table M.

Gard Services has also issued the *Gard P&I 2002 Port State Detention Report* which is available to Members upon request.

Loss prevention seminars

A significant step has been made towards providing more face-to-face loss prevention through seminars on specific topics of interest to the Members. Claims prevention seminars have been developed on subjects such as oily water separation; bills of lading; maritime security; crew and personal injury; and pilotage. More than 100 presentations, including 52 loss prevention seminars were held for clients and Members around the world during 2002. Gard Services is committed to continuing this effort in 2003.

The Safety and Improvement Reporting System (SAFIR)

Following many years of direct commitment to SAFIR, Gard Services sold its remaining interest in this software system to Barber Software Solutions (BASS) in December 2002. Nevertheless, Gard Services maintains an interest in and commitment to the development and implementation of SAFIR and will continue to assist BASS in that capacity.

IMO reports

New and amended international statutory requirements are constantly being introduced in the marine industry. Gard Services issued summary reports of meetings of the 75th and 76th sessions of the Maritime Safety Committee and the 48th session of the Marine Environmental Protection Committee during 2002. These reports summarise some of the more important regulatory changes such as the new International Ship and Port Security (ISPS) Code; new initiatives in bulk carrier safety; and the forthcoming International Convention on Ballast Water Management.

The USCG Qualship 21 programme

In addition to the listing of port state detentions, the USCG Qualship 21 programme continues to provide an insight into vessels with high quality records. Of the 326 vessels listed as of March 2003, 70 of the vessels, 21.5 per cent, are insured through Gard Services for P&I. This demonstrates Gard Services' continued commitment to quality Members and companies. The Association applauds the Members' efforts to maintain their continued membership in the Qualship 21 programme.

Maritime legislation

The Athens Convention

The Athens Convention applies to the carriage of passengers at sea. The Legal Committee of the International Maritime Organization (IMO) has since 1996 discussed proposals to further amend the convention. The main topics have been increased limits for passenger liability; strict liability for claims arising out of shipping incidents; and compulsory insurance.

The text of the new Protocol to the Athens Convention was finalised by the Diplomatic Conference held in London towards the end of October 2002. The key elements of the amendments are as follows:

– Strict liability for passenger claims arising out of shipping incidents (i.e. collision, stranding, explosion, fire and defects in the ship) up to a limit of SDR 250,000 per passenger. Otherwise, liability will be based on negligence but with a reversed burden of proof;
– Direct action against the liability insurer up to a limit of SDR 250,000 per passenger;
– An overall limit of liability of SDR 400,000 per passenger; and
– An opt-out provision giving a state party to the convention the right to determine a higher limitation figure in their national law.

The changes represent a significant increase in the maximum liability limits compared to any other existing maritime liability regime.

At the Diplomatic Conference, the P&I industry pointed out that the amendments to the Athens Convention might result in passenger claims being treated as a singular rather than a mutual risk in the future. Consistent with the approach indicated in numerous submissions, the Clubs have emphasised that it may be difficult to implement the new convention as the Clubs may not be prepared to offer direct action cover to the extent required by the convention.

The International Group of P&I Clubs have established a working group with a mandate to examine the risks in relation to passengers. This issue will be high on the agenda within the International Group in the years to come.

CLC/Fund Conventions

The provisions of the CLC and Fund Conventions dealing with automatic increases in the limits of liability have been implemented. The maximum liability has increased by some 50 per cent with effect from November 2003. Thus, the maximum limit under the 1992 CLC will be SDR 89.5 million whilst the maximum liability of the Fund will be SDR 202 million. Furthermore, the IOPC Fund has established a Working Group to review the operation of the conventions. Issues such as the overall amount of compensation; shipowners' right to limit liability; and the definition of damage have been identified as being of sufficient importance to justify amending the conventions.

With regard to the overall limit, it is recommended that an optional third tier of compensation in excess of the 1992 Fund limit be established for the purposes of accommodating the need for a higher level of compensation to victims of an oil pollution incident in high costs areas such as Europe, Japan and Australia. The third tier will be financed by cargo receivers in the same way as they today contribute to the 1992 Fund. The Group Clubs have expressed support for such a solution in as much as it represents an international solution in contrast to a regional regime for European waters. The establishment of the third tier was adopted at the Diplomatic Conference held in May this year and will enter into force once ratified by eight states party to the convention. The maximum amount recoverable from the optional third tier will be SDR 750 million.

When the third tier of compensation comes into effect, a small number of very large claims may result in a slight shift of the financial responsibility for compensation from the ship to the cargo. To maintain the 50/50 sharing of the costs of compensation between ship and cargo, the Clubs have in principle agreed to support a voluntary regime whereby shipowners, through their P&I Clubs, give an undertaking to the IOPC Fund to pay the difference between the current minimum limit of the 1992 Protocol to the CLC and a new voluntarily agreed higher minimum limit of USD 20 million.

As to the other issues, the view of the International Group Clubs is that further changes to the liability and compensation system as set out in the current CLC/Fund Conventions, including the third tier, will not benefit third party claimants. As to issues such as channelling of liability to the registered owner; the right to limit liability; and definition of environmental damage, the Clubs are of the view that the existing regime works well to the benefit of both claimants and the shipping industry. Should any changes be made with regard to these key features of the regime it may be less "user-friendly" and result in more litigation.

The US Terrorism Risk Insurance Act of 2002 (TRIA)

The aim of TRIA is to restore cover for terrorism risks in the United States. As a starting point, insurers providing commercial property and casualty insurance in the United

States are required to participate in the programme. Insurers must offer terrorism insurance to all policyholders during the first two years of the programme, i.e. to the end of 2004.

Participating insurers must disclose to policyholders the premiums that they charge for terrorism coverage and the existence of a sizeable federal backstop.

Participation in the scheme is mandatory for any "property and casualty insurer" operating in the United States. The Association will be deemed to be a property and casualty insurer operating in the United States for several reasons, including its involvement with the Federal Maritime Commission (FMC) and its insurance of MARAD financed vessels.

In November 2002, all Clubs in the International Group invoked the provisions of TRIA allowing the terrorism exclusion (Rule 58 in the Gard Rules for Ships and Rule 41 in the Gard Rules for Mobile Offshore Units) to be reinstated in order to minimise the effect of the Act. Since then US Treasury Department officials have signalled that they agree to an arrangement whereby the general P&I cover given by the International Group Clubs could be excluded from the operation of TRIA by resolution of the Board or Committee of each Club and that the special war risks P&I cover would be provided to Members in accordance with the terms of the Act. This should be accompanied by a circular to Members explaining the implications for the Clubs of TRIA's operation. Reference is made to Circular No. 6/2002 which was sent to all Members in February 2003.

The use of the Board resolution process eliminated the need for the Clubs to use the renewal procedure to obtain from each Member written notice that cover under TRIA was not required. Thus, under this approach, the general P&I cover is excluded from the operation of TRIA, but it will apply to the special war risks P&I cover provided by the Clubs at its existing limit.

A similar approach was taken with regard to the other covers offered by the Association where war risks (including the risk of terrorism) are included or made available in order to be able to benefit from the financial support from US federal authorities. This category of covers includes, amongst others, the P&I cover for mobile offshore units; the comprehensive charterer's cover, including the charterer's liability for damage to or loss of the chartered ship; the extended cargo cover; the comprehensive carrier's cover; and the extended passenger liability/tour operator cover.

Whilst imposing the obligations of TRIA on the Clubs, the recently published Treasury's Interim Final Rule seems to restrict the federal indemnification available to the Clubs and other federally approved insurers to only losses arising from the business that is written pursuant to their federal approval rather than all their "insured losses" occurring "within the United States" or to US-flag vessels "wherever located" as clearly provided in the Act. In the view of the Clubs, this contradiction of the terms of TRIA is not imposed on any other entities meeting the definition of "insurer," and it will have the effect of excluding from TRIA protection the present special P&I war risks cover for most US-flagged vessels, as well as almost all other vessels calling US ports and waters. This is contrary to the Act's stated goal of ensuring the continued widespread availability of property and casualty insurance for terrorism risks. Official comments to the issue of whether the P&I Clubs shall be deemed to be "federally approved" insurers as defined in TRIA for the purposes of being entitled to federal indemnification, were delivered on behalf of the International Group, within the time limit of 31st March 2003. Until a final ruling is issued, the current Treasury interpretation governs.

Gard Services AS

Gard Services, incorporated in June 2000, is jointly owned by the Club and If P&C Insurance Ltd. (publ), the leading property and casualty insurer in the Nordic countries. Gard Services has 330 employees from 27 countries and during the year, its global operation was further expanded.

With effect from the beginning of 2002, the property and casualty (P&C) activities of If P&C Insurance Ltd. (publ) and the Finnish insurance company Sampo, were amalgamated. The management of the Swedish part of the portfolio was integrated into Gard Services (Sweden) AB with effect from June 2002, whilst the integration of the Finnish portfolio was completed at the end of the year.

In order to establish a local service vehicle in Helsinki, Gard Services AS purchased all shares in Oy Baltic Protection Alandia AB, which, with effect from 13th November 2002, became a wholly owned subsidiary of Gard Services AS. Baltic Protection Alandia had since 1989 been the Club's agent in Finland. Following the acquisition of the company, the name was changed to Oy Gard Services (Baltic) AB.

The number of staff in the Helsinki office totals 13 of whom six are from the former Oy Baltic Protection Alandia AB organisation and seven from the If P&C Insurance Ltd. (publ)'s Finnish Marine and Energy department.

The Board of Gard Services AS consists of:

John Hatleskog, Chairman
Anders Nordman, Deputy Chairman
Jane Hinkley
Trond Eilertsen
Ricard Wennerklint
Mats Nordenskjöld
Anne Boye, employee representative
Reidar Ebbesvik, employee representative
Ruby Jeanette Tjensvoll, employee representative.

Knowledge Management

Work has continued within the areas of Information and Communication; Learning; Vision and Strategy; and Human Resources and Leadership Development. A new Employee Satisfaction Survey was carried out in May 2003. This will assist the Association in evaluating the results of the work undertaken so far; measuring the Club's knowledge and identifying other issues on which to focus. Generally, the organisation has steadily matured to be more conscious of its wealth of knowledge and competence and to use it in more productive and beneficial ways.

The Gard Academy was established in September 2002. Its mission is to improve individual and overall competence of the organisation to enhance and ensure the company's competitiveness in the market. Several courses and seminars have been held in different Gard offices during the first academic year. Courses, seminars and training programmes will also be offered to Members and clients in the future. An exciting and challenging aspect of the Academy project is E-learning, which will enable staff to improve their knowledge at their desk.

The activity level on our website continues to increase and work has been ongoing to build a new website and intranet to improve information and knowledge services both to the outside world and within the organisation.

ICT

The period under review included delivery milestones for a range of ICT projects, which had been initiated following the establishment of Gard Services to support the integration of processes and knowledge across the business areas.

These include The Pilot, a strategic measurement system based on the Balanced Scorecard method. This allows critical success factors to be identified within the business areas to be monitored through defined key performance indicators on a frequent basis. An early warning system is available to all employees so that appropriate actions can be considered if there are deviations from the company strategy or operational plans within individual departments.

The LogBook is a Customer Relationship Management (CRM) system which has been developed to share information on joint Members and clients across business areas facilitating the co-ordination of events and activities.

The Pilot and The LogBook are supported by a datawarehouse and a document management system implemented throughout the organisation.

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It is appropriate to take this opportunity to thank the Members, business associates and representatives of the Association, and Gard Services for their support over the past year. Together with the dedication, loyalty and hard work of the staff, another year of progress for the Association has been made possible, for which we are most grateful.

Reports of the Auditors

Report on the Combined Consolidated Accounts

The combined consolidated accounts set out in this document have been prepared from the consolidated accounts of Assuranceforeningen Gard –gjensidig- and the accounts of Gard P&I (Bermuda) Limited. The Auditors' reports in relation to each of these sets of accounts are set out in full below.

We have examined the principles adopted in combining these two sets of accounts into the combined consolidated accounts. In our opinion, the combined consolidated accounts present fairly the combined financial position of the two Associations as at 20th February 2003 and the results of their combined operations for the year then ended.

Arendal, 26th May 2003
ERNST & YOUNG AS
Jan Dønvik
State Authorised Public Accountant (Norway)

Report of the Auditors of Assuranceforeningen Gard

We have audited the annual financial statements of the Assuranceforeningen Gard –gjensidig– as of 20 February 2003. We have also audited the information in the Board of Directors' report concerning the financial statements and the going concern assumption. The financial statements comprise the balance sheet, the income and cash flow statements, the accompanying notes and the Group accounts. These financial statements are the responsibility of the Association's Board of Directors and the Managing Director. Our responsibility is to express an opinion on the financial statements and on other information as required by the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing principles in Norway. These principles require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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. To the extent required by law and generally accepted auditing principles, an audit also comprises a review of the management of the Association's financial affairs and its accounting and internal control systems.
We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

– the financial statements are prepared in accordance with Norwegian law and regulations and present fairly, in all material respects, the financial position of the Association and of the Group as of 20 February 2003, and the result of its operations and cash flows for the year then ended, in accordance with generally accepted accounting principles

– the Association's management fulfilled its duty to properly register and document the accounting information in accordance with Norwegian law and generally accepted accounting principles in Norway

– the information in the Board of Directors' report concerning the financial statements and the going concern assumption are consistent with the financial statements and comply with Norwegian law and regulations.

Arendal, 10 April 2003
ERNST & YOUNG AS
Jan Dønvik
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

Report of the Auditors of Gard P&I (Bermuda) Limited

AUDITORS' REPORT

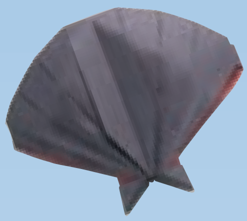
To the Directors of Gard P&I (Bermuda) Ltd.
We have audited the Balance Sheet of Gard P&I (Bermuda) Limited as at February 20, 2003 and the related statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of Gard P&I (Bermuda) Limited as of February 20, 2002 and for the year then ended were audited by other auditors. These auditors expressed an unqualified opinion on those financial statements in their report dated April 8, 2002.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at February 20, 2003 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting described in the notes to the financial statement applied on a basis consistent with that of the previous year.

April 24, 2003
Ernst & Young (Bermuda)
Chartered Accountants



Accounts

Combined consolidated income and expenditure account

All amounts are stated in USD 000's For the years to 20th February		Notes	2003	2002
Technical account – General business				
Income				
Gross premiums earned		2	174,670	138,556
Estimated supplementary call		2	29,750	24,500
Reinsurance premiums			(51,208)	(31,328)
Net premiums earned	A		**153,212**	131,728
Expenditure				
Net claims incurred		3	116,969	101,503
Net operating expenses		4	27,581	22,424
	B		**144,550**	123,927
Balance on general business technical account	A-B=C		**8,662**	7,801
Non-technical account				
Investment income/(loss)		5	616	(2,912)
Exchange gain			39,872	(6,902)
Investment management expenses		4	(1,845)	(2,270)
Taxation			(305)	(434)
Balance on non-technical account	D		**38,338**	(12,518)
Excess of income over expenditure	C+D=E		**47,000**	(4,717)
General contingency reserve at beginning of period	F		**195,222**	199,939
General contingency reserve at end of period	E+F		**242,222**	195,222

Combined consolidated balance sheet

All amounts are stated in USD 000's As at 20th February	Notes	2003	2002
Assets			
Intangible assets		627	121
Investments	6	640,765	612,779
Due from Members		4,926	4,524
Due from reinsurers		5,188	1,523
Accrued supplementary call	7	29,750	24,500
Sundry debtors		837	1,218
Investments in associated companies		18,909	14,673
Real property and fixed assets	8	16,024	13,210
Bank balances		13,963	8,909
Accrued income		10,055	12,888
	9	**741,044**	694,345
Liabilities			
Provision for outstanding and unreported claims		432,487	430,797
General contingency reserve		242,222	195,222
Balance available for outstanding and unreported claims		**674,709**	626,019
Bank overdraft		0	7,956
Sundry creditors	10	66,335	60,370
		741,044	694,345

Reconciliation of excess of income over expenditure to net cash flow from/(to) operating activities

All amounts are stated in USD 000's For the years to 20th February	2003	2002
Excess of income over expenditure before taxation	47,305	(4,283)
Depreciation of tangible fixed assets	176	137
(Increase) in accrued supplementary call	(5,250)	(1,750)
(Increase)/Decrease in debtors	(4,192)	3,149
Decrease/(Increase) in accrued income	2,833	(1,466)
Increase/(Decrease) in technical provisions	1,690	(15,192)
Increase/(Decrease) in creditors	5,965	(10,229)
Net cash flow from/(to) operating activities	**48,527**	(29,634)
Cash flow statement		
Net cash flow from/(to) operating activities	48,527	(29,634)
Taxation paid	(305)	(434)
	48,222	(30,068)
Cash flows were invested as follows		
Increase/(Decrease) in cash holding	13,010	(15,805)
Increase/(Decrease) in portfolio investment	27,986	(14,799)
Increase in investments in associated companies	4,236	449
Increase in real property and fixed assets	2,990	87
	48,222	(30,068)

Note 1 – Accounting policies

(I) Basis of preparation of the Accounts

The accounts 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 Association's consolidated accounts incorporate the accounts of the wholly owned subsidiary A/S Assuransegården, owner of the Association's properties.

The Bermuda Association has no subsidiaries.

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

As at 20th February		2003 USD 1 equals	2002 USD 1 equals
AUD	Australian Dollar	1.6718	1.9350
CHF	Swiss Franc	1.3579	1.6980
DKK	Danish Krone	6.8679	8.5244
EUR	Euro Currency Unit	0.9243	1.1471
GBP	Pound Sterling	0.6274	0.7004
JPY	Japanese Yen	118.4300	133.8550
NOK	Norwegian Krone	6.9511	8.9085
SEK	Swedish Krone	8.4378	10.5463

(III) Closing of policy years

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

It is not the Association's intention to carry forward to open policy years significant surpluses for individual years, although it is considered necessary to maintain a general contingency reserve to meet regulatory requirements and unanticipated demands on the Association's funds.

(IV) 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 recorded in NOK and translated into USD at daily standard exchange rates. For consolidation purposes revenue transactions in the accounts of the subsidiary company are translated into USD at the rate of exchange prevailing at the balance sheet date.

(V) Basis of accounting

All items of income and expenditure are accounted for on an accrual basis and reflect any adjustments relating to earlier years. Supplementary calls are brought into account when charged to Members except that the supplementary 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.

(VI) Technical reserves

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.

(VII) Related party disclosure

Management fee to Gard Services AS of USD 24.5 million is included in net operating expenses. Apart from this, 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.

(VIII) Financial derivatives

Financial derivatives are integrated components in the investment philosophies and processes of the fund management organisations employed by the Association. They are used for risk management, liquidity improvement and return enhancement through cost reductions.

(IX) 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 20th 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 33 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.

Note 2 – Premiums and calls

All amounts are stated in USD 000's For the years to 20th February		2003	2002
Mutual premiums			
Owners' entries			
Premiums		126,264	100,481
Additional calls		1,643	656
Estimated supplementary call		28,940	23,800
Defence entries			
Premiums		3,451	2,761
Additional calls		45	(13)
Estimated supplementary call		810	700
	A	**161,153**	128,385
Fixed premiums			
Mobile offshore unit entries		16,999	11,575
Charterers' entries		20,572	17,124
US oil pollution premiums		4,486	4,699
Defence entries		1,210	1,273
	B	**43,267**	34,671
Total	A+B	**204,420**	163,056

Note 3 – Net claims incurred

All amounts are stated in USD 000's **For the years to 20th February**		**2003**	**2002**
Gross claims paid			
Members' claims		115,532	120,197
Group Pooling arrangements		15,320	18,523
	A	**130,852**	138,720
Reinsurers' share			
Group Pooling arrangements		9,879	16,464
Market underwriters		5,060	4,945
Other P&I Associations		635	616
	B	**15,574**	22,025
Net claims paid	A-B=C	**115,278**	116,695
Change in provision for gross claims			
Provision carried forward		542,887	473,946
Provision brought forward		(473,946)	(502,235)
	D	**68,941**	(28,289)
Less movement in provision for reinsurers' share			
Provision carried forward		(127,034)	(59,718)
Provision brought forward		59,718	73,399
	E	**(67,316)**	13,681
Change in provision for future claims management costs	F	66	(584)
Net changes in claims provision	D+E+F=G	**1,691**	(15,192)
Claims incurred, net of reinsurance	C+G	**116,969**	101,503

Note 4 – Operating expenses

All amounts are stated in USD 000's For the years to 20th February		2003	2002
Administrative expenses		17,487	14,783
Acquisition costs		10,094	7,641
Net operating expenses	A	**27,581**	22,424
Investment management expenses	B	1,845	2,270
Total operating expenses	A+B	**29,426**	24,694
a) Operating expenses include			
Management fee		24,534	19,178
Wages and salaries		414	486
Social security costs		111	110
Remuneration of the Committee and Executive Committee		313	276
Pension contributions		28	28
Auditors' fees – audit services		101	94
Auditors' fees – non audit services		20	20
Depreciation		176	137

Average Expense Ratio (AER)

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 20th February 2003. The ratio of 8.7 per cent (8.4 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 5 – Investment income

All amounts are stated in USD 000's For the years to 20th February	2003	2002
Interest earned	22,153	22,519
Dividends	2,143	2,114
Losses plus profits on realisation of investments	(1,508)	11,597
Change in difference between cost and market value of investments	(22,172)	(39,142)
Total	**616**	(2,912)

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

Note 6 – Investments

All amounts are stated in USD 000's As at 20th February		2003	2002
Quoted investments			
Equities at cost		188,580	153,039
Bonds at cost		470,826	460,591
Difference between cost and market value of investments		(31,545)	(9,373)
	A	**627,861**	604,257
Unquoted investments			
Property mortgages at cost		10,466	4,898
Miscellaneous investments at cost		2,438	3,624
	B	**12,904**	8,522
Total	A+B	**640,765**	612,779

Investments at valuation

The market value of unquoted investments does not, in the opinion of the Executive Committee, differ significantly from cost.

Note 7 – Accrued supplementary call

The Committee has decided to levy a 25 per cent supplementary call in respect of the 2002 policy year in 2003, in accordance with the original estimate for the year.

Note 8 – Real property and fixed assets

All amounts are stated in USD 000's		Real property and fixed assets
Cost		
As at 20th February 2002		16,169
Purchases in the year		50
Sales in the year		0
As at 20th February 2003	A	**16,219**
Depreciation		
As at 20th February 2002		2,959
Depreciation on sold assets		0
Charge for the year		176
As at 20th February 2003	B	**3,135**
Net book value		
As at 20th February 2002		13,210
As at 20th February 2003	A-B=C	**13,084**
Currency valuation at year end of opening balance	D	2,940
As at 20th February 2003	C+D	**16,024**

Note 9 – Currency exposure

All amounts are stated in USD 000's

As at 20th February 2003

Currency amount		USD	Per cent
Assets in			
USD	459,656	459,656	62.0
EUR	126,817	137,196	18.5
NOK	366,565	52,743	7.1
GBP	25,830	41,174	5.6
JPY	2,686,175	22,682	3.1
CHF	13,408	9,874	1.3
AUD	7,605	4,549	0.6
Other		13,170	1.8
Total		**741,044**	100.0

As at 20th February 2002

Currency amount		USD	Per cent
Assets in			
USD	492,470	492,470	70.9
EUR	95,511	83,399	12.0
GBP	29,662	42,374	6.1
NOK	345,449	39,012	5.6
JPY	2,026,830	15,270	2.2
SEK	46,969	4,477	0.6
AUD	6,169	3,188	0.5
Other		14,155	2.0
Total		694,345	100.0

Note 10 – Sundry creditors

All amounts are stated in USD 000's

As at 20th February	2003	2002
Creditors: direct insurance	1,094	511
Creditors: reinsurance operations	874	546
Investment transactions in progress	47,186	42,294
Accrued taxes	619	60
Pension liabilities	3,762	3,860
Sundry creditors	3,956	5,638
Deferred income	1,772	2,664
Accrued expenses	7,072	4,797
Total	**66,335**	60,370

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

Appendix: Policy year accounts

A. Development of open policy years

All amounts are stated in USD 000's

Policy year		2002	2001	2000	Total
Premiums and calls					
Invoiced in prior years		0	138,067	126,814	
Invoiced in current year		173,110	(318)	124	
		173,110	137,749	126,938	
Additional calls debited		988	25,579	23,566	
Estimated supplementary call		29,750	0	0	
Total premiums and supplementary calls		203,848	163,328	150,504	
Reinsurance premiums		(49,742)	(31,780)	(30,194)	
	A	154,106	131,548	120,310	
Incurred claims net					
Claims paid		28,403	46,433	88,677	
Estimates on outstanding claims		64,507	52,873	35,394	
IBNRs		61,500	25,600	14,465	
Future claims management costs		5,040	3,139	1,994	
		159,450	128,045	140,530	
Operating expenses		27,886	22,858	19,741	
	B	187,336	150,903	160,271	
Investment income	C	38,643	(12,085)	(2,773)	
Surplus/(deficit) on open policy years	A-B+C=D	5,413	(31,440)	(42,734)	**(68,761)**
Closed policy years					
Surplus in respect of 1998 and prior years as at 20th February 2002					283,544
Transfer on closure of 1999 policy year					18,529
Changes to policy years prior to 1999					8,910
General contingency reserve as at 20th February 2003					**242,222**

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	2002	2001	2000	Closed years	Total
Gross estimated outstanding and unreported claims					
Own claims	162,305	87,480	56,156	156,133	462,074
Pool claims	27,830	5,635	11,119	36,229	80,813
Estimated reinsurance recoveries due from					
The Pool	51,600	5,314	15,030	20,924	92,868
The Group excess loss reinsurance contract	9,104	0	0	5,500	14,604
Others	3,424	9,328	2,386	4,424	19,562
Net estimated outstanding and unreported claims	126,007	78,473	49,859	161,514	**415,853**
Future claims management costs	5,040	3,139	1,994	6,461	16,634
Provision for outstanding and unreported claims	131,047	81,612	51,853	167,975	**432,487**
General contingency reserve	5,413	(31,440)	(42,734)	310,983	**242,222**
Balance available for outstanding and unreported claims as at 20th February 2003	136,460	50,172	9,119	478,958	**674,709**

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 25 per cent supplementary call levied for the 2002 policy year.

3. The approximate yield of a 10 per cent supplementary call on the open policy years would be:
   2000 policy year USD 8.8 million
   2001 policy year USD 9.5 million
   2002 policy year USD 11.6 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 168 million, consists of estimated outstanding claims in the amount of USD 127.1 million, estimates for IBNR claims of USD 34.4 million and provision for future claims management costs of USD 6.5 million.

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This Report has been prepared by Gard Services 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 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 15th August 2003. The Accounts of the Bermuda Association have already been approved in the General Meeting.

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