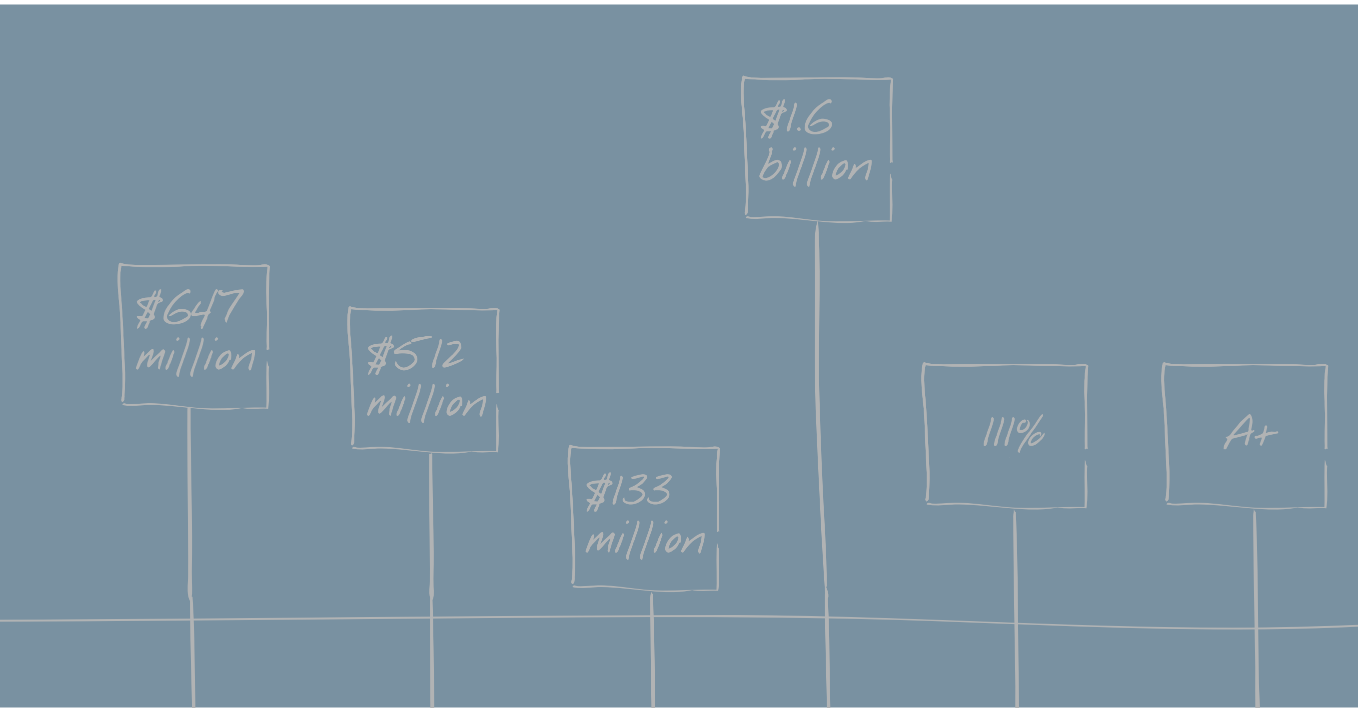
Management Report

20th February **2007**

highlights



Gross written premium increased by 16% in 2006, with increased volumes across all areas of business

The general contingency reserve increased by 17% contributing to a further strengthening of the group's financial position

Investment income saw an overall return of 10.7% over the 12 month period

With an increase in the total balances to meet claims members and clients can see genuine financial strength

The combined net ratio for the policy year was 111%, the result of an adverse claims environment, particularly in P&I pool claims

This rating makes Gard the highest rated marine mutual in the market

chairman's statement

"We are building an environment where risks are understood and steps taken to mitigate and transfer them."

In its hundredth year of operations Gard had another successful year, resulting in an overall surplus of USD 83 million. This is the fourth successive year since the creation of Gard Marine & Energy in which we have reported an operating surplus, and the second in which we have been able to reduce the deferred call from the original estimate. Both of these facts are tangible evidence that our strategy is paying dividends for all concerned.

It is our continued ambition to ensure that we offer an environment where our members and clients feel that risks are understood and steps taken to mitigate and transfer them cost effectively. We are proud of our history of innovation and development, and we are continuing to respond to new risks.

A number of issues have been on our horizon for some time, most of which have been debated widely in the industry. These broadly fall in two major categories:

- The growth in the world fleet and its impact on the availability of skilled manpower and the consequent likelihood of an adverse claims trend.
- The critical need for the right levels of capitalisation to meet the challenge of adverse claims, particularly under more severe liability regimes, both internationally and nationally.

In some of these areas we have already taken significant steps. For example, in risk-based capital systems we are at the forefront of the industry in understanding the implications of the changing risk picture. In others, we are working closely with various authorities, industry organisations, members and clients to seek solutions.

Global shipping trends

It is likely that the projections for world economic growth and trade will mean that the world fleet will grow by 7% in 2007, and probably the same again in 2008 and 2009.

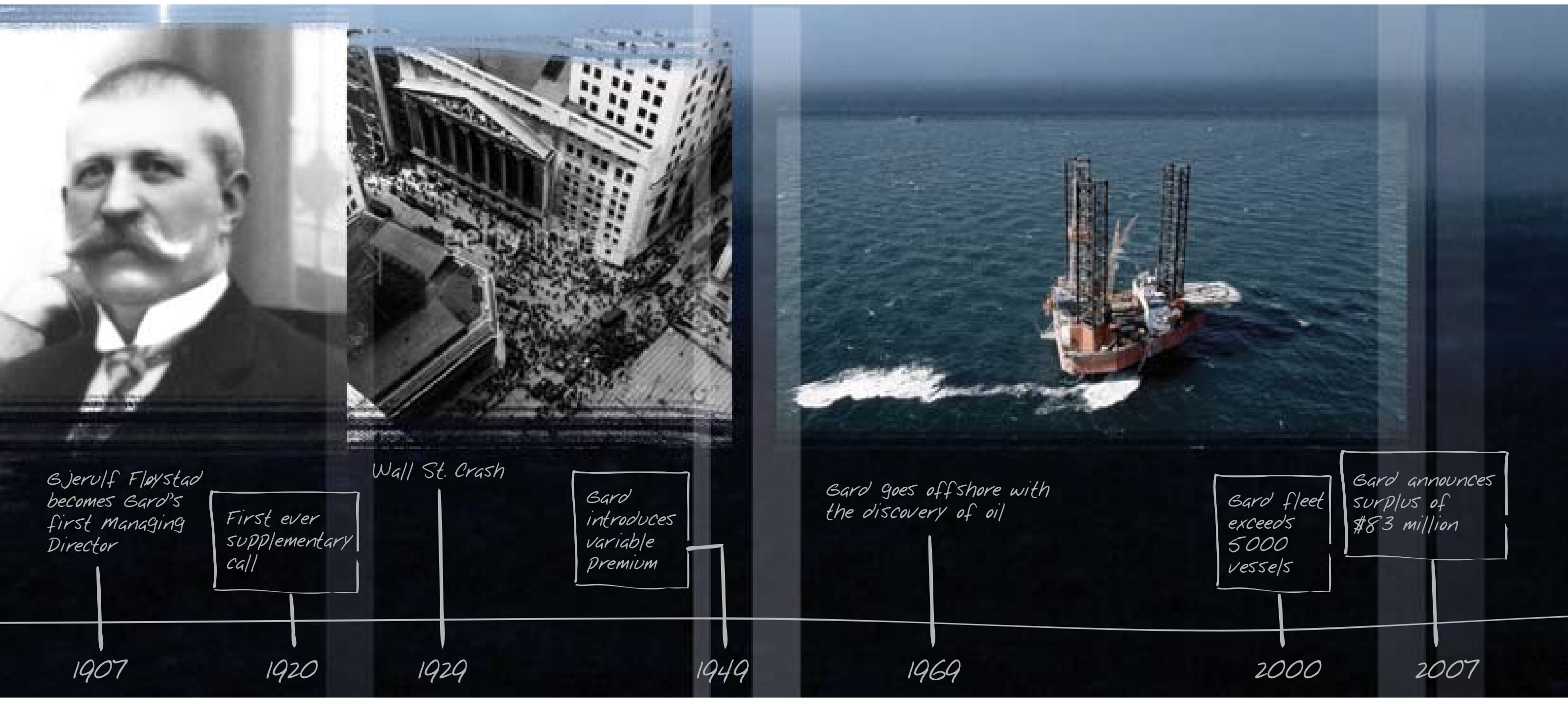
The result is even greater investment in newbuildings and the current order book of merchant ships, as at the end of March 2007, is over 6,300 vessels totalling more than 330 million deadweight tonnes. Utilisation rates remain high, leading to operational issues around ships and crew being worked hard, safety and routine maintenance being squeezed, and older ships remaining in operation.

The unprecedented order book can only exacerbate the problems that already exist with the supply of crews, in both quantity and quality. The clear evidence of increasing claims from navigational errors, resulting in groundings and collisions, must be a major concern. With new vessels becoming more technically sophisticated, the urgent need for properly trained and experienced personnel – both on board and ashore – is of critical importance for the industry.

The right levels of capital

The last three years have been the most expensive years ever for International Group Pool claims. There are many factors behind what looks like an increasingly adverse trend, all of which require insurers to adjust their underwriting philosophy, premiums and capital levels – or run the risks of failure, possibly impacting on the International Group as a whole.

To be prepared for the future Gard must be robust, adaptable and agile.



There is an increased focus – from both regulators and ratings agencies – on the capital adequacy of insurance businesses. The implementation of Solvency II may still be some way off, but there is no doubt about the necessity of preparing for its likely effects. Rating agencies have also been vocal about the benefits of diversification and the volatility inherent in being too narrowly focussed. Perceived financial weakness has sparked significant tonnage movement in the past, and again as recently as last year. It is absolutely essential that we have good risk management, a responsive business model and, most importantly, a strong and proper capital structure.

Navigating the future

While there will always be residual risks against which it is uneconomic to hedge fully, the challenge is to minimise the damage that might occur from unpredictable events, as well as position ourselves to take advantage of any opportunities. At the Committee meeting in May 2006, the following objectives were identified for Gard in preparing for the future:

- *Robustness* – to have the financial and operational strength and size to survive an unpredictable future.
- *Adaptability* – to develop a global knowledge-based organisation to meet the challenges of a changing business environment.
- *Agility* – to be able to take opportunities if and when they arise.

A number of initiatives have been taken in response to these objectives to improve Gard's robustness and agility, and others are under consideration. We will take the necessary steps to achieve the financial and operational strength to survive and thrive in an ever-changing world. For example, the tonnage rate of growth of Gard's members is increasing faster than the world fleet average. This means that the organisation needs to have capital available to fund this growth in business volume, supporting existing members and clients, as well as new ones.

I would like to take this opportunity to thank the members of our Committees and Boards for their time and support over the last 12 months, and to express Gard's appreciation to the Executive Committee and Committee members John Hatleskog, Atle Jebsen, Ricardo Claro Valdés and Sjur Galtung for their long service as they stand down. The invaluable efforts of our correspondents and the hard work and commitment of the management and staff are essential components of a first-class service. Despite the challenges that we face, I am confident that we are taking the right steps to build on our success in the coming years.

Stephen Pan
Chairman

chief executive's statement

"A strong performance across a broadly-based business has achieved a surplus of USD 83 million for 2006."

Gard's history has been a fascinating journey and one that has brought the organisation back to its roots. Founded to provide one product for a local set of clients, Gard was part of a larger group of insurers providing a wide range of insurances. One century later, it has grown to offer a product range that caters to the whole spectrum of clients' risk transfer needs.

Gard has developed and prospered by staying close to its clients, anticipating and responding to their changing needs. The results for 2006 indicate that this philosophy of security and care is as compelling a proposition today as it has always been.

Making clients feel secure

Shipowners are increasingly looking for greater levels of financial security and predictability from their insurers. One of the key events of the last policy year was Standard & Poor's upgrade of our rating to A+, with a stable outlook, citing as one of the key factors our strong capital position and reserving. This makes us the highest rated marine mutual in the market and strongly validates our strategy to build a broadly based group with a more diversified portfolio.

Historically, when owners are uneasy they tend to move their tonnage and this was seen at the last renewal, a trend from which Gard was a major beneficiary. In 2006 we saw increased volumes across all areas of the business, with P&I entered tonnage now being in excess of 150 million gt and marine and energy also seeing increased levels of income, writing USD 195 million and USD 106 million of gross premium respectively. In terms of investment income the overall return was 10.7% over the 12 month period, a strong performance following the implementation of the Common Contractual Fund in July 2006.

When is enough enough?

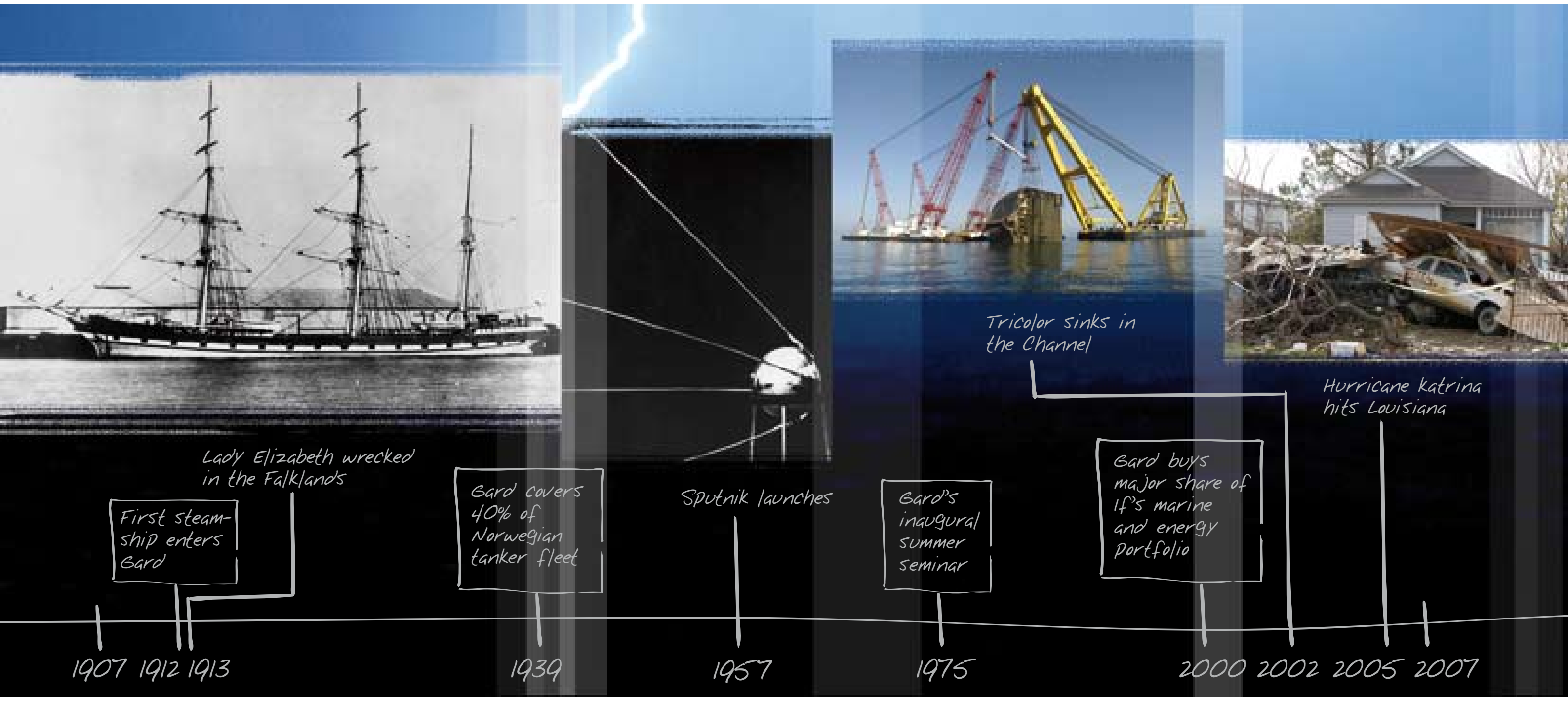
The combined net ratio at a group level was 111%, the result of a claims environment which, while falling in frequency, is escalating in severity – particularly Pool claims. However, the strength of our performance across the breadth of our portfolio means that our members will see a direct gain from the reduction of our deferred call, for the second year running, to 20%.

This is, of course, all good news for everyone involved with Gard. But we are in no way complacent about our position, our strength or our service. It is our continued ambition to ensure that we offer an environment where our members and clients feel safe and secure. Every year since the creation of Gard Marine & Energy we have recorded a surplus, making additions to our balance sheet and free reserves. And yet we would still argue that achieving the right level of capital is the most profound challenge facing our industry today.

The right place at the right time

Having the right people and structure has been an essential part of our strategy. Bermuda has become a centre of gravity for the global insurance market, so we decided to strengthen

Achieving the right level of capitalisation is the biggest challenge facing our industry today.



the group's presence there last year through the creation of a management company, Lingard (named after the first vessel insured with the club). This entity has assumed the management functions of both the P&I and marine and energy entities, previously undertaken by a third party, as well as co-ordinating fund management activities through the Common Contractual Fund. From this base we will continue to develop the business to ensure that we can grow efficiently and effectively.

In addition, we have been looking at the resources needed to offer the first-class service our clients expect from us. We have therefore increased our claims handling resources for P&I and Defence in Oslo, and centralised a number of our support functions. I would like to take this opportunity to thank all of the staff at Gard for their efforts over the last year. It has in many ways been a year of considerable challenges and their hard work is a fundamental part of our success.

Playing an active role

We are also increasingly involved in a variety of industry forums and we are keen to devote time and resources to matters that affect us all. We are very pleased that Just Arne Storvik, has been elected to the Chairmanship of the Reinsurance sub-committee of the International Group and Bjørnar Andresen, is Chairman of CEFOR (the Norwegian marine underwriters association) this year.

We believe that we are well positioned to meet the challenges of the future. In recent years we have seen the impact of natural disasters on the global reinsurance market, even on businesses that are not underwriting risks directly in the affected area. We are acutely aware that an increasingly adverse claims environment and the possibility of extreme events mean that we must be structured to withstand and adapt to a range of changing circumstances. We will continue to put the financial security of the business at the centre of everything we do, ensuring that we look at all of the options available to us to maintain the capitalisation levels we believe are necessary.

As we mark our centenary at various events around the world, we very much look forward to celebrating our shared history with you all. Our future will be driven not by nostalgia, but by a clear vision of who we are and what we want to be. That vision will be consistent with the values and attitudes that inspired us in the past, while embracing the evolving needs created by the shifting business environment around us. This way we can continue to offer the best support to our owners and clients for the next hundred years.

Claes Isacson
Chief Executive Officer

top management group

Just Arne Storvik

Claes Isacson

Kjetil Eivindstad

Rolf Thore Roppestad

Nicolas Wilmot

David Comer

Chief Financial Officer
Joined Gard in 1987 and was appointed Senior Vice President and CFO in 2001

Chief Executive Officer
Joined Gard in 1995 and was appointed CEO of Gard Services AS and Managing Director of Assuranceforeningen Gard in 2001

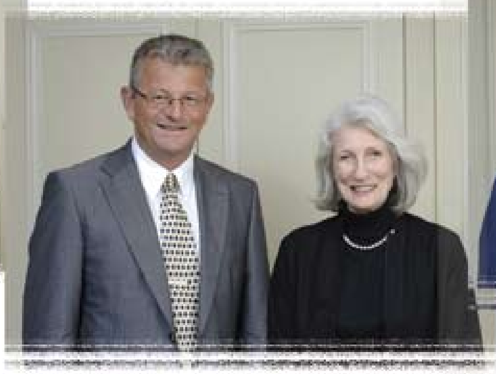
Senior Vice President, Group Legal
Joined Gard in 1984 and was appointed Senior Vice President in 2000

Senior Vice President, P&I
Joined Gard in 1997 and was appointed Senior Vice President and Head of P&I in 2005

Senior Vice President, Customer Relations
Joined Gard in 2001 as Senior Vice President, Claims Management before taking the Customer Relations role in 2004

Managing Director, Lingard Ltd
Joined Gard in 1981 and has held a variety of positions including starting the London office in 1984 and representing Gard at International Group meetings until 2006. He became Managing Director of Lingard in 2006

We have the right people and skill set to understand the implications of a changing risk picture.



Bjørnar Andresen

Steinar Bye

Svein Buvik

Sara Burgess

Sven-Henrik Svensen

Christen Guddal

Senior Vice President,
Marine & Energy

Joined Gard in 2001 as Vice President, P&I Sales and was promoted to Senior Vice President, Energy and Special Risks in 2002 and took over the Marine portfolio in 2005

Senior Vice President, Risk Management

Joined Gard in 2005 and became Senior Vice President, Risk Management in the same year

Senior Vice President,
Head of Administration and ICT

Joined Gard in 1997 as Head of the Loss Prevention and Technical Department and was promoted to Senior Vice President, Administration in 2000

Vice President and
Special Adviser

Joined Gard in 1985 as a lawyer and sits on a number of International Group sub-committees including Pollution, Reinsurance, Compulsory Insurance and Bills of Lading

Senior Vice President,
P&I Operation / Reinsurance

Joined Gard in 1977 as a lawyer and was appointed Senior Vice President in 2000 of P&I Operations and Reinsurance. Among other senior roles he has been Deputy Managing Director

Senior Vice President, Claims

Joined Gard in 1992 as a claims adjuster and in 2004 became Senior Vice President, Claims *underwriting*

"The renewal of 99.5% of our tonnage is evidence of high levels of customer satisfaction."

P&I

2006 was another very good year for P&I, in spite of the increasingly competitive market. Steady growth throughout the year culminated in a renewal at 20 February that was one of the best ever for the club. It was notable not only for the high level of inflow, but also for the very low loss of tonnage. By the time the renewal was over, Gard had entered tonnage in excess of 150 million gt and gross written premium for the 2006 policy year of USD 347 million. There was a gain in net premium of USD 12 million, a net gain in tonnage of 6.6 million gt, and 99.5 % of existing tonnage was renewed. This is evidence of high levels of client loyalty and satisfaction and a testament to teamwork across the organisation.

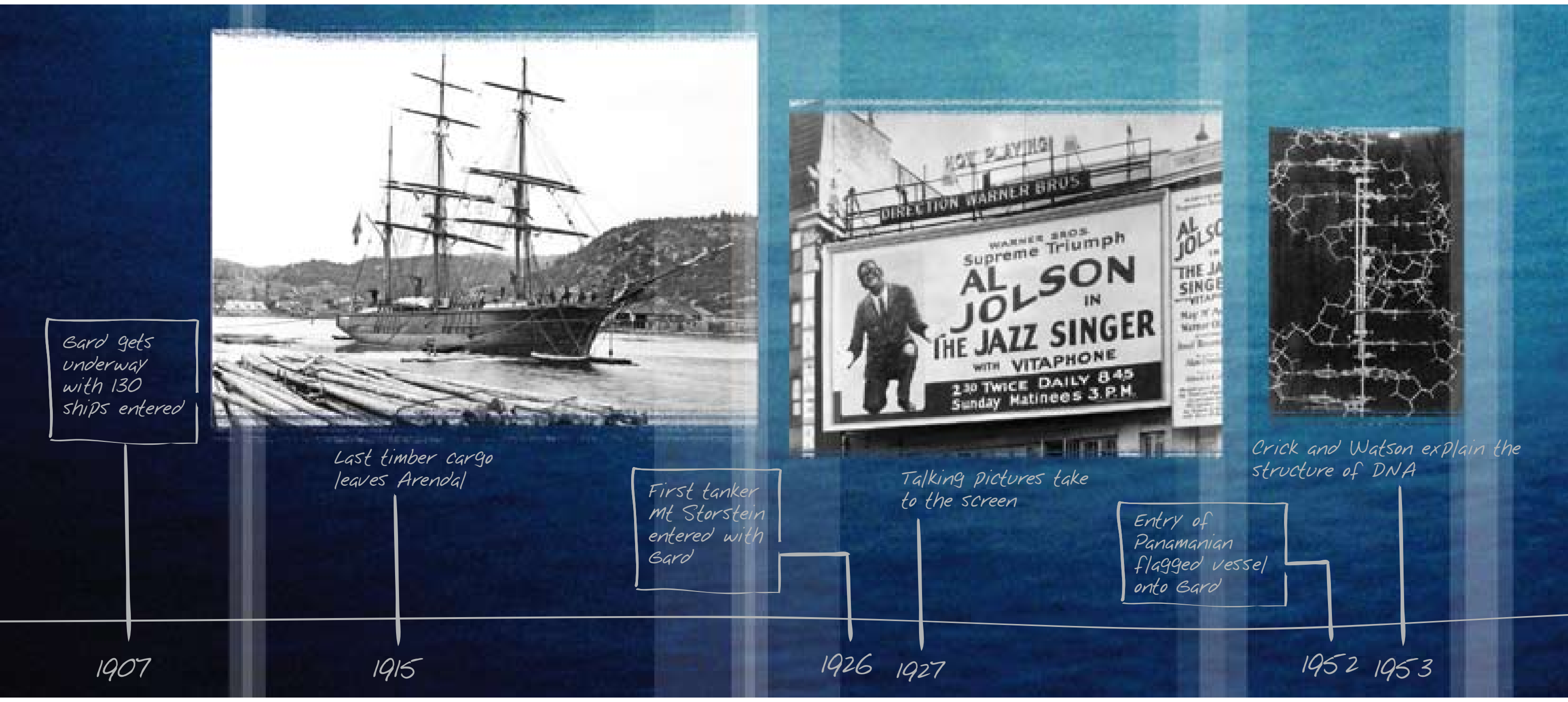
One of the key reasons for the movement of new tonnage to Gard was the increased focus among shipowners on stability, predictability and financial strength. In a world where claims have been increasing sharply and the legislative environment is becoming more complex, owners are looking for comfort that their insurers have the required capital to ensure they can meet the risk transfer needs of their clients. The announcement by Standard and Poor's that they were increasing their rating of Gard to A+ (making it the highest-rated club in the marine mutual market) shortly before the renewal undoubtedly had a positive effect.

Expanding horizons

Last year also saw some shifts in the composition of the portfolio by domicile. After considerable investment over many years, significant growth was achieved in the Greek market. As a percentage of the portfolio, Greek shipping rose from 8% to 12% in 2006. This means that Gard's Greek membership now corresponds to their market share of the world fleet.

Asia continues to be an area of focus and the rewards of the investments made in this region were seen throughout the policy year, and also at renewal. Healthy growth was also seen in Finland, Belgium, Cyprus, South America and Norway.

Shipowners are focusing on stability, predictability and financial strength.



A competitive market

Despite the challenges facing the industry, there is still a great deal of price competition in the market. Gard is committed, however, to maintaining underwriting discipline and therefore, despite the tonnage increase seen, the targeted rate increase of 5% was achieved at renewal. In newbuildings, Gard's rate of acquisition is keeping pace with the growth in world tonnage, and as a result the fleet is well balanced in terms of the age, size and type of vessel. This underlines the long-term focus on stability and predictability.

Rising claims

In total, the International Group clubs notified 28 Pool claims on the 2006 policy year up to 20 February 2007, compared to the average of 13 claims for the preceding years. Three of these claims were from Gard, including the total loss of the SERVER off the Norwegian west coast last winter with consequent bunker oil spill and wreck removal, as well as the total loss and wreck removal of the SAFMARINE AGHULAS in South Africa. This sharp increase in Pool claims was a strong contributory factor in the negative underwriting result for the year.

In contrast, for the Gard portfolio, the claims cost per gross ton was at the same level as the previous year. While the number of claims increased by 10% compared to 2005, this should be seen in the context of a 12% increase in average owners' tonnage entered and a significant volume increase in charterers' business as well.

The external environment

In the last year there have been a number of important debates taking place amongst the clubs in the International Group, including both the 2002 Protocol to the Athens Convention of 1974 and sub-standard shipping. Gard has been active in these discussions and has welcomed the eventual outcome of the first which we believe satisfied those trying to limit exposures to passenger and crew liabilities as well as others who were concerned about overspill calls in general. As part of our commitment to safety and the environment, we were pleased that various initiatives designed to combal sub-standard shipping, have been agreed and implemented from 20 February 2007. These include the double retention regime under the Pooling Agreement and increased club retentions.

Marine

After a number of years of premium increases, the marine market started to feel the effects of excess capacity in 2006. While overall prices are holding up well in the circumstances, there can be no doubt that increased price competition is starting to have an impact on the market and it is likely that prices may soften in the coming months. In this environment, a strategy has been set to deal with the challenging market conditions, with a closer focus on analysis of the portfolio and increased transparency of performance and development.

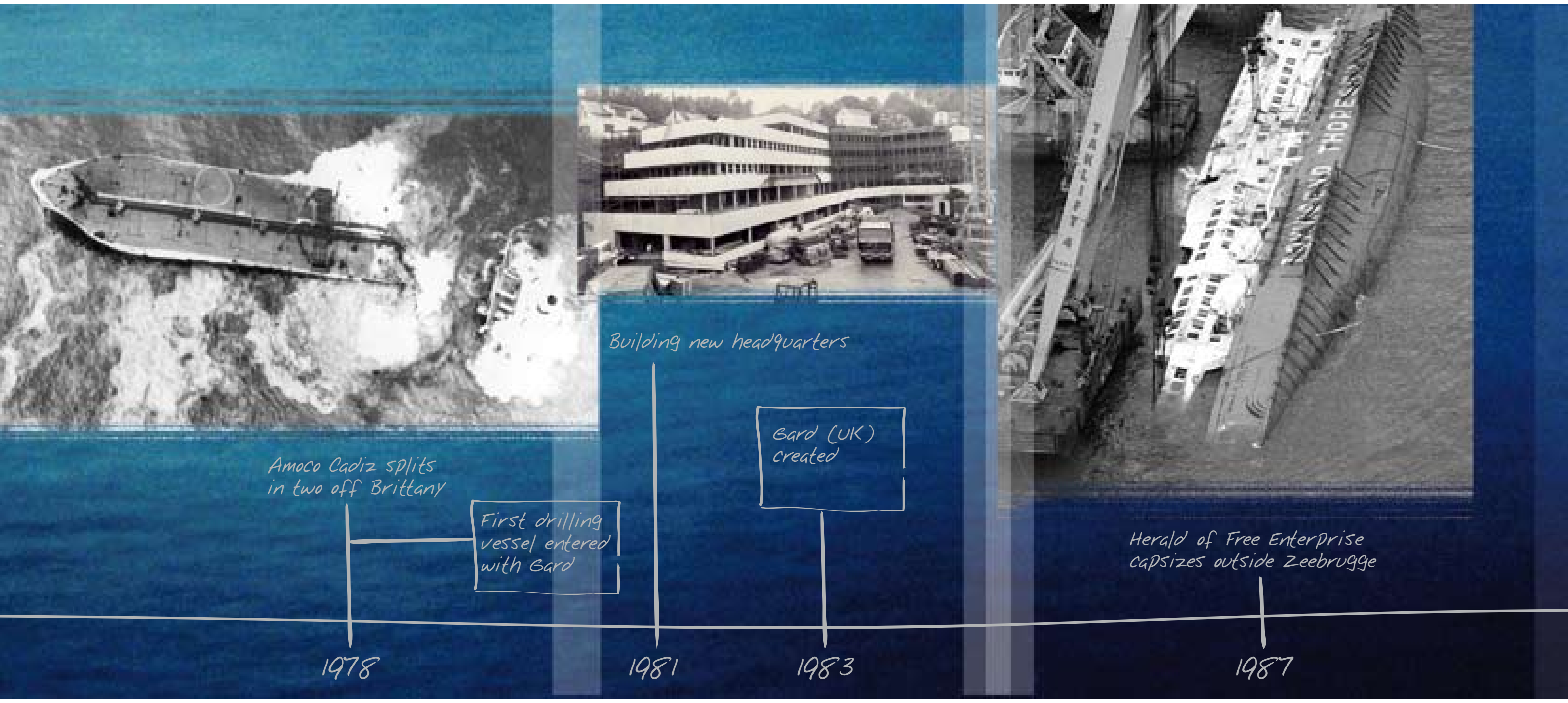
2006 saw an increase in both income and the number of vessels insured, meeting our objective to grow in line with the market. Gross written premium increased by 17% to USD 195 million, with a total of 6,197 vessels in the portfolio at 20 February 2007. One of the key drivers behind the new business was cross-sales from P&I, while the time and energy invested in various markets saw particular successes in Greece and in Germany, where the portfolios are continuing to grow. Ground was also regained in the Norwegian market and Asia. In terms of vessel type, there has been an increase in the number of container vessels insured, reflecting growth in the German market.

Changing client needs

The portfolio growth is evidence that shipowners understand the benefits of the Gard proposition – and that many are focused on more than just price. As well as the prompt payment of claims, they are looking for proper financial security and a claims organisation that can help them to reduce unnecessary costs and get their businesses back on course as quickly as possible.

There has been an interesting shift in the behaviour of some of the larger clients. While many wish to increase their retentions

Clients are focussing on more than just price. They value proper financial security and a proactive claims service.



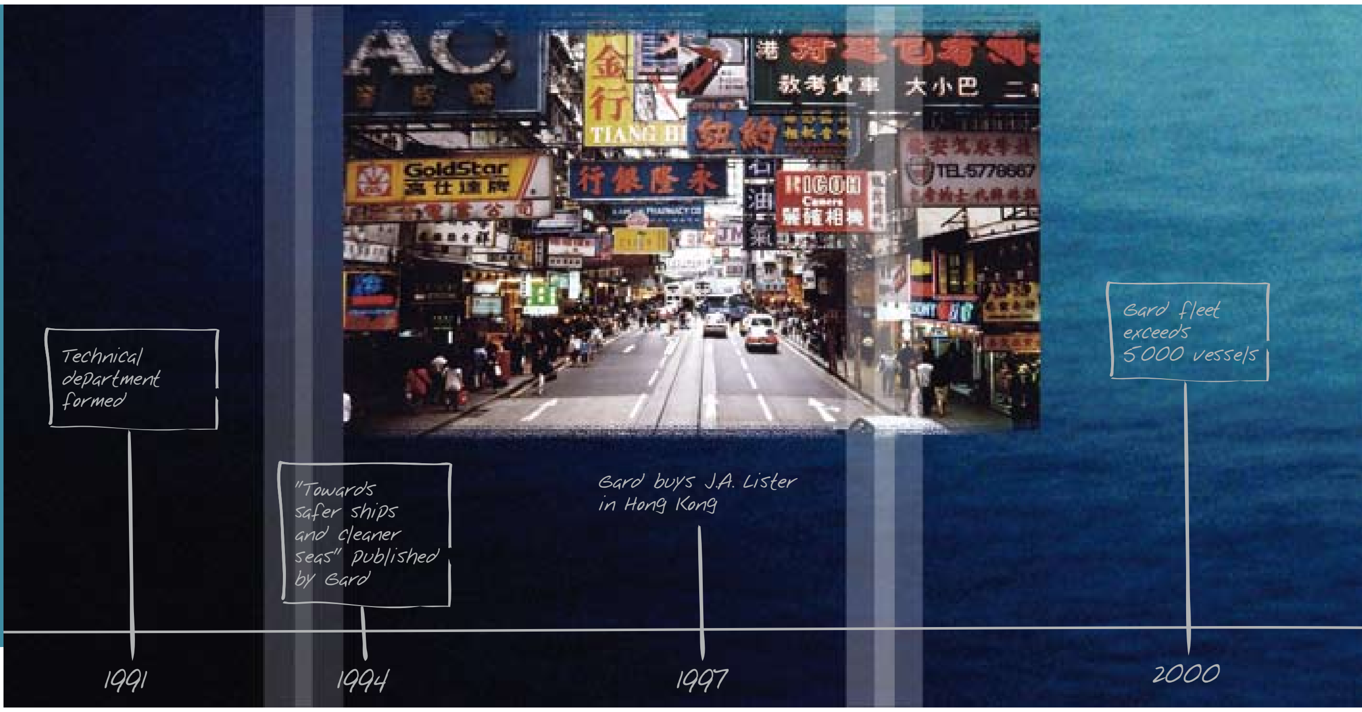
in order to reduce the cost of their insurance, others are becoming more demanding in the service levels that they require for their premiums in order to get greater value for money.

Rising tide of claims

The technical underwriting result ended the year negatively because of the deterioration in the claims picture, particularly in the last two quarters. There were several serious incidents in 2006, including the total loss of the capsized bulker OCEAN VICTORY in Japan and the grounding of the cruise ship NORDKAPP in Antarctica. While the claims frequency continues to fall, any positive effect this might have had on results has been offset by the severity of received claims – and unfortunately the margins in the marine market are insufficient to cover these larger claims.

The cost of claims has also been adversely affected by an ongoing capacity problem with yards, which means that ships are waiting for much longer periods before repairs can begin. This reduced capacity has a knock-on effect to the cost of repairs, and the delays also increase the claims for loss of hire. The instability in the price of steel – which in some cases has fluctuated by nearly 100% per kilo, even at the same yard – has increased repair bills considerably across the board. New technology has also made ships more expensive to repair, particularly in terms of machinery.

The overall picture is therefore one in which underwriters will have to work hard to maintain premium income levels against a tide of very costly claims that shows little sign of receding, while the underlying shipping market remains very busy.



Energy

2006 saw another challenging year for the energy market, even though it did not see a reoccurrence of the natural catastrophes that had caused such difficulties in the previous two years. Prices on average have reached levels last seen in 2003, and the sustained high oil price (even though off its peak) – combined with a serious scarcity of service provision if an accident should occur – makes this a hard market in every sense.

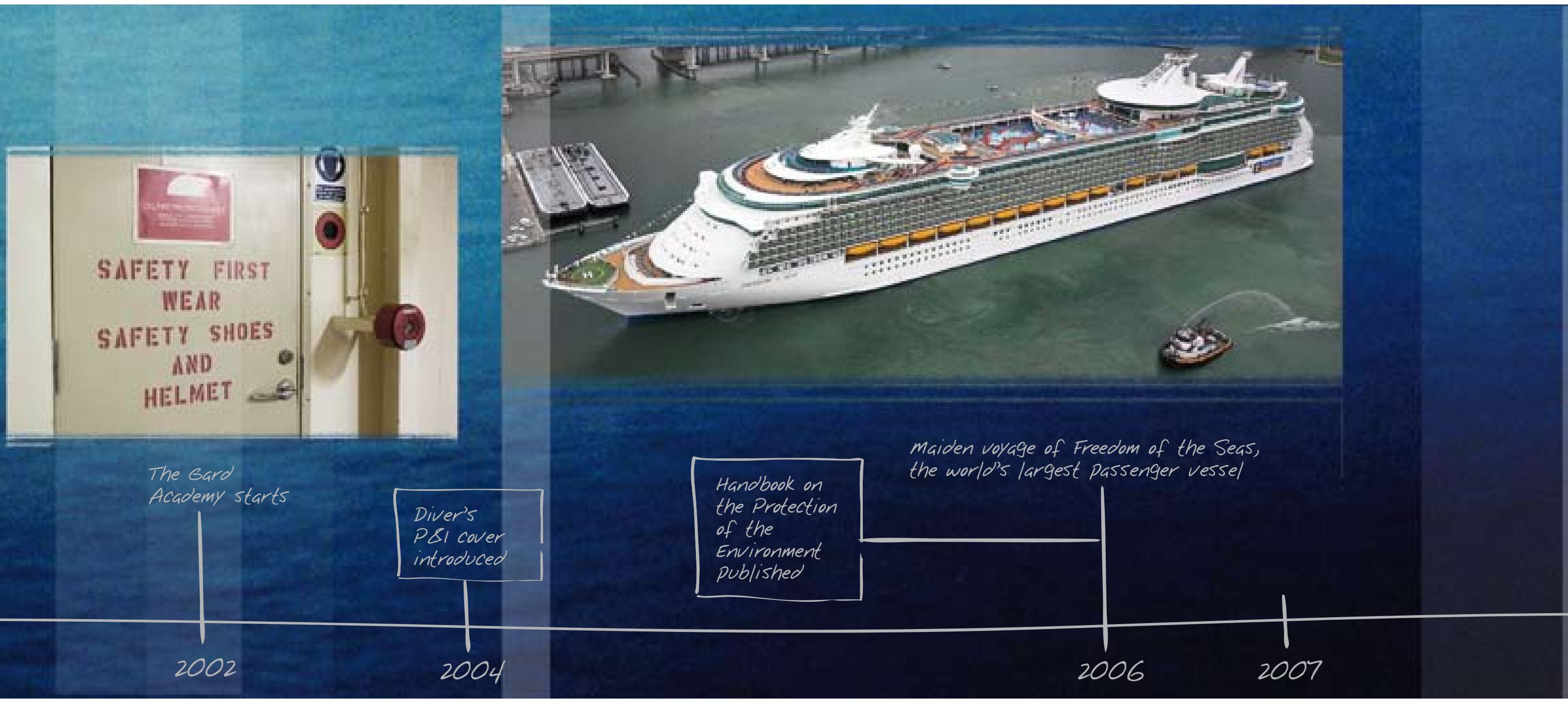
However, with few serious losses 2006 was a very good year for the energy portfolio. The continued boom in the rig and new-building sectors made for a very positive environment in both the energy and builders' risk markets, and premium income grew by 10% to USD 106 million. Marine builders' risk also saw good premium income levels this year, primarily as a result of continuing high levels of activity in the shipbuilding sector. Despite the year starting with several large claims in both the marine builders' risk and energy books, the last six months saw a turnaround with a significant improvement in results giving an overall technical underwriting profit for the year, with a combined net ratio of 88%.

Greater clarity and certainty

In the first half of the year, the strategy towards Gulf of Mexico (GOM) risks was refined. This led to a significant shift in the portfolio so that windstorm cover was only written for incidental GOM accounts, ie those with only a few assets in the area, and then only with limited cover.

The 2005 trend for tighter and more transparent wordings continued in 2006. The objective was to achieve a clearer understanding by all participants of what was and was not covered. Contract certainty issues, especially around E&P policies, have now been addressed, in spite of the challenge of getting 'manuscript' wordings into a predictable insurance product. Gard has taken this issue very seriously, believing that

Gard has taken seriously the challenge of clarity and certainty in energy contract wordings.



predictability in terms of coverage – and only writing policies under certain terms and jurisdictions – will have a positive long-term effect on the claims picture.

The new underwriting policy took effect on 1 December and it was accepted that there could be a significant shift in the portfolio. However, it was pleasing to see a higher business retention rate than expected, and the result is a more stable book of business overall. Gard remains the only insurer in the Scandinavian market providing extensive capacity for the upstream oil and gas industry, and with a 30-year history in the market it is seen as a committed, long-term partner for its clients.

Scarcity of resources

Despite the benign claims picture overall, the trend has been towards an increase in the size and complexity of claims in the energy sector. The continuing high price of oil causes business interruption and loss of hire claims on rigs to remain significant. There is currently a huge demand for limited resources of repair/replacement facilities, equipment and personnel. This is causing delays in the inspection and assessment of damages, as well as the required repairs. This lack of resources means an increase in the severity of even smaller casualties and results in long waiting periods when things go wrong – which has a particularly serious impact on business interruption claims.

The marine builders' risk market is seeing increased competition from a larger number of underwriters, but nevertheless the market remains broadly stable.

claims

"The claims environment has become more challenging over the years, requiring a more proactive and integrated approach to the issues."

As Gard and the outside world have changed, so claims and the way they are handled have altered significantly. Gard has expanded its product range to write a broader set of risks which inevitably changes the claims portfolio, while from an external perspective the following factors have also made an impact:

- Rising values in the shipping and offshore industries, and a limited supply of yard space for newbuildings and repairs, are putting pressure on manpower and supplies.
- Congestion of shipping lanes and ports, demand for operational efficiencies and timely delivery are placing stress on ships and crews.
- A more onerous legislative environment, including the abolition of claim defences, higher limits of liability, compulsory insurance requirements and direct action against insurers.

To respond to all of this, Gard has developed an integrated claims organisation across P&I, marine, energy, builders' risk, defence and loss prevention, with in-house expertise in every time zone, yielding direct benefits to our members and clients through proactive casualty handling.

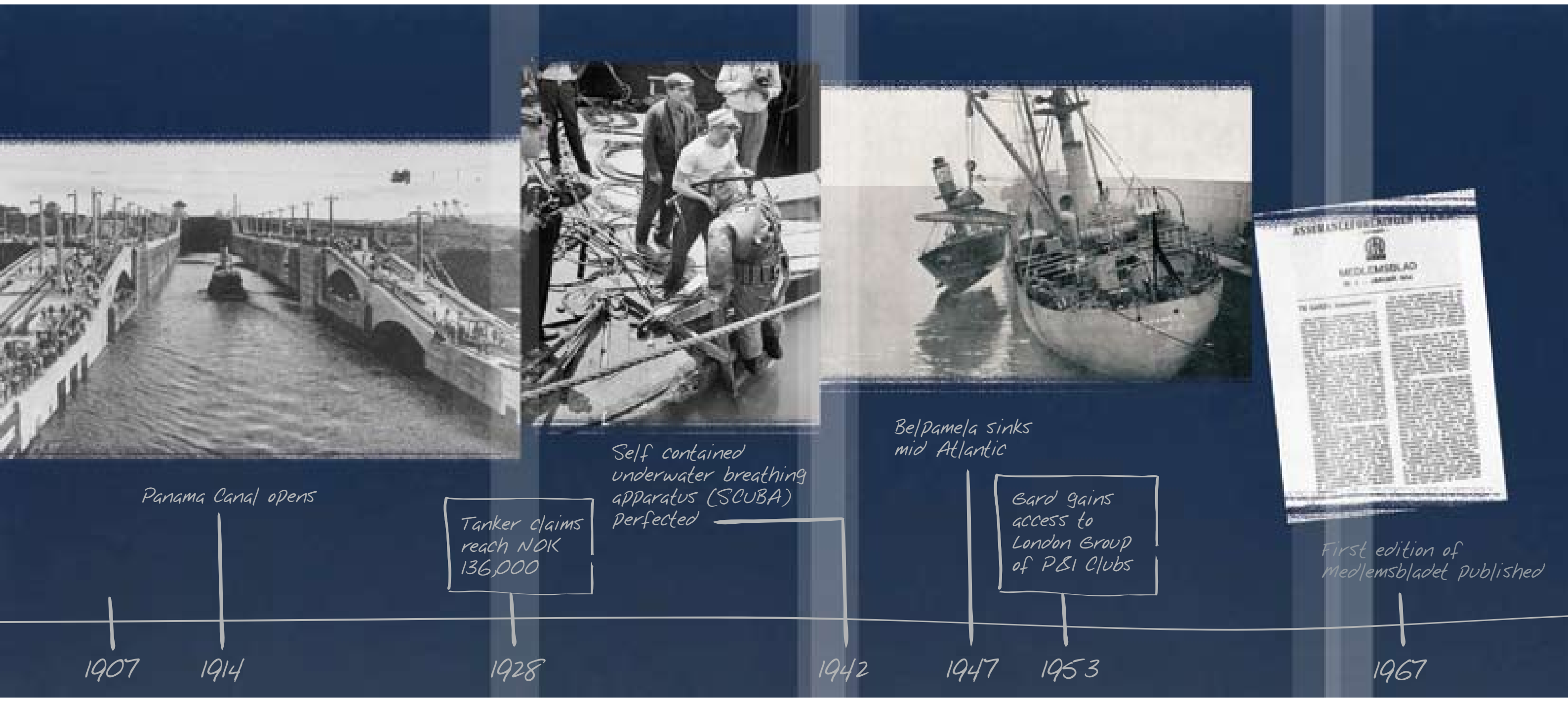
Access to the right advice

With over 50% of premium now coming from joint clients of P&I and marine, this has led to interesting developments in sharing expertise across aeas and offices, as well as in the areas of casualty handling, crisis management, salvage and general average.

Where Gard is the lead hull underwriter and P&I underwriter for a particular ship, the opportunities for in-house co-ordination means that pressing issues can be resolved more swiftly to the benefit of the client. For instance, the discretionary ability to provide security for risks underwritten by Gard M&E by way of a Gard P&I Letter of Undertaking, against proper counter-security from Gard M&E and the following underwriters, has proven beneficial in certain circumstances.

The marine industry is concentrating closely on the issues raised by actual total losses and partial losses. While the former can be very expensive, the real challenges often lie with the latter, and substantial cost-saving potential lies in the areas of towage and salvage, quality of surveys, and repair tendering

Rising values and costs are adversely affecting the cost of claims.



and monitoring. These are areas where the value of having access to the best internal and external expertise can clearly add great value.

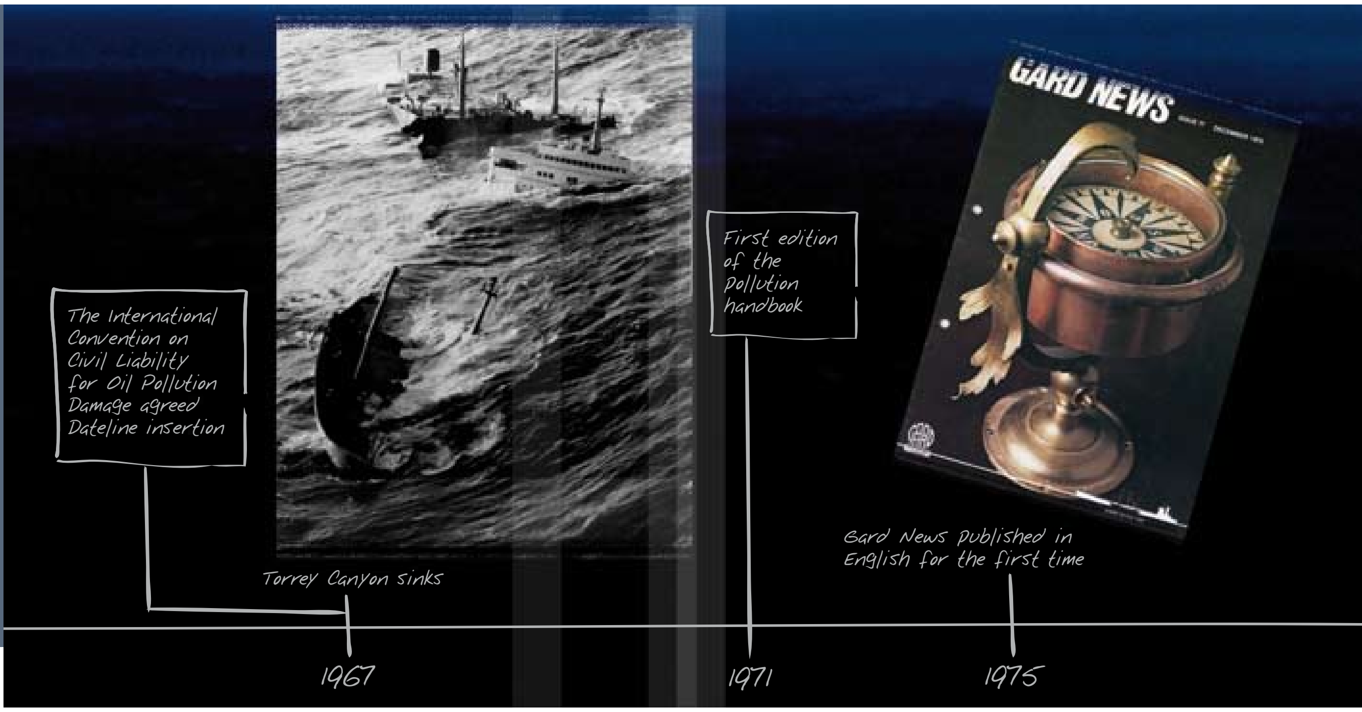
Responding to a changing world

In Gard's 100-year history, there have been 12 P&I claims with an individual gross cost that has exceeded USD 20 million. Seven of these have occurred since 2000, and they all centre on salvage, wreck removal and pollution – where enhanced technological sophistication, market cost of resources, and increased liability limits have been the key cost drivers.

Improvements in technology have made environmental restoration possible in circumstances where previously it would have been considered impossible. One well-known example is the removal of the heavy fuel oil cargo from the sunken PRESTIGE off the coast of Spain at a depth of more than 3,000 metres. As the art of the possible increases, so more public pressure for action is likely to be applied.

Increased limits have shifted more liability on to shipowners, and many states have opted for either unlimited liability for wreck removal or a special limit and fund. The total loss of the bulk carrier SERVER off the west coast of Norway in 2007 is one example. The final bill for Gard and the Pool is three times the 1996 Protocol limit because of a recently adopted special limit that applies in Norway. Generally, as more states ratify the 1996 Protocol and denounce the 1976 Limitation Convention, so the overall liability exposure for the P&I clubs will increase.

The same can be said for a number of other areas such as the 50% mark-up of the CLC 1992 limits in 2003, as well as new and updated international regimes such as the 2002 Protocol to the Athens Convention on passenger claims.



In the spotlight

The creation of larger, publicly-listed companies or divisions of larger conglomerates in the shipping industry has created a higher public profile for these entities. The result is that their image and reputation is threatened when a serious accident occurs in the full glare of the media spotlight. Gard has sought to adapt its crisis management and loss prevention material accordingly; after all, what one shipowner might experience once in their business life, Gard may experience several times in a single year.

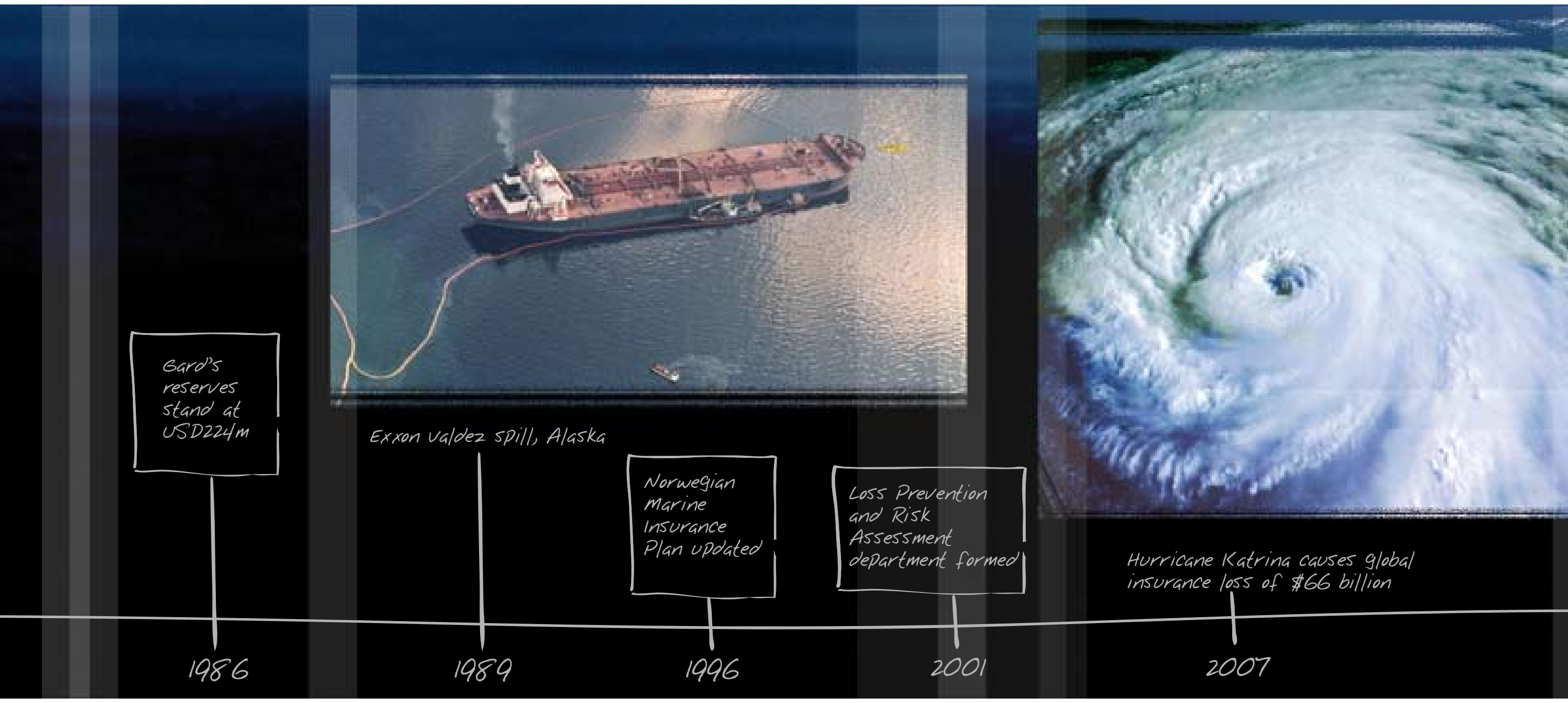
One example was the capsize of the ROCKNES, and the loss of life, off Norway in 2004. This put Gard's emergency response capability to the test. When efforts were at their peak, more than twenty Gard staff assisted in areas ranging from casualty handling, survivor and next of kin issues, to pollution clean-up and media handling and advice.

The experiences gained have been valuable in subsequent cases such as the recent tragic loss of the BOURBON DOLPHIN and the grounding of the bulk vessel TZINI in Taiwan last winter.

The winds of change

Our response to the hurricanes that struck the Gulf of Mexico in 2004 and 2005 is an example of working in a complex claims environment. Despite the time elapsed, our energy claims team is still working hard to help clients deal with some very complex issues relating to the multitude of clients

The future for a professional claims service requires a willingness to learn.



and policies in various insurance and reinsurance layers that were affected, either by widespread physical damage losses both on and offshore, or consequent direct and contingent business interruption losses

Although a following underwriter, our team worked closely with other underwriters, brokers and assureds to ascertain the best outcome for all concerned – mapping the different issues thrown up by each claim and offering possible solutions and alternatives based on in-depth experience. The powerful example of our detailed understanding of the issues is that the loss estimates made in the first year proved to be sufficiently conservative, and our total net loss (accounted for in 2005) has not deteriorated with time.

The future requirements for a professional claims service means that it is vital to have an attitude of agility and a willingness to learn. Our aim is to know, understand and foresee, to the best of our ability, the needs of our members and clients and to meet those needs through the use of our collective knowledge and experience.

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, 2007. We have also audited the consolidated accounts of Assuranceforeningen Gard – gjensidig – and the accounts of Gard P&I (Bermuda) Limited. The preparation and presentation of the combined financial statements is the responsibility of Gard AS. Our responsibility is to express an opinion on the combined consolidated financial statements.

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

In our opinion, the combined consolidated financial statements present fairly, in all material respects, the financial position of the two Associations as of February 20, 2007 and their revenues and expenses for the year then ended, in accordance with the basis of accounting described in the notes to the combined consolidated financial statements.

Arendal, May 25, 2007
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)

Year to	Notes		"Parent company" Gard P&I 20.02.07	20.02.06	Gard M&E 20.02.07	20.02.06	Combined consolidated accounts 20.02.07	20.02.06
Technical account – General business								
Income								
Premiums earned gross	2		299 470	254 391	291 240	241 614	590 710	496 005
Estimated deferred calls on ETC basis	2		47 033	41 474	0	0	47 033	41 474
Reduction in estimated deferred call net of commission			(9 407)	(8 295)	0	0	(9 407)	(8 295)
Premiums earned gross			337 096	287 570	291 240	241 614	628 336	529 184
Reinsurance premiums earned			(56 057)	(49 064)	(36 585)	(67 910)	(92 642)	(116 974)
Premiums earned net		A	281 039	238 506	254 655	173 704	535 694	412 210
Expenditure								
Claims costs net*	3		298 270	225 477	219 581	148 859	517 851	374 336
Operating expenses net	5		32 279	27 726	55 783	49 807	88 062	77 533
		B	330 549	253 203	275 364	198 666	605 913	451 869
Balance on general business technical account	4	A–B=C	(49 510)	(14 697)	(20 709)	(24 962)	(70 219)	(39 659)
Non-technical account								
Investment income	6		81 648	73 980	40 772	33 095	122 420	107 075
Exchange gain/(loss)			13 973	(9 474)	2 694	299	16 667	(9 175)
Investment management expenses			(3 389)	(5 181)	(2 342)	(2 532)	(5 731)	(7 713)
Taxation	7		10 875	2 453	(441)	(380)	10 434	2 073
Balance on non-technical account		D	103 107	61 778	40 683	30 482	143 790	92 260
Excess of income over expenditure		C+D=E	53 597	47 081	19 974	5 520	73 571	52 601
General contingency reserve at beginning of period		F	429 644	385 618	8 766	3 246	438 410	388 864
Pension cost charged to the contingency reserve		G	0	(3 055)	0	0	0	(3 055)
General contingency reserve at end of period		E+F+G=H	483 241	429 644	28 740	8 766	511 981	438 410

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

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

accounts

(All amounts are stated in USD 000's)

	Notes	"Parent company" Gard P&I As at 20.02.07	As at 20.02.06	Gard M&E As at 20.02.07	As at 20.02.06	Combined Consolidated accounts As at 20.02.07	As at 20.02.06
Assets							
Intangible assets	**7**	25 426	9 034	0	0	25 426	9 034
Goodwill	**7**	175	374	8 123	12 315	8 298	12 689
Investments	**8,14**	805 055	710 541	531 699	524 116	1 336 754	1 234 657
Due from Members		4 896	4 925	119 164	70 917	124 060	75 842
Due from reinsurers		0	1 866	0	4 137	0	6 003
Accrued deferred call	**9**	37 626	33 181	0	0	37 626	33 181
Sundry debtors	**10**	6 173	10 545	0	0	2 902	8 840
Investments in subsidiary	**11**	190 000	190 000	0	0	0	0
Real property and fixed assets	**12**	28 410	22 236	0	0	28 410	22 236
Bank balances		93 925	53 342	43 384	48 052	137 309	101 394
Accrued income		15 802	9 906	16 307	16 063	32 109	25 969
Total Assets		1 207 488	1 045 950	718 677	675 600	1 732 894	1 529 845
Equity and liabilities							
Owner's equity							
Shares				190 000	190 000		
Profit and loss account				28 740	8 766		
Total Equity				218 740	198 766		
Technical reserves							
Unearned premium reserve for own account		0	0	147 391	133 750	147 391	133 750
Provision for outstanding and unreported claims		632 013	536 768	346 403	321 264	978 416	858 032
General contingency reserve		483 241	429 644	0	0	511 981	438 410
Balance available for outstanding and unreported claims		1 115 254	966 412	493 794	455 014	1 637 788	1 430 192
Sundry creditors	**13**	92 234	79 538	6 143	21 820	95 106	99 653
Total Equity and Liabilities		1 207 488	1 045 950	718 677	675 600	1 732 894	1 529 845

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" – P&I 2007	2006	Gard M&E 2007	2006	Consolidated accounts 2007	2006
Excess of income over expenditure before taxation	42 722	41 573	20 415	5 900	63 137	47 473
Depreciation of tangible and intangible assets	3 630	4 287	4 192	4 192	7 822	8 479
(Increase)/Decrease in accrued deferred call	(4 445)	7 831			(4 445)	7 831
Decrease/(Increase) in debtors	6 267	12 321	(44 110)	21 212	(37 843)	33 533
(Increase)/Decrease in accrued income	(5 896)	166	(244)	(862)	(6 140)	(696)
Increase in technical provisions	95 245	39 737	38 780	57 311	134 025	97 048
Increase/(Decrease) in creditors	12 696	27 995	(15 677)	(3 968)	(2 981)	24 027
Net cash flow from operating activities	150 219	133 910	3 356	83 785	153 575	217 695
Cash flow statement						
Net cash flow from operating activities	150 219	133 910	3 356	83 785	153 575	217 695
Taxation paid	(1 525)	(589)	(441)	(380)	(1 966)	(969)
	148 694	133 321	2 915	83 405	151 609	216 726
Cash flows were invested as follows						
Increase/(Decrease) in cash holding	40 583	32 544	(4 668)	29 606	35 915	62 150
Increase/(Decrease) in portfolio investments	94 514	95 624	7 583	53 799	102 097	149 423
Increase in real property, fixed and intangable assets	13 597	5 153	0	0	13 597	5 153
	148 694	133 321	2 915	83 405	151 609	216 726

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.

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

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

(III) Closing of policy years

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

The Associations considers 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		2007 USD 1 equals	2006 USD 1 equals
CAD	Canadian Dollar	1.1670	1.1504
CHF	Swiss Franc	1.2356	1.3064
EUR	Euro Currency Unit	0.7603	0.8371
GBP	Pound Sterling	0.5109	0.5731
JPY	Japanese Yen	120.1050	118.2650
NOK	Norwegian Krone	6.1292	6.7493
SEK	Swedish Krone	7.0467	7.8320

(VII) Basis of accounting

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

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

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

(VIII) Technical reserves

The Provision for unearned premium comprises 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) Fixed assets, goodwill and depreciation

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

(XII) Taxation and deferred tax assets

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

NOTE 2 – Premiums earned gross on ETC basis

(All amounts are stated in USD 000's)

For the years to 20 February		"Parent company" – P&I 2007	2006	Gard M&E 2007	2006	Consolidated accounts 2007	2006
Mutual premiums							
Owners' entries							
Premiums		195 145	174 323	0	0	195 145	174 323
Additional calls		6	989	0	0	6	989
Estimated deferred call		45 450	40 122	0	0	45 450	40 122
Defence entries							
Premiums		6 373	5 446	0	0	6 373	5 446
Additional calls		91	39	0	0	91	39
Estimated deferred call		1 526	1 352	0	0	1 526	1 352
	A	248 591	222 271	0	0	248 591	222 271
Fixed premiums							
Mobile offshore unit entries		31 788	25 548	0	0	31 788	25 548
Charterers' entries		54 010	38 550	0	0	54 010	38 550
US oil pollution premiums		7 392	6 304	0	0	7 392	6 304
Defence entries		4 722	3 192	0	0	4 722	3 192
Marine		0	0	183 104	158 765	183 104	158 765
Energy		0	0	108 136	82 849	108 136	82 849
	B	97 912	73 594	291 240	241 614	389 152	315 208
Total on ETC basis	A+B=C	346 503	295 865	291 240	241 614	637 743	537 479
Reduction in estimated deferred call	E	(9 407)	(8 295)	0	0	(9 407)	(8 295)
Total	C+E	337 096	287 570	291 240	241 614	628 336	529 184

NOTE 3 – Claims costs net*

(All amounts are stated in USD 000's)

For the years to 20 February		Parent Company – P&I 2007	2006	Gard M&E 2007	2006	Consolidated accounts 2007	2006
Claims paid gross							
Claims		214 260	172 789	319 872	198 062	534 132	370 851
Other Clubs' Pool claims		22 940	29 644	0	0	22 940	29 644
	A	237 200	202 433	319 872	198 062	557 072	400 495
Reinsurers' share							
From the Pool		21 494	12 699	0	0	21 494	12 699
Market underwriters		11 050	(175)	118 846	71 055	129 896	70 880
Other P&I Associations		1 631	4 169	0	0	1 631	4 169
	B	34 175	16 693	118 846	71 055	153 021	87 748
Claims paid net	**A–B=C**	203 025	185 740	201 026	127 007	404 051	312 747
Change in provision for gross claims							
Provision carried forward		576 888	486 247	491 073	580 855	1 067 961	1 067 102
Provision carried forward - Other Clubs Pool Claims		97 383	82 729			97 383	82 729
Provision brought forward		(486 247)	(448 775)	(580 855)	(425 580)	(1 067 102)	(874 355)
Provision brought forward - Other Clubs Pool Claims		(82 729)	(81 413)			(82 729)	(81 413)
	D	105 295	38 788	(89 782)	155 275	15 513	194 063
Less movement in provision for reinsurers' share							
Provision carried forward		(65 897)	(52 621)	(146 416)	(254 753)	(212 313)	(307 374)
Provision brought forward		52 621	52 274	254 753	121 330	307 374	173 604
	E	(13 276)	(347)	108 337	(133 423)	95 061	(133 770)
Change in provision for claims management costs	**F**	3 226	1 296	0	0	3 226	1 296
Currency valuation - Reserves	**G**	0	0	0	0	0	0
Changes in claims provision net	**D+E+F+G=H**	95 245	39 737	18 555	21 852	113 800	61 589
Claims costs net*	**C+H**	298 270	225 477	219 581	148 859	517 851	374 336

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

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

(All amounts are stated in USD 000's)

For the years to 20 February		Parent Company – P&I 2007	2006	Marine 2007	2006	Energy 2007	2006
Premiums written gross on ETC basis		346 503	295 865	194 752	166 463	105 548	95 946
Premiums earned gross on ETC basis		346 503	295 865	183 104	158 766	108 136	82 849
Reduction in estimated deferred call net		(9 407)	(8 295)	0	0	0	0
Premiums earned net	A	281 039	238 506	163 518	141 851	91 137	31 853
Claims incurred net		275 570	204 977	158 067	104 590	60 118	43 208
Claims handling costs *		22 700	20 500	645	211	751	850
Claims costs net	B	298 270	225 477	158 712	104 801	60 869	44 058
Acquisition costs allocated		6 265	6 500	4 112	7 769	1 935	2 118
Internal expenses allocated		15 891	14 039	14 174	12 072	5 826	6 315
Commission earned net		10 123	7 187	14 178	12 898	11 366	8 635
Operating expenses net – excl. claims handling costs	C	32 279	27 726	32 464	32 739	19 127	17 068
Balance on general business technical account on ETC basis	A–B–C	(49 510)	(14 697)	(27 658)	4 311	11 141	(29 273)
Claims ratio net on ETC basis		103 %	91 %	97 %	74 %	67 %	138 %
Expense ratio net on ETC basis		11 %	11 %	20 %	23 %	21 %	54 %
Combined ratio net on ETC basis		114 %	103 %	117 %	97 %	88 %	192 %

* Claims handling costs share of net operating expenses are included in Net claims costs

NOTE 5 – Operating expenses

(All amounts are stated in USD 000's)

	Parent Company – P&I		Gard M&E		Consolidated accounts	
For the years to 20 February	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Acquisition costs allocated	6 265	6 500	6 047	9 887	12 312	16 387
Administrative expenses allocated	15 891	14 039	24 192	18 387	40 083	32 426
Commission earned net	10 123	7 187	25 544	21 533	35 667	28 720
Operating expenses net	32 279	27 726	55 783	49 807	88 062	77 533
Claims handling costs	22 700	20 500	1 396	1 061	24 096	21 561
Investment management expenses	3 389	5 181	2 342	2 532	5 731	7 713
Operating expenses total	58 368	53 407	59 521	53 400	117 889	106 807
a) Operating expenses include:						
Wages and salaries	31 207	28 478	0	0	31 207	28 478
Social security costs	6 062	6 039	0	0	6 062	6 039
Remuneration of Committee and Executive Committee	448	426	0	0	448	426
Pension contributions	9 036	7 758	0	0	9 036	7 758
Auditors' fees - audit services	214	200	96	72	310	272
Auditors' fees - non audit services	73	7	20	3	93	10
Depreciation	3 631	4 287	4 192	4 192	7 823	8 479

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 2007. The Ratio of 7.8 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 6 – Investment income

(All amounts are stated in USD 000's)

	Parent Company – P&I		Gard M&E		Consolidated accounts	
For the years to 20 February	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Interest earned	17 168	18 510	5 720	15 116	22 888	33 626
Dividends	9 021	5 064	7 181	2 334	16 202	7 398
Profits less losses on realisation of investments	46 873	33 789	(448)	6 439	46 425	40 228
Change in difference between cost and market value of investments	8 586	16 617	28 319	9 206	36 905	25 823
Total	81 648	73 980	40 772	33 095	122 420	107 075

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

NOTE 7 – Intangible assets, deferred tax assets and goodwill

(All amounts are stated in USD 000's)

	Parent Company – P&I 2006	Gard M&E 2006	Consolidated accounts 2006
Specification of goodwill			
Cost as at 20 February 2006	1 680	12 315	13 995
Change in cost due to exchange rates	0	0	0
Accumulated depreciation and write down	1 268	0	1 268
Change in depreciation due to exchange rates	0	0	0
Charge for the year	237	4 192	4 429
Net book value as at 20 February 2007	175	8 123	8 298
Specification of intangible assets			
Cost as at 20 February 2006	20 355	0	20 355
Net purchases in the year	2 679	0	2 679
Accumulated depreciation and write down	9 504	0	9 504
Charge for the year	1 642	0	1 642
Net book value as at 20 February 2007	11 888	0	11 888

The company applies a linear depreciation plan of 5 years

	Parent Company – P&I 2006	Gard M&E 2006	Consolidated accounts 2006
Deferred tax benefit			
Opening balance	4 021	0	4 021
Change in the period	12 400	0	12 400
Closing balance	16 421	0	16 421
Taxation expenses			
Income taxes paid	(1 525)	(441)	(1 966)
Chages in deferred tax benifit	12 400	0	12 400
Taxation expenses	10 875	(441)	10 434

NOTE 8 – Investments

(All amounts are stated in USD 000's)

		Parent Company – P&I		Gard M&E		Consolidated accounts	
As at 20 February		2007	2006	2007	2006	2007	2006
Quoted investments							
Net equities at market value		225 751	189 614	181 452	154 435	407 203	344 049
Net bonds at market value		539 389	484 606	320 095	338 604	859 484	823 210
Unit trusts		16 803	17 695	30 152	31 077	46 955	48 772
	A	781 943	691 915	531 699	524 116	1 313 642	1 216 031
Unquoted investments							
Property mortgages		17 186	13 854	0	0	17 186	13 854
Miscellaneous investments		5 926	4 772	0	0	5 926	4 772
	B	23 112	18 626	0	0	23 112	18 626
Total	A + B	805 055	710 541	531 699	524 116	1 336 754	1 234 657

NOTE 9 – Accrued deferred call – Parent company Gard P&I

The Committee has decided to levy a 20 percent deferred call in respect of the 2006 policy year, payable in 2007. The original estimated for the year was set to 25 percent.

NOTE 10 – Sundry debtors

(All amounts are stated in USD 000's)

	Parent Company – P&I		Gard M&E		Consolidated accounts	
As at 20 February	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Prepaid pensions	0	1 626	0	0	0	1 626
Investment transactions in progress	0	0	0	0	0	0
Sundry debtors	6 173	8 919	0	0	2 902	7 214
Total	6 173	10 545	0	0	2 902	8 840

"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 2007	Combined ownership	Share capital	Cost price	Share of total equity	Share of profit
Gard Marine & Energy Ltd.	100,0 %	USD 190,000	190 000	218 740	28 740
Total			190 000	218 740	28 740

NOTE 12 – Real property and fixed assets

(All amounts are stated in USD 000's)

		2007 Real property and fixed assets	2006 Real property and fixed assets
Cost			
As at 20 February 2006		38 460	34 889
Currency gain/loss		2 492	0
Purchases in the year		7 171	4 228
Sales in the year		(1 064)	(657)
As at 20 February 2007	A	47 059	38 460
Depreciation			
As at 20 February 2006		16 224	14 219
Currency gain/loss		1 442	0
Depreciation on sold assets		(768)	0
Charge for the year		1 751	2 005
As at 20 February 2007	B	18 649	16 224
Net book value			
As at 20 February 2006		22 236	20 670
As at 20 February 2007	A-B=C	28 410	22 236

NOTE 13 – Sundry creditors

(All amounts are stated in USD 000's)

	Parent Company – P&I		Gard M&E		Consolidated accounts	
As at 20 February	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Creditors: direct insurance	8 159	6 571	369	671	8 528	7 242
Creditors: reinsurance operations	886	44	0	4 380	886	4 424
Investment transactions in progress	31 828	41 060	1 866	13 685	33 694	54 745
Accrued taxes	123	(1 831)	0	0	123	(1 831)
Pension liabilities	13 334	9 607	0	0	13 334	9 607
Sundry creditors	12 421	14 659	2 401	1 867	11 551	14 821
Mortgages	11 135	0	0	0	11 135	0
Deferred income	0	0	0	0	0	0
Accrued expenses	14 348	9 428	1 507	1 217	15 855	10 645
Total	92 234	79 538	6 143	21 820	95 106	99 653

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)

Combined P&I

Currency	Net assets	Forward exchange contracts	Net exposure in currency	USD
USD	465 506	4 898	470 404	470 404
CNY	0	512 628	512 628	69 247
EUR	107 042	(61 796)	45 246	58 717
NOK	158 347	168 461	326 808	53 827
SGD	2 639	75 424	78 063	51 631
GBP	48 095	(24 807)	23 288	45 677
JPY	1 163 678	964 875	2 128 553	17 923
KRW	6 003 285	547 974	6 551 259	6 981
ZAR	42 487	0	42 487	5 954
HKD	45 468	0	45 468	5 819
THB	110 113	21 396	131 509	3 897
BRL	6 858	270	7 128	3 405
SEK	74 102	(52 300)	21 802	2 983
MXN	24 027	5 920	29 947	2 728
ILS	9 031	630	9 661	2 308
AUD	2 443	310	2 753	2 163
RUB	0	35 158	35 158	1 345
Other				45
Total financial assets				805 055

Combined consolidated

Currency	Net assets	Forward exchange contracts	Net exposure in currency	USD
USD	672 453	178 466	850 919	850 919
EUR	119 555	(48 318)	71 237	93 144
NOK	160 533	291 835	452 368	74 436
CNY	0	512 628	512 628	69 247
SGD	39 319	54 739	94 058	61 851
JPY	17 484 029	(9 800 116)	7 683 913	59 882
GBP	52 145	(26 257)	25 888	50 765
HKD	291 778	(186 400)	105 378	13 306
KRW	9 452 660	547 974	10 000 634	10 657
ZAR	73 634	0	73 634	10 319
AUD	102 399	(93 590)	8 809	7 589
BRL	13 145	270	13 415	6 410
THB	192 948	21 396	214 344	6 351
MXN	41 987	5 920	47 907	4 364
ILS	15 882	630	16 512	3 945
SEK	77 031	(52 300)	24 731	3 399
MYR	11 564	0	11 564	3 311
TWD	74 637	3 005	77 642	2 354
CHF	28 104	(25 200)	2 904	1 871
TRY	2 229	226	2 455	1 771
Other				862
				1 336 754

Gard P&I
Policy year accounts

A. Development of open policy years

(All amounts are stated in USD 000's)

Policy year		2006	2005	2004	Total
Premiums and calls:					
Invoiced in prior years		0	255 406	240 283	
Invoiced in current year		294 612	0	0	
		294 612	255 406	240 283	
Additional calls debited		401	33 761	41 814	
Estimated deferred call		37 626	0	0	
Total premiums and deferred calls		332 639	289 167	282 097	
Reinsurance premiums		(58 104)	(51 184)	(60 911)	
	A	274 535	237 983	221 186	
Incurred claims net:					
Claims paid		45 340	88 847	131 784	
Estimates on outstanding claims		156 811	102 608	66 612	
IBNRs		78 535	25 571	14 284	
Future claims management costs		8 711	5 133	3 236	
		289 397	222 159	215 916	
Operating expenses		44 104	45 774	41 655	
	B	333 501	267 933	257 571	
Investment income	C	92 232	59 325	55 902	
Surplus on open policy years	A–B+C=D	33 266	29 375	19 517	82 158
Closed policy years:					
Surplus in respect of 2002 and prior years as at 20 February 2006					270 525
Transfer on closure of 2003 policy year					120 589
Changes to policy years prior to 2003					9 969
General contingency reserve as at 20 February 2007					483 241

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	2006	2005	2004	Closed years	Total
Gross estimated outstanding and unreported claims:					
Own claims	221 046	119 603	70 109	150 961	561 719
Pool claims	49 980	14 157	17 946	30 470	112 553
Estimated reinsurance recoveries due from:					
The Pool	32 937	5 582	641	30 360	69 520
The Group excess loss reinsurance contract	0	0	0	(13 754)	(13 754)
Others	2 743	0	6 518	870	10 131
Net estimated outstanding and unreported claims	235 346	128 178	80 896	163 955	608 375
Future claims management costs	8 711	5 133	3 236	6 558	23 638
Provision for outstanding and unreported claims	244 057	133 311	84 132	170 513	632 013
General contingency reserve	33 266	29 375	19 517	401 083	483 241
Balance available for outstanding and unreported claims as at 20 February 2007	277 323	162 686	103 649	571 596	1 115 254

Gard P&I
Notes to the policy year accounts

1. Premiums, supplementary calls, reinsurances and claims are credited/charged to the policy year to which they relate. Operating expenses and investment income are charged/credited to the same policy year as the financial year in which they are brought to account.

2. The annual accounts includes the 20 percent deferred call levied for the 2006 policy year. The original estimate for the year was set to 25 percent

3. The approximate yield of a 10 per cent supplementary call on the open policy years would be:
   2004 policy year USD 15.5 million
   2005 policy year USD 16.0 million
   2006 policy year USD 18.0 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 170.5 million, consists of estimated outstanding claims in the amount of USD 129.1 million, estimates for IBNR claims of USD 34.8 million and provision for future claims management costs of USD 6.6 million.

Committees & Board

THE COMMITTEE

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

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

Basil A. Abul-hamayel
Saudi Arabian Oil Company, Dhahran

Ian Beveridge
Bernhard Schulte, Hamburg

Robert Gerald Buchanan
Genco Shipping & Trading Inc., New York

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

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

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

Nicolas Frangistas
Franco Compania Naviera, Kiffisia

Sjur Galtung**
Wilh. Wilhelmsen ASA, Oslo

Hannu Haapanen
Neste Shipping OY, Espoo

Herbjørn Hansson
Nordic American Tanker Shipping Ltd, Sandefjord

Morten Høegh
Leif Høegh & Co. AS, Oslo

George Kynigos*
AGELEF Shipping Co. (London) Ltd, London

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
Torvald Klaveness & Co. A/S, Oslo

Jan Lissow**
Interorient Navigation Co. Ltd, Limassol

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

Takeshi Matsui
The Sanko Steamship Co. Ltd., Tokyo

Magne Morken*
Solvang ASA, Stavanger

Tadeusz Niszczota
Polish Steamship Co., Szczecin

Nicolas Pateras
Pacific & Atlantic Corporation, Piraeus

Ingar Skaug*
Wilh. Wilhelmsen ASA, Oslo

Oscar Spieler
Frontline Management AS, Oslo

Craig H. Stevenson
OMI Corporation, Stamford

Jane Sy
Stolt-Nielsen Transportation Group Ltd., Rotterdam

Kazuya Uchida
Meiji Shipping Co. Ltd., Tokyo

Hans Ivar Vigen
JJ Ugland Companies, Grimstad

Lynn White
Royal Caribbean Cruises Ltd, Miami

THE EXECUTIVE COMMITTEE

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

Bengt Hermelin
Saudi Maritime Holding Company (SAMCO), London
Deputy Chairman

Trond Eilertsen
Oslo

Axel C. Eitzen
Camillo Eitzen & Co. ASA, Oslo

Jan Lissow*
Interorient Navigation Co. Ltd, Limassol

Michael Say
Aug. Bolten, Hamburg

Claes Isacson
Arendal

THE SUPERVISORY COMMITTEE

Stephen Knudtzon, *Chairman*
Oslo

Skule Adolfsen
Høegh Fleet Services AS, Oslo

Claus Mørch*
Anders Wilhelmsen & Co AS, Oslo

Arne Falkanger Thorsen
Bergesen Worldwide Gas ASA, Oslo

THE ELECTION COMMITTEE

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

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

Alain Bernard
Olympic Shipping and Management SA, Monaco

Herbjørn Hansson
Nordic American Tanker Shipping Ltd, Sandefjord

MEMBERS OF THE BOARD OF DIRECTORS OF GARD P&I (BERMUDA) LTD

THE BOARD OF DIRECTORS

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

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

Sir David Gibbons
Bermuda

Trond Eilertsen
Oslo

Claes Isacson
Arendal

Timothy Faries
Bermuda

* Recommended for election at the Annual General Meeting in August 2007
** Having retired during the year or will retire at Annual General Meeting in August 2007

MEMBERS OF THE BOARD OF DIRECTORS OF GARD MARINE & ENERGY LIMITED

THE BOARD OF DIRECTORS

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

Trond Eilertsen
Oslo

Bengt Hermelin
Saudi Maritime Holding Company (SAMCO), London

Claes Isacson
Arendal

Timothy Faries
Bermuda

MEMBERS OF THE BOARD OF DIRECTORS OF LINGARD LIMITED

THE BOARD OF DIRECTORS

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

Claes Isacson
Arendal

Timothy Faries
Bermuda

David Comer
Bermuda

MEMBERS OF THE BOARD OF DIRECTORS OF GARD AS

THE BOARD OF DIRECTORS

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

Bengt Hermelin
Saudi Maritime Holding Company (SAMCO), London

Trond Eilertsen
Oslo

Claes Isacson
Arendal

Andreas Brachel
Gard (employee representative)

Reidar Ebbesvik
Gard (employee representative)

Meeting dates for Committees and Boards in 2006

ASSURANCEFORENINGEN GARD

The AGM

Friday 18 August, Arendal

THE COMMITTEE

Monday 29 May, Stockholm

Monday 30 October, Monte Carlo

THE EXECUTIVE COMMITTEE

Thursday 2 February, Copenhagen

Wednesday 19 April, Arendal

Saturday 27 May, Stockholm

Thursday 17 August, Arendal

Thursday 28 September, Copenhagen

Saturday 28 October, Monte Carlo

Thursday 1 February 2007, Copenhagen

THE SUPERVISORY COMMITTEE

Wednesday 19 April, Arendal

Tuesday 26 September, Arendal

GARD P&I (BERMUDA) LIMITED

The AGM

Tuesday 25 April, Bermuda

Board of Directors

Tuesday 25 April, Bermuda

Thursday 1 February 2007, Copenhagen

GARD MARINE & ENERGY LIMITED

The AGM

Tuesday 25 April, Bermuda

The Board of Directors

Thursday 2 February, Copenhagen

Tuesday 25 April, Bermuda

Thursday 28 September, Stockholm

Thursday 1 February 2007, Copenhagen

GARD AS

The AGM

Wednesday 19 April, Oslo

The Board of Directors

Thursday 2 February, Copenhagen

Wednesday 19 April, Arendal

Thursday 17 August, Arendal

Thursday 28 September, Stockholm

Thursday 1 February 2007, Copenhagen

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This report, apart from the statement by the Chairman, has been prepared by Gard AS, managers of Assuranceforeningen Gard (the Association), from data and accounts provided by the Association and by its 'sister' company, Gard P&I (Bermuda) Limited (the Bermuda Association). The Bermuda Association's principal activity is as reinsurer of thirty per cent of the Association's retained risks. The report combines the activities of the two Associations in accordance with standard principles of consolidation. It has no formal legal significance, but is provided with the aim of giving Members an easily assimilated summary of the overall financial position of their P&I insurer. The report and accounts of the Association prepared in the Norwegian language have been filed wih 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