HALF YEAR MANAGEMENT REPORT

20 AUGUST 2010

gard

Highlights

USD642m
Gross written premium on ETC basis

USD744m
General contingency reserve

USD2.1bn
Total assets

83%
Combined net ratio on ETC basis

USD107m
Surplus after tax on ETC basis

A/Stable
Standard & Poor's rating

Chief Executive's statement

" TEN YEARS AGO GARD CHALLENGED THE ACCEPTED WISDOM OF HOW BUSINESSES IN THE MARINE SECTOR WERE RUN

Ten years ago Gard challenged the accepted wisdom of how businesses in the marine insurance sector were run. We are proud of the results that we have been able to deliver to our Members since then, but we are very aware that we cannot be complacent about what we do. In the last two years alone we have restructured our underwriting to increase its focus on client needs, established a risk capital committee, reinforced our pricing tools and created Gard Re in Bermuda.

The underlying strategy is to ensure that we have the right skills in the right place to deliver the best products and services for our Members and clients. In all of this we are helped by the continued strength of our financial results. For the first half of 2010, our surplus after tax was USD 107 million, increasing our free reserves to USD 744 million and strengthening our balance sheet so that total assets are now just over USD 2 billion. This was achieved through a strong underwriting performance, a positive claims environment and a healthy return on our investments.

Our income has been on budget for the first six months of the year, and at a group level we achieved a combined ratio net for the period of 83%; the result of a continued focus on achieving the right pricing and risk selection combined with a benign claims environment and positive developments on previous policy years.

The ultimate measurement of our claims performance is delivered by those claims handlers who are serving our Members and clients every day of the week. It is crucial that we all have a shared understanding of what constitutes 'best practice' and when, during the claims process, particular care and attention may be required. For this reason we are moving from a claims structure based on business areas to one based mainly on claims types. As with all our other changes, these are designed to improve the customers' experience; to make sure that every time we interact with Members and clients it is in a way that reflects our understanding of what they do and need. The delivery of first class service continues to underpin our thinking about how we move the organisation forward.

Among the ongoing challenges with which we have to deal are the actions taken by different governments which affect our business and that of our clients. For example, on 26 August, the European Commission announced that, following the expiry of the second 10-year exemption for the International Group Agreement, it is carrying out another review into certain aspects of the Group's claims-sharing and reinsurance arrangements. In addition, the sanctions imposed by various governments against Iran are continuing to raise questions and create uncertainty for Members and clients. However, this sort of change is a constant in all our worlds, and our efforts for the coming months are firmly focused on meeting upcoming challenges by ensuring that we have right service mindset to offer long-term help and support.

Claes Isacson
Chief Executive Officer

Underwriting

> "WE ACHIEVED A STRONG PERFORMANCE FOR THE FIRST HALF, AND WILL MAINTAIN OUR FOCUS ON UNDERWRITING FOR EACH CUSTOMER TO OFFER EFFECTIVE SOLUTIONS

86%
Combined ratio net P&I on ETC basis

80%
Combined ratio net M&E

The group has achieved a strong underwriting performance for the first half year, with P&I recording a combined ratio net (CRN) of 86%, while the CRN for Gard Marine & Energy for the same period was 80%.

Having completed a full year with the new underwriting organisation in place, the structure is continuing to receive a positive response from customers and brokers. We will be going into the next set of renewals with a continued focus on underwriting for each customer individually, and with teams who are looking at their clients' overall risk picture and are able to offer a consistent and effective set of solutions.

P&I

Gard is, relative to the market, in a very strong position both in terms of technical underwriting performance and financial strength and this position is attracting new business both from existing and new Members. So far, since 20 February, the growth in new tonnage has been double that for the same period last year. While this makes for a satisfactory position in the mutual market, there is still fierce competition for fixed price products. Nevertheless, we are gaining new business in this area and this is a sector where we have considerable strength.

Marine

The marine story remains consistent with that which we have been hearing for the last 12 months; pricing is generally flat with pressure for discounts from quality accounts. The recent IUMI conference saw a great deal of discussion around the constant excess capacity and, until this issue is resolved, it is unlikely that the picture will change much.

Energy

The ramifications of the DEEPWATER HORIZON incident have been felt throughout the entire sector – irrespective of whether or not businesses and insurers were directly involved. The most topical subject has been the effect on the liability market, in particular the discussions among contractors and oil companies around limits, how the risks are shared and handled and what effect, if any, possible changes to the US liability regimes will have. There is however still plenty of capacity, with new entrants arriving and some creative thought among the (re) insurers about how to bring new products to market.

Marine Builders' Risks

The problems in the construction sector have been well-documented, with very limited activity this year and very few new orders. The overall decline in the market has meant that demand for this type of cover has also reduced significantly over the last year. There are some signs of a slight pick-up in orders in Asia, but this is not expected to be replicated in other markets for some time.

Claims

> " WE ARE REVISING OUR CLAIMS DISTRIBUTION MODEL TO MATCH HANDLER SKILLS TO INDIVIDUAL CLAIM REQUIREMENTS AND IMPROVE OUR SERVICE OFFER

USD151m
Claims costs net P&I

USD78m
Claims costs net M&E

In addition to its core function of handling claims, the claims department is working to develop its processes and refine the organisational structure in order to improve the service that Gard offers to Members and clients. We are aiming for a revised claims distribution model to match handler profile/skills with the requirements of the individual claim in 2011. This structure will, we believe, allow for further exploit synergies across business areas.

Following a series of closed file reviews and an analysis of claims processes, we have gained some first-class insights into the strengths and weaknesses of the way we work, and made a number of strategic changes. For example, during the first half of 2010 we appointed a Vice President with particular responsibility for P&I cargo claims, who will work with all Gard offices to ensure a consistently high level of service.

The groundwork has also been done for the establishment of a specialist department for the handling of liquid cargo claims, a type of claim which often proves technically complex and high value, at our head office in Arendal. This department will be in operation from 1 November, and will ensure that tanker Members can access specialist advice in this area. In the autumn we will turn our attention to personal injury and crew claims.

The last six months has seen an increased focus surrounding the imposition of sanctions by various governments against Iran which is continuing to raise questions and create uncertainty amongst Members. This is a difficult and complex area; we are however trying to help our Members and clients to understand the issue through circulars, individual communication and events such as the seminar we are hosting in New York on this subject.

P&I

As with all areas of the business the claims picture for the first half has been good. For new claims, the frequency has only increased by 2% (less than the increase in tonnage through the year) while liability has risen by 10%. Older claims have also developed positively over the period. In terms of high profile casualties, we have only had one Pool claim for this year – the first since 2007 – for the CCNI ANTARCTICO, which collided with a berth, another vessel and a container gantry crane in Guayaquil, Ecuador in April. We are pleased to report that the on-site wreck removal for the WEST ATLAS began at the end of August.

Marine

The results for marine claims to the 20 August were very good and considerably below plan – a trend that appears to be being shared by other marine insurers according to the loss adjusting community. Part of this is accounted for by a reduction in claims in general and especially in navigation-related claims, in addition to which there has been a more positive outlook in the repair market with steel prices at their lowest level for some time.

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

Energy

This has been one of the quietest periods in energy claims for some time, although there has been significant academic interest in the development of the Deepwater Horizon casualty. One result of this incident has been that deepwater drilling has been suspended which has reduced the number of incidents. In addition it has alerted companies and personnel to the possible catastrophic consequences of an accident, and this has renewed their interest in loss prevention and risk management.

As newbuildings pick up, it is likely that the level of activity in marine builders' risks will increase as will the frequency of claims. Yard claims from the Chilean earthquake have also increased sharply, but more investigation is required as to how and why they have developed.

Defence

For the first half year the Defence team continues to be very busy; the good news however is that the level of exposure has decreased dramatically. For the last several years, during difficult financial times, the ability to either pursue disputed amounts or defend claims has sometimes meant the difference between financial success or failure for Members. This has enabled us to clearly demonstrate the value of the Defence product.

Gard P&I and M&E
Summary consolidated income and expenditure accounts

All amounts are stated in USD 000's

Six months to 20 August	2010	2009
Premiums and calls*	388,824	392,208
Premiums earned net	335,816	335,327
Claims costs net**	229,457	253,636
Operating expenses net	50,312	54,477
Result on technical account	**56,047**	**27,214**
Result on non-technical account	**51,076**	**169,335**
Surplus	**107,123**	**196,549**
Combined Ratio Net (CRN)	**83%**	**92%**

* Premiums and calls include one half of estimated total calls for the P&I business and gross earned premium for the marine and energy business

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

Summary consolidated balance sheet

All amounts are stated in USD 000's

As at	20 August 2010	20 February 2010
Investments at market value	1,433,048	1,347,709
Cash and equivalents	313,376	242,343
Other net assets	384,160	328,476
Net assets	**2,130,584**	**1,918,528**
Unearned premium reserve for own account	226,742	156,053
Provision for outstanding and unreported claims	1,043,399	1,045,086
General contingency reserve	743,744	638,411
Other liabilites	116,699	78,978
Net equity and liabilities	**2,130,584**	**1,918,528**

Gard P&I and M&E

Income and expenditure accounts on lines of business

All amounts are stated in USD 000's

Six months to 20 August 2010	P&I	M&E	Consolidated accounts
Premiums and calls	238,358	150,467	388,825
Premiums earned net	**203,566**	**132,250**	**335,816**
Claims incurred net	135,541	75,077	210,618
Claims handling costs*	15,480	3,359	18,839
Claims costs net	**151,021**	**78,436**	**229,457**
Operating expenses net excluding claims handling costs	**23,287**	**27,025**	**50,312**
Result on technical account	**29,258**	**26,789**	**56,047**
Result on non-technical account	**35,477**	**15,599**	**51,076**
Result ordinary operations	**64,735**	**42,388**	**107,123**
Combined ratio net	**86%**	**80%**	**83%**

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

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