
DIRECTORS'
REPORT
AND FINANCIAL
STATEMENTS
FOR THE YEAR
TO 20 FEBRUARY 2013

gard

Claes Isacson

1955 - 2013

Since the Directors' Report and Financial Statements for the year to 20 February, 2013 went to the printers, the Board of Gard P&I (Bermuda) Ltd is saddened to announce the death of Claes Isacson, CEO of the Gard group since 2001. This document contains the report he made to the Board of Directors on 27 May 2013.

Claes Isacson joined Gard in 1996 to set up an office in Gothenburg. In 1999 he was promoted to head of P&I underwriting and became CEO in 2001. His tenure as CEO was characterised by a strategy of growth and diversification which led to Gard becoming the largest P&I club in the world and the third largest marine insurer. Gard now has total assets of USD 2.5 billion (USD 720 million in 2001) and employs over 450 staff in 12 offices around the world.

In addition to his role at Gard, Claes played an active role in the wider marine insurance market. In November 2009, he was elected Chairman of the International Group of P&I Clubs – the first non-British person to hold this position – for a three year term.

Integral to Claes' vision for Gard was to create a broader insurance group. To that end, his first act as CEO was to align the product areas of the organisation to create cost-saving synergies and better opportunities for cross-selling. However, simply managing a broader portfolio was just the first step – his wider vision was to take complete ownership of a marine insurance company.

Nearly ten years ago, he led a project which culminated in the purchase of the marine & energy portfolio from If P&C Insurance. This was as significant for the industry as it was for the group since it brought together P&I and marine and energy in one organisation for the first time. There were many who were sceptical about whether shipowners would want to buy a range of marine insurances from a single provider, and even more who questioned whether the provider could do that profitably. There is no doubt Claes' determination and decisive management style was key to this transformational acquisition.

The subsequent growth of the group was concrete evidence that the concept was an attractive one. Members and clients are now offered a wide range of protection from cover for damage to assets, loss of income and third party liability. Today, over half the group's premium income derives from clients with insurances in more than once business area. Since then, his overriding goal was to meet changing client needs. Whether it was developing Gard Academy to look at education, re-engineering underwriting, expanding the office network to reach the emerging economies or creating best practice in claims handling, Claes always looked to the future and to continually improve the organisation and the way it served its Members and clients.

There is no doubt that Gard is the organisation it is today because of his leadership and vision. However, to his many friends and colleagues across the industry, Claes Isacson's contribution cannot be measured solely by numbers. He pioneered open plan offices, understanding the essentially collaborative nature of Gard and in getting the best from everyone and – while he could be a hard taskmaster – he drove himself as hard as anyone, and was generous in giving credit for a job well done. Doing nothing was never an option for Claes. At work that made for a dynamic and exciting environment in which everyone was encouraged to ask "why not", and in his leisure hours made for some epic hunting and sailing tales. He regarded his colleagues as his friends, and was as interested in their lives as well as their work. He will be remembered for his energy, humour, hospitality and zest for life.

Claes is survived by his wife, Pia, and three children, Lotta, Calle and Olle.

Our thoughts and prayers are with Pia and the children at this very difficult time.

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IN OUR OWN WORDS

THIS YEAR WE HAVE ASKED OUR COLLEAGUES TO SHARE THEIR THOUGHTS ON HOW THEY HELP OUR MEMBERS AND CLIENTS TO MANAGE THEIR FINANCIAL AND OPERATIONAL RISKS.

HIGHLIGHTS

Five year performance - year to 20 February

GROSS WRITTEN PREMIUM
USD MILLIONS, ETC BASIS

2009	2010	2011	2012	2013
796	812	792	855	**884**

COMBINED RATIO
PERCENTAGE, ETC BASIS

2009	2010	2011	2012	2013
78	92	94	98	**101**

GENERAL CONTINGENCY RESERVE
USD MILLIONS, BASED ON 15 PER CENT DEFERRED CALL

2009	2010	2011	2012	2013
430	638	790	826	**895**

TOTAL ASSETS
USD BILLIONS, BASED ON 15 PER CENT DEFERRED CALL

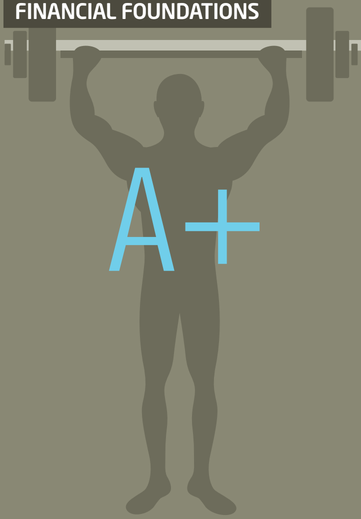
2009	2010	2011	2012	2013
1.7	1.9	2.4	2.5	**2.5**

AFTER TAX RESULT
USD MILLIONS, ETC BASIS

2009	2010	2011	2012	2013
-150	240	175	51	**99**

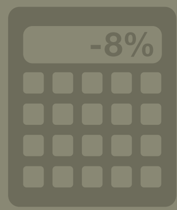
AT A GLANCE

FINANCIAL FOUNDATIONS



Gard's financial strength rating was upgraded by Standard & Poor's to A+ in December 2012.

THIRTY ONE MILLION DOLLARS



In May 2013 Gard returned USD 31 million to the mutual Members of the Club by reducing the deferred call for the 2012 policy year from 25 per cent to 15 per cent of the advanced call.

KNOWLEDGE & EXPERTISE

A property policy to cover damage to or loss of containers – on and off the ship – was launched.

10 YEARS

Gard Academy celebrated its 10th anniversary and won the Kompetanseprisen for 2012 – rewarding the promotion of professional development.

BUILDING RELATIONSHIPS

P&I owners' mutual tonnage in 2012, millions of gross tonnes

159

Number of vessels in the marine book

7,650

Number of staff

450

IMABARI

In November 2012, we opened an office in southern Japan.

Different nationalities

22

ABOUT GARD

What do Members and clients need?

The global economy could not function without the shipping industry. Without shipping, inter-continental trade, the bulk transport of raw materials, and the import/export of affordable food and manufactured goods would simply not be possible.

It is however a risky business, and the consequences of accidents at sea can affect a much wider number of people than are directly involved – for example, in cases involving significant loss of life or pollution. Those involved in the marine industries therefore need to mitigate and manage their risks, while ensuring that they are in a position to deliver compensation and support to the victims of maritime accidents, should the need arise.

Alice Jackson Amundsen, Defence Claims

Fernando Shuhei Iida, Claims

What do we do?

For more than 100 years, Gard has been helping shipowners to protect their assets, safeguard their incomes, and defend their reputations so that trade can flourish.

As the maritime industries face changing times and fresh challenges, our objective is to help to manage the totality of Members' and clients' exposures – both to existing and developing risks. Providing risk capital is just one part of what we do. By ensuring that we also focus on risk assessment and loss prevention, as well as how we handle all aspects of casualties and crises, we can offer support every step of the way.

Ajaz Peermohamed, Claims

May Kristin Lillebø, Underwriting

ABOUT GARD
continued

How do we do it?

As individuals and as an organisation, we bring integrity to everything we do. Long-term relationships are built on trust, so we strive for honesty, transparency and respect. To respond to changing business realities, we have built our business on strong financial foundations, deep knowledge and expertise, and robust relationships.

Strong financial foundations

- For over a century, we have built our financial strength to offer the stability and predictability that means our Members and clients can focus on their day-to-day businesses.
- Our history and structure means that sharing risk and reward is at the core of what we do.
- We do not aim to maximise short-term results, but instead invest for the future and manage resources and capital as effectively as possible.

Arne Sætra, Defence Claims

Deep knowledge and expertise

- We make a significant investment in our intellectual capital so that we can share expertise, experience and best practices, both internally and externally.
- Our product range is continually evolving and improving to assist our clients with meeting human, environmental and technological challenges. We also cater to specific needs requiring bespoke solutions.
- Marine biologists, engineers, lawyers and captains of vessels are just some of the specialists who work at Gard, delivering wide-ranging industry expertise to help solve your problems.

Robust relationships

- Our focus is entirely on the maritime industries – we understand where Members and clients have come from, and the dynamics of their businesses.
- With a network of 12 offices and teams of in-house claims specialists, we offer access to the right people and processes at every stage of the journey.
- We are passionate about what we do and how we do it – everything we do is about getting back to 'business as usual' as quickly as possible.

Jai Raymond Johansen, Underwriting

CHAIRMAN'S STATEMENT

"I have been privileged to serve the Gard group through almost two decades of extraordinary change."

Stephen Pan, Chairman

In this, my last Report and Financial Statements as Chairman of Gard, it seems appropriate to reflect briefly on some of the changes and constants that have affected the industries in which it operates. I have had the privilege to serve the Gard group through almost two decades of extraordinary change. This change, both internal and external, has fundamentally shaped the organisation that Gard has become.

Changing market conditions

Both shipping and insurance are characterised by highly cyclical behaviour – moving from highs to lows and back again with considerable and increasing frequency. While technological advances, productivity gains and greater globalisation have made the industry more efficient, they have also exacerbated the speed and magnitude of over-supply when demand takes its cyclical hiatus. Today the shipping industry is languishing in an ongoing trough, marked by excess tonnage and significant yard over-capacity against a background of very weak or non-existent demand growth. Recovery from the economic fallout has been stubbornly slow. Many structural weaknesses in the financial sector have been exposed and the resolution of these issues may take some time before we can see steady and sustainable growth.

The clear consequence is that many shipowners are facing financially and operationally challenging times. Falling asset values are putting pressure on many owners' loan covenants, while ongoing weak freight rates are often insufficient to cover vessels' operating expenses. Scrapping levels are far below those seen in the early 1980s, when a four-fold price increase in crude oil sent a shockwave through the global economy, resulting in an unprecedented global slowdown. On the other hand, the low prices being offered by many shipyards for energy-efficient ships are attracting some owners to place orders – despite the clear supply-demand imbalance. While I have no doubt that these new designs are environmentally friendly and economical to operate, they will nonetheless add to supply and may prolong the very poor market conditions.

Over the past two decades, China's demand for raw material imports and its export of manufactured goods has driven an almost unprecedented freight market boom. Today, however, excessive yard capacity, together with a government policy of direct and indirect support for the shipyards, may become the bane of the market.

"Some forecasts for 2013 offer a glimmer of hope."

Some forecasts for 2013 offer a glimmer of hope, with a predicted decline in the rate of growth for the world fleet and a reduction in newbuilding deliveries. Improving world trade, including an increase in seaborne trade, could make a difference to shipowners around the world and bring some much-needed relief. I would, however, caution that improving trade and economic conditions may also bring about adjustments in interest rates that could dilute their positive effect.

"The ability of businesses to navigate through peaks and troughs is what sets them apart."

The insurance industry is also suffering from over-capacity, creating highly competitive market conditions across almost all classes of business. Changing requirements from buyers in terms of products and expected levels of support are also having an impact, as is pressure on pricing. At the same time, yields on fixed-income instruments are at an unprecedented low. Many investors are significantly increasing their investment risk profiles in an attempt to chase yields. However, I am happy to say that as Gard's balance sheet is strong, we do not need to take undue risks to maintain our financial position.

The ability of businesses to navigate through these peaks and troughs is what sets them apart. Against this backdrop, the Gard model has proved robust. The strategy of being well-capitalised; focusing on efficiency; and taking risk from our Members is one that has positioned us strongly over the long term. Given that Gard's regulatory oversight sits in the relevant Finance ministries – not Transport – they too focus keenly on the balance sheet, so having a capital base that is second to none benefits everyone involved with Gard in the long term. It also means that the organisation is well-positioned to meet future regulatory requirements in Bermuda and under Solvency II.

Increased government intervention

Another constant has been the increase in government intervention and the use of sanctions. More and more intrusive legislative changes have led to increased liabilities, which in turn have increased costs for activities such as wreck removals.

The other two key areas of focus are the EU Passenger Liability Regulation (EU PLR) and the Maritime Labour Convention (MLC).

The EU PLR came into force on 31 December 2012, incorporating into law the key provisions of the 2002 Protocol to the Athens Convention – even though they have yet to come into force. Essentially, this means that shipowners involved in carrying passengers are exposed to war risks that are not included in a mutual P&I policy.

To address this gap in cover, Safeguard Guarantee Company Ltd. a wholly-owned subsidiary of Gard P. & I. (Bermuda) Ltd. has developed an insurance and guarantee facility that covers the war risk liabilities that fall outside the standard P&I cover. We believe that these risks should be excluded from the Pooling Agreement because they are high accumulation risks that need to be handled differently, and which the International Group is not structured to handle.

The MLC is a consolidation of more than 60 existing International Labour Organisation standards and codifies a framework of rights and duties for seafarers, shipowners and governments. It requires shipowners to comply with a raft of operational and technical requirements, and introduces new provisions on financial security. In August 2012, the Philippines government became the 30th state to ratify the MLC, thereby triggering its entry into force in the relevant states from August 2013. As a result, the MLC will come into force in some of the states with the largest ship registers by tonnage – such as Panama and Liberia – almost guaranteeing its universal application.

In recent years, we have seen a trend for states to opt out of various international conventions in order to create their own solutions for certain categories of claims. This has certainly been the case with regard to the right to limit liability for wreck removals, and more recently we have seen the global limitation figures for passenger claims increase.

"More and more intrusive legislative changes have led to increased liabilities, and increased costs."

Therefore, we believe that a unified law would have great value. It would simplify the handling of major casualties and, to some extent, avoid forum shopping. The idea of creating such a law in the maritime field, however, is undermined by the freedom that state parties to a convention have to create their own solutions within it.

Regulation of insurers rising

The insurance industry also faces closer regulatory scrutiny, both directly in order to manage possible policyholder risk, and indirectly as a political tool. One of the major challenges that the industry has faced over the last few years has been the introduction of Solvency II. While its underlying philosophy is simple, its implementation has been complex and a final start date has yet to be agreed. This has undoubtedly created pressure across the re/insurance market. The financial crisis has also caused regulators around the world to look at risk-taking in its entirety more closely, so there may be more changes to come.

New sanctions continued to proliferate in 2012. The insurance industry – and therefore inevitably its clients, the shipowners – was increasingly swept up in these developments, as it is seen as an effective route to enforcement. These sanctions place a heavy compliance burden on marine insurers, who cannot operationally control the trade routes or port calls of entered ships. There are also significant difficulties around applying unclear and sometimes conflicting legislation targeting different trades, cargoes and territories.

More worrying is the fact that claims arising in connection with sanctioned activities are not covered by the Clubs, or under the Pooling Agreement or market reinsurances – thus leaving victims of maritime casualties potentially without recourse to compensation.

CHAIRMAN'S STATEMENT
continued

As of 20 February 2013, all Clubs within the International Group, except the Japan P&I Club, are regulated by authorities that have imposed sanctions on certain shipping activities involving Iran and some other countries. The result could be the establishment of new Clubs in territories that are not affected – thus increasing competition within the market – and tried and tested providers of insurance may be put at a disadvantage by newcomers who are not subject to the same sanction regimes.

The need for robust systems

After the handful of high profile and very costly marine casualties of 2011, we saw the rare occurrence of Gard having six Pool claims in the 2013 financial year. This illustrates the volatility inherent in our industry, as well as the strength of the mutual system – underpinned by the International Group and its pooling system – in managing the impact of losses like these.

Last year the EU Commission decided to close its two-year investigation into the International Group Clubs' claims sharing and collective reinsurance programme. This investigation, and its conclusion, took place while Claes Isacson was Chairman of the Group. The decision is a vote of confidence by the Commission in the value of the current P&I system and the unique role it plays in helping global shipping companies to access cost-efficient insurance solutions to cover the most common maritime liabilities.

"This system benefits not only shipping and commercial trade interests in general, but also society at large."

This system not only benefits shipping and commercial trade interests in general, but also society at large because it ensures that victims of maritime incidents are compensated.

Two of the three largest-ever claims made under the Group XL reinsurance contract were in 2011. Inevitably, this had a significant impact on the cost of reinsurance and the International Group has worked hard to mitigate it. It has a long-term perspective and works continually to find the right balance between mutual claims sharing, retained versus transferred risk, and market pricing, so that shipowners may continue to enjoy the highest available levels of cover at affordable prices.

The mutual concept of P&I has served the shipping industry well since its inception over 150 years ago. It is sometimes important to impress upon the regulatory bodies that the Clubs are not a bottomless pit when it comes to the scope and quantum of liability. I am sure all of the International Group Clubs will do whatever is necessary to allow shipowners to ply their trade with peace of mind, but clear consideration must be given to potential systemic risks that may bring down this cost-effective and venerable system.

Looking back and forward

When I was elected to the role in 2004, Gard had just begun the journey that has transformed the group with the acquisition of the M&E portfolio and since 2008 has been the largest Club. Over my tenure as Chairman, I have been fortunate to be able to report on the ongoing development of the Gard operation.

"Mutuality remains the heartbeat of the group and one of the foundations of its success."

However, Gard did not become what it is today by luck or default. It has progressed through solid team work, strong business performance, productive financial and human capital and, above all, a robust knowledge base and forward-looking culture. We have survived and prospered in a world of turbulence and volatility, and it is important that we preserve and improve upon the ingredients that have made Gard what it is. Key to this will be attracting and keeping good people. Good people tend to work for good organisations, and Gard has a good mix of old and new, conservative and adventurous, the practical problem solver and intellectual thinker.

Under the leadership of Chief Executive Claes Isacson, Gard has retained its mutual mindset and values, helping it to fulfil its core purpose of helping Members and clients to mitigate and manage their risks. Mutuality undoubtedly remains the heartbeat of the group and one of the foundations of its success.

I would like to thank everyone who has given their time and commitment to work on our boards and committees, as well as the energy and enthusiasm of everyone at Gard. It has been a pleasure to work with all of you, and to share a journey of creativity and achievement – very much a Gard tradition that I am sure will continue far into the future.

Stephen Pan
Chairman

Bjørnar Andresen, Underwriting & UK Manager

Anne Boye, Claims

Veronica Villegas, Defence Claims

CHIEF EXECUTIVE'S OPERATIONAL REVIEW

"I am pleased to be able to report strong results for the last financial year."

Claes Isacson, Chief Executive Officer

Despite challenging market conditions, I am pleased to be able to report strong results for the financial year ending 20 February 2013. We recorded a surplus of USD 99 million on an estimated total call basis.*

We were pleased to achieve an almost break-even underwriting result across the group, with a combined ratio net of 101 per cent. We have a robust underlying insurance portfolio and saw moderate growth over the year, achieving a gross written premium of USD 884 million. Gard remains strongly capitalised, with free reserves of USD 895 million, an increase of eight per cent.

We achieved a return of 6.1 per cent on our investments, well above our expectations for the year. This resulted from a marked improvement in many asset classes towards the end of the year, and a solid performance in the equity markets.

Underwriting results broadly on target

Our overall gross written premium rose three per cent in the 2012 policy year. This was a good result in difficult markets and was above expectations. Overall, we are finding that growth is best in areas where we have a strong, established value proposition for our Members and clients.

"Growth is best in areas where we have a strong, established value proposition."

Last year, gross claims totalled USD 796 million and we had six claims above USD 10 million on a gross basis. While the total number of large claims by the end of the year was roughly what we expected, there were considerably more claims in P&I and fewer in other areas than anticipated.

"Gard is strongly capitalised, with free reserves of USD 895 million."

In 2012 the supply side of the marine insurance market was characterised by ongoing excess capacity, leading to strong competition among insurers. Demand, however, was driven by the state of the shipping market and the economy at large. The result was flat to softening pricing across most areas of the industry. In addition, reinsurance costs were increasing, particularly for energy liability. There is no doubt that the tough climate underlines the need to achieve positive technical underwriting results through prudent risk selection and correct pricing of our insurance portfolios.

Overall, there was more movement between insurers than we have seen for a number of years. Owners appear to be looking to save money, and to change insurers if that helps them to do so.

P&I

For P&I, gross premium written for the year was USD 561 million, an increase of eight per cent compared to the year before. The 2013 P&I renewal was a successful one for Gard, in spite of market conditions being challenging in many areas. This concluded the eighth consecutive P&I renewal with a positive tonnage development, and the anticipated premium increases were achieved. Over the year, tonnage grew by 12 million GT to 175 million GT, an increase of seven per cent.

The start of the 2012 financial year saw a spate of claims in P&I, which then settled down as the year progressed. The first three months of the financial year saw Gard having five claims in the Pool. Of these, three related to navigational errors, while two resulted from explosion and fire – and fortunately none of them involved serious environmental damage. This illustrates the volatility inherent in our industry for which we need to be prepared, and our key priority is to manage the impact of these losses as effectively as possible.

In Defence, frequency rather than severity was the key issue, with the number of claims reported rising 11 per cent compared to the 2011 policy year. However, we have the required resources to deal with this level of activity, having significantly strengthened our Defence capabilities across the Gard network so that we can offer comprehensive coverage from west to east.

* All premium figures and key ratios are on Estimated Total Call (ETC) basis, i.e., calculated before the reduction in deferred call which reduces the premium income. The accounts in this report are presented after accounting for the reduced deferred call.

Marine & Energy

Across the Marine & Energy (M&E) business we saw strong results in 2012. Gross written premiums decreased by one per cent to USD 323 million, while gross claims totalled USD 185 million.

The marine market remains highly competitive, with any capital that leaves the market being quickly replaced by new underwriters. This appetite for risk and the availability of capacity has outweighed the impact of last year's very large claims. The claims picture for Gard was favourable over the year as a whole, albeit with peaks of activity at the beginning and end of the policy year.

While claims frequency has fallen slightly, the handling process – especially for loss of hire claims – is becoming slightly more challenging. This reflects ongoing profitability issues across the shipping industry and, as such, we expect to see more claims in the future linked to a reduction in the owners' operating budgets for maintenance on board. In addition, bunker quality issues and reductions in vessel speeds for economic or environmental reasons may lead to more engine damage claims.

In line with the Energy market overall, we had a very good year. Exceptionally good claims development across E&P and mobile offshore unit (MOU) hull claims was a significant contributor to the results of the group overall. There have, however, been rising calls for imposing extreme fines and penalties on the oil industry following offshore spills in certain regions, and this issue will need careful consideration when deciding what cover can be offered to different segments of the offshore industry.

Energy is a low frequency/high severity class of insurance – characterised by a more volatile results profile – and, as such, it requires the type of long-term commitment that we have made to this line of business. This year, we will be celebrating our 40th anniversary as a provider of insurance cover to oil and gas companies and owners/operators of MOUs.

Helping to prevent losses

Core to what we do is helping our Members and clients to manage the totality of their existing and developing exposures. Our popular loss prevention updates – of which we published 46 last year – are a key part of this.

Our major loss prevention concern at present is navigation accidents, as well as improving safety when transporting solid bulk cargoes that may liquefy. In addition, due to the increased number of claims within the container vessel segment in 2012, we will be focusing on that area going forward. Work will also be focused on providing relevant training; during 2012, our Loss Prevention department continued to help train crews, focusing on operational risks and contributing factors to accidents.

Investments

We achieved a strong investment result for the year, with a return on investments of 6.1 per cent – significantly exceeding our expectations. It was another volatile year in the financial markets, but the investment markets strengthened towards the end of the financial year. Equities and, in particular, real estate performed well. The portfolio also outperformed the benchmark with our active managers delivering a strong relative return.

The majority of Gard's investment portfolio is managed through its own fund structure, the Gard Common Contractual Fund, which is established in Ireland. This investment structure represents a common legal framework for the management of the funds belonging to the risk-carrying entities in the Gard group. The objective is to reduce management costs and optimise total returns within the investment guidelines. The overall fund investments are governed by guidelines set by the Board of Directors of each legal entity in the group.

> **"We achieved a good return on our investments, well above our expectations for the year."**

The asset allocation was stable through the year. At 20 February 2013, the asset exposure was 53 per cent in US fixed income, 19 in non-US fixed income, five in emerging market debt, 15 in global equities, five in real estate and three per cent in cash.

Looking ahead, however, we anticipate a modest investment return over the medium term as interest rates are expected to remain low.

Long-term stability

In May 2013, we announced our decision to return USD 31 million to the mutual Members by reducing the deferred call for the 2012 policy year from 25 per cent to 15 per cent. For each of the last four years Gard has reduced its deferred call, returning a total of USD 113 million to the membership.

We believe that our track record of managing estimated and actual deferred calls demonstrates the underlying strength of our operations over the long term. We remain committed to only asking for the general increase that we need, and – when our results and capital position allow – looking to further reduce costs for our Members.

In December 2012 we received an external vote of confidence when Standard & Poor's (S&P) upgraded our financial strength rating to A+. This was a recognition of the strength of Gard's capital position, as well as S&P's expectation that the group will sustain its strong competitive position, maintain its operating performance and develop its robust enterprise risk management going forward.

There is little doubt that ongoing uncertainty around the state of the global economy means that insurance buyers and brokers place a premium on financial strength and stability. Having now achieved the highest rating in the specialist marine market, Gard has benefited from that flight to quality. Our long-term financial stability and attractive premium policy have contributed to deep client loyalty for both P&I and M&E. The strong renewal results for both existing and new business underpin the competitive advantage this gives us.

CHIEF EXECUTIVE'S OPERATIONAL REVIEW
continued

Andre Kroneberg, Underwriting

Solvor Ek Hayes, Technical Accounts

The right resources in the right places

Our team of nearly 450 people, made up of 22 different nationalities in 12 offices around the world, is the key to our ongoing success. Our people are experts at what they do, using their specialist knowledge and skills to deliver for our Members and clients. In the last year alone we have added to that pool of talent from a variety of diverse backgrounds, including law, finance, the maritime industries, and mathematics.

In addition to the recruitment of experienced staff, we have a strong and long-term commitment to laying the foundations for the next generation through our graduate trainee scheme. This year we took four trainees – from 260 applicants – and we are delighted that in the last few years we have been able to offer 12 trainees full-time employment at the end of their year with us.

People are the lifeblood of our organisation. It is only if we invest in our employees and their ongoing development that they will be able to provide our Members and clients with the service that they deserve, and truly help us to stand out from the crowd.

This was one of the key objectives in the creation of Gard Academy in 2003. Over the last decade, it has provided a range of courses focusing on technical insurance and other relevant skills needed in today's world. As well as now being part of every employee's development, we also share these high-quality courses externally.

Ten years on, we were delighted to win an award in April 2013 for our investment in professional development. The Kompetanseprisen Award for 2012 was given to us by Agdering, an association whose members promote professional development in Southern Norway. Agdering said that Gard's success was based on clear, long-term commitment by our leadership; the practical implementation of the programme; and the engagement of our employees.

> **"Our Members and clients need business partners who share a global footprint."**

Having the right resources is only half the equation; ensuring they are in the right place is also vital. As global businesses, our Members and clients need business partners who share a global footprint. Over the last decade Gard has created a genuinely

Toshiyuki Kawana, Manager

international network – designed to offer first-class service wherever we are needed. Members and clients tell us that our service levels and investment in local relationships combine to make a value proposition that genuinely resonates with them, and this is reflected in our results.

We are continuing to build on this strategy by ensuring that we go where our Members and clients are going. In August 2012, we began the process to establish an admitted reinsurer in Brazil, with a representative office in Rio de Janeiro manned by an experienced underwriter. While the P&I clubs have always had access to this market, the same has not been the case for foreign marine and energy insurers. As a result, while Gard P&I has had a portfolio of Brazilian business for more than 20 years, on the M&E side we have only been able to compete in a very limited way. However, we are pleased to report that in April 2013, Gard Marine & Energy Limited gained registration as an admitted reinsurer in Brazil.

We also continue to invest in more mature markets. In November 2012, we opened a new office in Imabari in Japan. A significant number of shipowners operate from the west of the country, so this presence will help us to understand local needs, and decide on what resources we should provide to meet them going forward.

Delivering a quality service

Operating expenses, excluding commissions, amounted to USD 157 million. This includes a write-off of system development expenses. However, our expense ratio has risen in recent years, with currency exchange movements and wage inflation being the major drivers.

"We are well-positioned to meet future challenges and help our Members and clients manage their risks."

We are actively working to improve our processes. To this end, we have invested in a quality management (QM) programme to create an environment where our employees are encouraged to contribute continuously to the improvement of our operations. We want people at all levels to feel engaged and accountable, getting actively involved in systematically improving what we do and how we do it. A significant part of the QM project is to map the processes and underlying workflows in key areas such as Claims, Underwriting, Accounting, ICT and HR. Both the mapping process itself and the documentation will provide a better understanding of how we operate, and a good basis for more efficient and effective operations in the future.

Looking ahead

There will always be peaks and troughs in our business and the 2012 policy year was definitely a high point – a solid performance against a difficult backdrop – and we can take pride in that. Overall, we believe that we are well-positioned to meet future challenges: we have a strong competitive position relative to our peers; a sound insurance portfolio; and we are well-capitalised to meet future regulatory requirements and help our Members and clients manage their risks.

I would like to thank everyone at Gard for the hard work, enthusiasm and creativity that they have contributed over the last 12 months. However, there is no room for complacency. We are focused on long-term gain and, going forward, we will continue to concentrate on helping our Members and clients manage their risks, and improving the effectiveness and efficiency of our operations.

Claes Isacson
Chief Executive Officer

CORPORATE SOCIAL RESPONSIBILITY

"Our philanthropic activities include regularly supporting the Red Cross when there is a crisis or urgent need for help. We also sponsor an SOS Children's village in Liberia: we raise money for them every Christmas instead of sending cards to our Members and clients. Finally, we support the Gamalakhe Development Centre in South Africa on a regular basis. "

Corporate social responsibility (CSR) is a subject we take seriously, and we understand its importance to our employees, Members and clients, and to society as a whole. People want to work for a company that contributes to the societies in which it operates, demonstrates strong ethical values and does the right thing.

We have long focused on 'giving back' to society – this idea is central to who we are and is underpinned by our core values: **FAIR**

- **Friendliness** – we are friendly; we give back to society and share knowledge
- **Adaptability** – we continually improve in order to sustain over time
- **Integrity** – we do the right thing and act transparently
- **Result-oriented** – sustainability makes business profitable

A sense of fairness and equity is the basis for building an organisation of which we can all be proud, and it is within this context that we define our CSR activities under three key headers: people, sustainability and legal.

People

Our work is focused in two main areas: philanthropy and knowledge.

Our philanthropic activities include regularly supporting the Red Cross when there is a crisis or urgent need for help. We also sponsor an SOS Children's village in Liberia: we raise money for them every Christmas instead of sending cards to our Members and clients. Finally, we support the Gamalakhe Development Centre in South Africa on a regular basis.

We are also active supporters of local cultural activities. For example, we sponsor the Arendal Culture House, Canal Street (a yearly jazz and blues festival in Arendal) and several local sports clubs.

In terms of knowledge, we are one of the founders of the Thor Heyerdahl International Maritime Environmental Award, which honours individuals or organisations in the shipping industry that have made outstanding contributions to preserving the marine environment.

We also sponsor the Norwegian Maritime Museum, which aims to encourage a broader understanding of how important maritime development has been – and will continue to be – to Norwegian society.

In Arendal, we support the Knowledge Centre, which teaches young people about chemistry, physics, maths, technology, biology and maritime risks in a practical and fun way. We are also on the board of the Arendal International School, which operates as a foundation, and provide financial support.

Gard also sponsors scholarships for students at the World Maritime University (WMU); the WMU is an institution that educates people from developing countries who work in the maritime industry in order to build capacity in those countries.

Grethe Ljøstad, Claims

Masamichi Yokoyama, Claims

YoungShip, a non-profit organisation for young people working in the global shipping industry, is another organisation that we support through knowledge-sharing and loaning our facilities for events. In addition, we regularly share knowledge with members of Arendal's council, usually in the form of training courses.

Sustainability

The environment is a major focus for Gard, so we have a range of activities centred on this area. We organise this into four areas: what we do within our Property and Service team; our work within the International Group; with our Members; and towards society.

Protecting the environment and ensuring we are not wasteful is an important goal, and our Property and Service department is always looking for ways to improve how we do this – for example, installing heat pumps for seawater cooling/heating and using movement sensors to control lighting.

Gard also carries out a range of loss prevention activities focused on environmental issues which are targeted at our Members and clients, as well as participating in International Group work on this topic.

Legal

The legal aspects of our CSR work centre on promoting high ethical standards and the need to respect human rights throughout our supply chain.

We also strive to create a positive working environment for our employees, and conduct regular employment satisfaction surveys to monitor progress. Health and safety is crucial in the workplace, and we work hard to ensure that all of our employees can do their jobs safely.

Anti-corruption is another key area of focus, so we have created a set of ethical guidelines that all employees have to become familiar with. We have also developed a whistleblowing system.

Chris Connor, Claims

Wenche Dahle-Olsen, Underwriting

Monica Kohli, Defence Claims

AUDITOR'S REPORT

We have audited the accompanying financial statements of Gard P. & I. (Bermuda) Ltd. comprising the financial statements for the parent company and the group. The financial statements for the parent company and the group comprise the balance sheet as at 20 February 2013, the statements of profit and loss and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

The application of Norwegian generally accepted accounting principles and "Regulations for annual accounts for insurance companies" for the preparation of these financial statements is approved by the Bermuda Monetary Authority.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Opinion

In our opinion, the financial statements of Gard P. & I. (Bermuda) Ltd. for the year ended 20 February 2013 are prepared, in all material respects, in accordance with Norwegian generally accepted accounting principles and "Regulations for annual accounts for insurance companies" approved by the Norwegian Ministry of Finance.

Arendal, 27 May 2013
ERNST & YOUNG AS

Jan Dønvik

NOTICE OF AGM

To The Members of Gard P. & I. (Bermuda) Ltd.

NOTICE IS HEREBY GIVEN that the 2013 Annual General Meeting of Gard P. & I. (Bermuda) Ltd. (the "Company") will be held on Wednesday, 28 August 2013 at the offices of its Manager, Lingard Limited, Trott & Duncan Building, 17A Brunswick Street, Hamilton HM 10, Bermuda at 12:00 noon or as soon thereafter as possible, for the following purposes:

AGENDA

1. To appoint a Chairman and a Secretary of the Meeting.
2. To read the Notice calling the Meeting and to confirm that a quorum is present.
3. To consider the Minutes of the 2012 Annual General Meeting of the Company held on 29 August 2012.
4. To receive the Auditor's report and Financial Statements for the year ended 20 February 2013.
5. a) To elect Directors and Alternate Directors;
   b) To authorise the Directors to fill any vacancies on the Board;
   c) To authorise the Directors to appoint Alternate Directors; and
   d) To determine the remuneration of the Directors and the Alternate Directors.
6. To elect members of the Election Committee.
7. To appoint new Auditors for the financial year to 20 February 2014.
8. To ratify and confirm the actions of the Directors and Officers of the Company in relation to their Company duties.

By order of the Board of Directors

Graham W. Everard
Secretary

Kim Jefferies and Karl Petter Muhlbradt, Claims

Akiko Inohana, Assistant Manager

Heiko Bloch, Claims

Chris Mackrill, Claims

CORPORATE GOVERNANCE

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

Composition of the Board and Committees

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

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

In line with Bermudan law Gard P. & I. (Bermuda) Ltd. has a Board of Directors whose directors are all elected by the membership at the Annual General Meeting. There are not less than 10 and not more than 35 directors and the Board normally meets twice a year. Following elections at the Annual General meeting in August 2012, the Board now consists of 23 Directors.

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

The Executive Committee

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

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

The Election Committee

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

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

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

Professional secrecy

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

Conflicts of interest

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

Duty to inform if a conflict of interest situation arises

If a conflict of interest situation arises, or a situation arises which might give reason to assume that such a conflict may exist, the relevant member of the board or committee has a duty to report the matter immediately to the chairman of the relevant board or committee.

MEETING DATES

The meeting dates for the Board and the Executive Committee of Gard P. & I. (Bermuda) Ltd. in the period from 20 February 2012 to 20 February 2013 are as follows:

The Annual General Meeting

Wednesday 29 August 2012, Bermuda

Board of Directors

Monday 28 May 2012, Luxembourg
Wednesday 29 August 2012, Bermuda
Monday 29 October 2012, Budapest

Executive Committee

Thursday 19 April 2012, Arendal
Saturday 26 May 2012, Luxembourg
Thursday 27 September 2012, Copenhagen
Saturday 27 October 2012, Budapest
Tuesday 22 January 2013, London

MEMBERS OF THE BOARD AND THE EXECUTIVE COMMITTEE

The members of the Board of Directors, the Executive Committee and the Election Committee of Gard P. & I. (Bermuda) Ltd. during the year are as follows:

The Board of Directors

Stephen Pan, Chairman	World-Wide Shipping Agency Limited, Hong Kong
Bengt Hermelin, Deputy Chairman	Samco Shipholding Pte. Ltd, Singapore
Salah M. Al-Hareky	Saudi Aramco, Dhahran
Ian Beveridge	Bernhard Schulte, Hamburg
K. C. Chang	Evergreen Marine Corp. (Taiwan) Ltd., Taipei
Trond Eilertsen	Oslo
Timothy C. Faries	Bermuda
Costas Gerapetritis	Navios Shipmanagement, Inc., Piraeus
Hannu Haapanen	Neste Shipping OY, Espoo
Herbjørn Hansson	Nordic American Tanker Shipping Limited, Bermuda
Morten W. Høegh	Leif Höegh (UK) Ltd., London
Kenneth Hvid	Teekay Shipping (Canada) Ltd, Vancouver
Hans Peter Jebsen	Kristian Gerhard Jebsen Skipsrederi AS, Bergen
Robert E. Johnston	Overseas Shipholding Group Inc., New York
Sergio Machado	Petroleo Brasileiro S.A. – Petrobras, Rio de Janeiro
Tadeusz Niszczota	Polish Steamship Co., Szczecin
Halvor Ribe	J.J. Ugland Companies, Grimstad
Michael Say	Aug. Bolten Wm. Miller's Nachfolger, Hamburg
Jane Sy	Stolt Tankers B.V., Rotterdam
Kazuya Uchida	Meiji Shipping Co. Ltd., Tokyo
Jan Eyvin Wang	Wilh. Wilhelmsen ASA, Oslo
Hor Weng Yew	AET-Tankers PTE Limited, Kuala Lumpur
Claes Isacson, President	

The Executive Committee

Trond Eilertsen, Chairman	Oslo
Tadeusz Niszczota	Polish Steamship Co., Szczecin
Morten W. Høegh	Leif Höegh (UK) Ltd., London
Jane Sy	Stolt Tankers B.V., Rotterdam
Michael Say	Aug. Bolten Wm. Miller's Nachfolger, Hamburg
Claes Isacson, President	

The Election Committee

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

GARD P. & I. (BERMUDA) LTD.
Income statement

Amounts in USD 000's

	Notes	Parent company 21.02.12 to 20.02.13	Parent company 21.02.11 to 20.02.12	Consolidated accounts 21.02.12 to 20.02.13	Consolidated accounts 21.02.11 to 20.02.12
Technical account					
Gross written premium	4,5	452,638	403,553	853,494	840,493
Ceded reinsurance		(280,021)	(238,110)	(175,231)	(141,453)
Change in gross premium reserve		0	0	(1,151)	(10,640)
Change in RI premium reserve		0	0	4,420	(3,006)
Net earned premium	3	**172,617**	**165,443**	**681,532**	**685,395**
Other insurance related income		0	0	929	1,176
Gross settled claims		431,595	343,839	820,731	590,986
Reinsurers' share of gross settled claims		(211,937)	(135,619)	(179,462)	(41,375)
Change in gross claims reserve		115,941	56,357	(24,617)	91,582
Reinsurers' share of change in claims reserve		(147,327)	(100,266)	(25,387)	(46,051)
Net claims cost	3,6	**188,272**	**164,311**	**591,266**	**595,141**
Acquisition costs	3,8	**4,172**	**3,612**	**95,808**	**93,452**
Net operating expenses	8	**20,886**	**12,507**	**35,808**	**113**
Technical result	7	**(40,712)**	**(14,987)**	**(40,422)**	**(2,134)**
Non-technical account					
Investment income		62,833	77,450	33,596	33,690
Change in unrealised gain/loss on investments		27,448	(27,514)	70,298	(48,760)
Gain on realisation of investments		9,283	42,678	19,240	73,636
Investment management expenses		(2,941)	(2,580)	(9,623)	(9,149)
Non-technical result	9	**96,623**	**90,035**	**113,512**	**49,417**
Profit before tax		**55,911**	**75,048**	**73,090**	**47,283**
Taxation	10	4,252	3,893	5,309	11,010
Net result		**51,659**	**71,155**	**67,781**	**36,273**
Other comprehensive income					
Exchange differences on translation of foreign subsidiaries		0	0	1,395	(350)
Total result		**51,659**	**71,155**	**69,176**	**35,923**
Transferred to contingency reserve	23	(51,659)	(71,155)	(69,176)	(35,923)
Use of total result		**(51,659)**	**(71,155)**	**(69,176)**	**(35,923)**

GARD P. & I. (BERMUDA) LTD.
Balance sheet

Amounts in USD 000's

Assets	Notes	Parent company As at 20.02.13	Parent company As at 20.02.12	Consolidated accounts As at 20.02.13	Consolidated accounts As at 20.02.12
Intangible					
Other intangible assets	11	0	0	0	17,221
Total intangible assets		**0**	**0**	**0**	**17,221**
Investments					
Property and plant used in operation	12	0	0	41,430	36,414
Investments in subsidiaries	13	583,387	533,388	0	0
Loan to subsidiaries	3	38,311	34,935	0	0
Investments at amortised cost	15,16	13	13	2,136	3,478
Financial instruments at fair value through profit and loss	15,16,17	523,747	531,856	1,807,020	1,762,856
Other financial investments	15,16	5,400	0	55,451	41,367
Total investments		**1,150,858**	**1,100,192**	**1,906,038**	**1,844,115**
Reinsurers' share of technical provisions					
Reinsurers' share of gross premium reserve		0	0	5,848	3,664
Reinsurers' share of gross claims reserve	3,6	434,561	287,236	230,982	206,278
Total reinsurers' share of technical provisions		**434,561**	**287,236**	**236,829**	**209,942**
Receivables					
Receivables from direct insurance operations	18	42,067	47,270	163,718	163,000
Receivables from reinsurance operations		11,055	4,079	8,908	4,221
Receivables from group companies		62,603	71,390	0	0
Other receivables	17,19	2,750	0	20,134	7,282
Total receivables		**118,476**	**122,739**	**192,760**	**174,503**
Other assets					
Equipment	14	1,356	1,356	10,359	10,524
Cash and cash equivalents	20	24,581	55,995	143,882	195,638
Deferred tax asset	10	0	0	12,237	8,606
Total other assets		**25,937**	**57,350**	**166,479**	**214,767**
Prepayments and accrued income					
Accrued income and other prepayments		3,711	8,584	29,269	33,697
Total prepayments and accrued income		**3,711**	**8,584**	**29,269**	**33,697**
Total assets		**1,733,542**	**1,576,101**	**2,531,375**	**2,494,245**

GARD P. & I. (BERMUDA) LTD.
Balance sheet

Amounts in USD 000's

	Notes	Parent company As at 20.02.13	Parent company As at 20.02.12	Consolidated accounts As at 20.02.13	Consolidated accounts As at 20.02.12
Equity and liabilities					
Paid in equity					
Statutory reserve	22	463	463	463	463
Total equity		**463**	**463**	**463**	**463**
Technical provisions					
Gross premium reserve		0	0	161,708	157,755
Gross claims reserve		877,519	761,580	1,344,151	1,370,242
Total technical provisions		**877,519**	**761,580**	**1,505,859**	**1,527,997**
Contingency reserve					
Contingency reserve	23	760,570	708,910	894,792	825,618
Total contingency reserve		**760,570**	**708,910**	**894,792**	**825,618**
Provision for other liabilities					
Pension obligations	21	1,291	1,417	48,398	37,601
Income tax payable	10	5,059	6,072	13,762	16,925
Other provisions for liabilities	8	0	0	0	623
Total provisions for other liabilities		**6,350**	**7,490**	**62,160**	**55,148**
Payables					
Payables arising out of direct insurance operations		588	1,515	1,183	1,753
Payables arising out of reinsurance operations		33,821	26,059	18,501	12,953
Liabilities to financial institutions		0	0	0	0
Payables group companies		32,688	48,898	0	0
Other payables	17,19	4,591	7,671	17,001	39,211
Total payables		**71,689**	**84,143**	**36,686**	**53,917**
Accruals and deferred income					
Accruals and deferred income		16,952	13,515	31,414	31,101
Total accruals and deferred income		**16,952**	**13,515**	**31,414**	**31,101**
Total liabilities		**1,733,080**	**1,575,638**	**2,530,912**	**2,493,782**
Total equity and liabilities		**1,733,542**	**1,576,101**	**2,531,375**	**2,494,245**

GARD P. & I. (BERMUDA) LTD.
Cash flow analysis

Amounts in USD 000's

	Notes	Parent company 21.02.12 to 20.02.13	Parent company 21.02.11 to 20.02.12	Consolidated accounts 21.02.12 to 20.02.13	Consolidated accounts 21.02.11 to 20.02.12
Cash flow from operating activities					
Profit from ordinary operations before tax		55,911	75,048	73,090	47,283
Tax paid	10	(5,299)	(909)	(11,369)	(8,259)
Change in unrealised gain/loss of investments	9	27,448	(27,514)	70,298	(48,760)
Income/loss from sales of equipment		0	0	(3)	(152)
Depreciation and amortisation expenses	12,14	0	0	22,460	3,065
Change in pension obligation	21	(126)	(1,157)	10,798	11,737
Change in receivables and payables		(70,670)	(108,694)	(30,749)	(11,946)
Change in technical provisions and other accruals		(31,352)	(43,709)	(48,989)	67,870
Net cash flow from operating activities		**(24,089)**	**(106,935)**	**85,536**	**60,838**
Cash flow from investment activities					
Purchase/sale of investment (net)		(33,114)	58,949	(127,204)	(89,346)
Dividends received from subsidiaries	3	70,790	84,375	0	0
Group contribution paid to subsidiary	3	(45,000)	(30,000)	0	0
Purchase of intangible assets	11	0	0	(2,593)	(3,028)
Purchase of equipment	14	0	0	(2,312)	(3,332)
Purchase of property and plant	12	0	0	(5,568)	(4,174)
Proceeds from disposal of equipment		0	0	386	705
Net cash flow from investment activities		**(7,324)**	**113,324**	**(137,291)**	**(99,175)**
Cash flow from financial activities					
Repayment of borrowings		0	0	0	(10,150)
Net cash flow from financial activities		0	0	0	(10,150)
Net change in cash and cash equivalents		(31,413)	6,389	(51,755)	(48,487)
Cash and cash equivalents at beginning of year		55,995	49,606	195,638	245,845
Currency exchange effects on cash equivalents		0	0	0	(1,720)
Cash and cash equivalents at end of year		**24,582**	**55,995**	**143,882**	**195,638**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 1 – Corporate information – the Gard group of companies

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

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

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

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

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

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

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

Safeguard Guarantee Company Ltd. ("Safeguard") is a wholly owned subsidiary of the Company and is registered and domiciled in Bermuda. Safeguard is licensed by the Bermuda Monetary Authority as a Class 3A insurer. It offers insurance of special risks falling outside the scope of the traditional marine liability cover and financial security required under the International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001, for vessels reinsured outside the reinsurance arrangements organised by the International Group of P&I Clubs, as well as financial security for passenger vessels required under the Athens Convention/PLR for war and terrorism risks falling outside the scope of the International Group of P&I Clubs' Pooling Agreement and market reinsurance covers.

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

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

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

Note 2 – Accounting policies

Basis of preparation of the accounts

Gard P. & I. (Bermuda) Ltd. is incorporated under Bermudian law. The operations and insurance activities of the Company are carried out by Lingard Ltd. In order to comply with Norwegian Regulations, Gard P. & I. (Bermuda) Ltd. established a Norwegian branch on 21 February 2010. The Norwegian branch contains all business underwritten in Norway and is registered with the Norwegian Companies Register (organisation number 995 194 384). The financial statements of the Norwegian branch have to be reported to the Norwegian authorities and filed in Norway.

The financial statements have been prepared in accordance with, allowing for a few exceptions, the "Regulations for annual accounts for insurance companies" approved by the Norwegian Ministry of Finance which requires a limited use of certain International Financial Reporting Standards (IFRS) regarding certain accounting recognition and measurements and disclosures to the financial statements, and in accordance with Norwegian generally accepted accounting principles. This year's accounts include the activity from 21 February 2012 to 20 February 2013.

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 2 – Accounting policies continued

The IFRS standards applied that affect recognition and measurement are IFRS 4 and IAS 39, and certain parts of IFRS 7 apply regarding disclosures of financial instruments. The insurance contracts are accounted for in accordance with IFRS 4 and financial instruments are accounted for in accordance with IAS 39.

Gard P. & I. (Bermuda) Ltd. fulfils the exemption criteria in paragraphs 1-5 and 1-6 of "Regulations of annual accounts for insurance companies" and has decided to prepare financial statements in accordance with rules for limited use of IFRS.

The financial statements of insurance companies with operations in Norway are subject to regulations established by the Norwegian Ministry of Finance. According to a resolution from the financial supervisory authority of Norway, the Norwegian branch has been given dispensation to present the financial statements in the English language and in USD currency.

Gard P. & I. (Bermuda) Ltd. does not allocate a part of the financial income to the technical result.

Solvency margin and solvency capital are not calculated for the Company as such, as those Norwegian requirements only relate to the Norwegian branch.

Basis for consolidation

The consolidated financial statements comprise Gard P. & I. (Bermuda) Ltd. (The Company) and the companies over which Gard P. & I. (Bermuda) Ltd. has a controlling interest (Gard group). A controlling interest is normally obtained when ownership is more than 50 per cent of the shares in the Company and can exercise control over the Company. In as much as the Company has got the right to exercise membership rights in Gard P&I Norway, the Company controls more than 2/3rds of the voting rights in Gard P&I Norway, being the legal basis for consolidating the two associations' accounts pursuant to the International Accounting Standard 27 Consolidated and Separate Financial Statements.

Transactions between consolidated companies have been eliminated in the consolidated financial statements. The consolidated financial statements have been prepared in accordance with the same accounting principles for both parent and subsidiaries.

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

Use of accounting estimates when preparing the accounts

The preparation of the accounts requires the management to make estimates and assumptions that affect assets, liabilities, revenues, expenses and contingent liabilities. Due to circumstances in the future these estimates can change. Estimates and their assumptions are considered continuously and accounts adjusted accordingly.

Insurance contract liabilities

Insurance contract liabilities are the main items in the balance sheet based upon judgments and estimates. Estimates have to be made both for the expected total cost of claims reported and for the expected total cost of claims incurred but not reported at the balance sheet date. Standard actuarial methods are used in estimating the total cost of outstanding claims. The actuarial method uses historical data as one of the elements in the model to estimate the future claims costs. It can take a significant period of time before the ultimate claims cost can be established with certainty.

Pension liabilities

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations according to NRS 6. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in the estimates are contained in Note 21.

Foreign currency

Functional currency and presentation currency

The accounts are prepared in USD, which is both the functional currency and presentation currency of the Company.

Transactions in foreign currency

Transactions in foreign currency are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are retranslated into USD using the exchange rate applicable on the balance sheet date. The currency exposure of the provision for claims is assessed to be equivalent to the same currency exposure as claims paid. The opening and closing balances of the provision for claims in foreign currency are translated into USD based on the same method as for monetary items. Non-monetary items that are measured at fair value expressed in foreign currency are translated into USD using the exchange rate applicable on the transaction date. Translation differences are recognised in the Income Statement as they occur during the accounting period.

The assets and liabilities of foreign operations are translated to USD at the rate of exchange at the closing date for items in the balance sheet and at an average rate of exchange for items in the Income Statement. Translation differences arising on translation are recognised in other comprehensive income.

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 2 – Accounting policies continued

Revenue recognition and recognition of expenses

Premiums

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

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as gross premium reserve.

Reinsurance premiums

Reinsurance premiums are recognised as an expense over the underlying policy period.

Claims expenses

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

Other

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

Income tax

The tax expense consists of tax payable and changes in deferred tax.

Deferred tax/tax asset of the subsidiaries is calculated on all differences between the book value and the tax value of assets and liabilities. Deferred tax is calculated at the nominal tax rate of temporary differences and the tax effect of tax losses carried forward. A deferred tax asset is recorded in the balance sheet, when it is more likely than not that the tax asset will be utilised.

The Norwegian branch is liable to pay income tax based on gross earned premiums. Income tax is calculated as 0.84 per cent of gross earned premiums irrespective of whether the branch created any profit or suffered any loss in the reporting period.

Shares in subsidiaries

The investments in the subsidiaries are valued at cost in the Parent Company accounts. The investments are valued as cost of the shares in the subsidiary, less any impairment losses. An impairment loss is recognised if the impairment is not considered temporary, in accordance with generally accepted accounting principles. Impairment losses are reversed if the reason for the impairment loss disappears in a later period.

Financial instruments

In accordance with "Regulations for annual accounts for insurance companies", IAS 39, Financial instruments: Recognition and measurement is used for financial instruments within the scope of IAS 39. Disclosures regarding financial instruments are made in accordance with IFRS 7 paragraphs 6-12, 21-26, 27Ba, 29, 30b, and 31-42 as well as Appendix B.

Financial assets

The group's financial assets include cash and short-term deposits, trade receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified into the following categories: at fair value through profit and loss, held to maturity, loans and receivables, available for sale and other financial assets. Financial assets are recognised initially at fair value.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at fair value through profit and loss where the group's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis.

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

Available for sale financial investments can include both equity and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit and loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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

Subsequent measurement

Subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit and loss

For investments designated as at fair value through profit and loss, the assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, they are re-measured at fair value. Changes in fair value are recorded in "Change in unrealised gain/loss of investments". Interest and dividends receivable are accrued and presented in "Investment income".

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 2 – Accounting policies continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the Effective Interest Rate (EIR) method, less allowance for impairment. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available for sale financial assets

After initial measurement, available for sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in other comprehensive income.

Held to maturity

Investments that are held to maturity are recognised at their amortised cost.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, less directly attributable transaction costs.

The group's financial liabilities include trade and other payables, insurance payables and derivative financial instruments.

Financial derivatives

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

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

Property and plant used in operation and equipment

Property, plant and equipment is capitalised and depreciated linearly over its estimated useful life. Costs for maintenance are expensed as incurred, whereas costs for improving and upgrading property plant and equipment are added to the acquisition cost and are depreciated with the related asset. If the carrying value of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount. Property used in the entity's operations are recognised and measured in accordance with IAS 16.

Technical provisions

Technical provision are calculated in accordance with the "Regulations for annual accounts for insurance companies", paragraph 3-6 to 3-12.

Gross premium reserve

The gross premium reserve at the year-end in the consolidated accounts relates to M&E business. The gross premium reserve for M&E business is calculated and accounted for in the balance sheet as a provision for the part of premium written that exceeds the end of the financial year. Changes in the provision are charged to the Income Statement.

Gross claims reserve

The gross claims reserve comprises estimates of the expected remaining exposure from claims that have been reported to the company (RBNS), and from claims that have been incurred but which have not yet been reported (IBNR).

Provisions for reported claims are made by assessing the liability of each claim. Actuarial methods are used in estimating the total cost of outstanding claims. The claim provisions have not been discounted.

In accordance with the Norwegian regulations for insurance companies a provision for internal claims handling expenses (unallocated loss adjustment expenses, or ULAE) has been calculated on the basis of the minimum requirements for internal claims handling expenses and is included in the gross claims reserve.

Disclosures regarding insurance contracts are given in accordance with IFRS 4 paragraph 37 (a) and (d), and IAS 37.

Contingency reserve

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

Designated reserves

Given the level of Pool retentions and the participation of the International Group in the general excess loss reinsurance contract, all parties to the Pooling Agreement have entered into arrangements, under an agreement dated 20 February 1996, to provide security by way of letters of credit or security bonds to other Pooling members to cover a significant proportion of their potential liabilities under the Pooling Agreement. Such letters of credit/security bonds can only be drawn upon in the event that an association fails to meet a call upon it in relation to its obligations under the Pooling Agreement. The Company currently has a contingent liability under a bank guarantee in the amount of USD 29.4 million relating to its participation in this arrangement. The bank guarantee does not constitute a formal charge on the assets of the Company as no counter security has been required.

Pensions

The basis for accounting for defined benefit plans is an actuarial calculation of pension commitments. Any change in the pension commitment during the year is expensed in the Income Statement, except for estimation deviations which are expensed over a five-year period.

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 2 – Accounting policies continued
Provisions, contingent liabilities and assets
Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. For potential obligations whose likelihood is neither remote nor not probable (i.e. not 'more likely than not'), a contingent liability is disclosed.

Contingent liabilities are not recognised in the balance sheet.

Contingent assets are not recognised in the financial statements but are disclosed if it is likely that resources embodying economic benefits will flow to the Company.

Changes to accounting principles
Changes in accounting principles and corrections of errors in previous year accounts are presented in accordance with IAS 8.

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

Cash flow analysis
The cash flow analysis is presented using the indirect method. Cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits.

Note 3 – Group transactions
Reinsurance agreements
Gard P. & I. (Bermuda) Ltd. (the "Company") and Assuranceforeningen Gard – gjensidig – ("Gard P&I Norway") have entered into mutual reinsurance agreements. The Company reinsures with effect from 20 February 2010 a proportion amounting to 25 per cent of Gard P&I Norway's Protection and Indemnity risk underwritten that is not reinsured elsewhere (85 per cent for policy years up to 2009). With effect from the same date the Company cedes to Gard P&I Norway by way of reinsurance 2 per cent of the Company's Protection and Indemnity risk underwritten that is not reinsured elsewhere (15 per cent for policy years up to 2009).

Received premium from Gard P&I Norway amounts to USD 15.1 million (2012 USD 21.9 million).

Ceded premium to Gard P&I Norway amounts to USD 6.1 million (2012 USD 5.6 million).

Gard P. & I. (Bermuda) Ltd. has received from Gard P&I Norway USD 4.5 million (2012 USD 2.4 million) as reinsurers' share of gross settled claims, and reinsurers' share of claims reserve amounts to USD 8.1 million (20.02.12 USD 8.2 million).

Gard P. & I. (Bermuda) Ltd. has as reinsurers of Gard P&I Norway paid a share of gross settled claims amounting to USD 83.5 million (2012 USD 104 million) and the share of gross claims reserve amounts to USD 194.4 million (20.02.12 USD 305.7 million).

Net commission paid under the reinsurance agreements with Gard P&I Norway amounts to USD 2.3 million (2012 USD 4.1 million).

Both the Company and Gard Marine & Energy Limited ("Gard M&E") have entered into reinsurance agreements with Gard Reinsurance Co Ltd ("Gard Re") whereby the two direct insurers are ceding 50 per cent of all risk underwritten that is not reinsured elsewhere to Gard Re with effect from 20 February 2010. Ceded premium from the Company to Gard Re amounts to USD 155.5 million (2012 USD 147.7 million) and the Company has received a reinsurance commission amounting to USD 34.2 million (2012 USD 32.5 million). The Company has received USD 96.2 million (2012 USD 67.5 million) as reinsurers' share of gross settled claims and Gard Re's reinsurers' share of gross claims reserve amounts to USD 245.7 million (20.02.12 USD 189.7 million).

The Company and Gard P&I Norway have entered into a reinsurance agreement with Hydra, which is a segregated accounts company. The Company's segregated account (cell) in Hydra is covering the former companies' liability to the second layer of the International Group (IG) Pool and the former companies share of IG-companies 25 per cent participation in the 1st market excess layer. Reinsurance premium amounts to USD 21.7 million (2012 USD 19.4 million).

Insurance management agreement
The Company, Gard M&E, Gard Re and Safeguard Guarantee Company Ltd. have appointed Lingard Limited as their insurance manager and principal representative in Bermuda. These services are governed by individual insurance management agreements entered into between each of the above four companies and Lingard Limited. Insurance services have been invoiced with USD 71.9 million (2012 USD 61.4 million).

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

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

Loan agreement
The Company has entered into loan agreements with AS Assuransegården and Gard AS. The loans amount to USD 38.3 million (20.02.12 USD 34.9 million).

Loan interest amounts to USD 1.0 million (2012 USD 1.0 million).

Dividends and capital contributions
Gard M&E Ltd has decided to pay a dividend to Gard P. & I. (Bermuda) Ltd. of USD 53.2 million (20.02.12 USD 65 million).

Lingard Limited has decided to pay a dividend of USD 5.4 million (20.02.12 USD 4.9 million).

Safeguard Ltd has decided not to pay a dividend this year (20.02.12 USD 0.8 million).

Gard P. & I. (Bermuda) Ltd. will pay capital contribution to Gard Reinsurance Co Ltd with USD 30 million (20.02.12 USD 45 million).

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 4 – Gross written premium by geographical areas
Amounts in USD 000's

	Parent company		Consolidated accounts	
	21.02.12 to 20.02.13	21.02.11 to 20.02.12	21.02.12 to 20.02.13	21.02.11 to 20.02.12
EEA	299,280	271,246	591,290	571,680
Other areas	153,358	132,307	262,204	268,813
Total gross written premium	**452,638**	**403,553**	**853,494**	**840,493**

Note 5 – Estimated deferred call
These accounts are prepared on the basis that the Board of Directors will invoice a 15 per cent deferred call in respect to the 2012 policy year, payable in 2013. The deferred call for the 2011 year was 20 per cent.

Note 6 – Claims incurred gross and net of reinsurance
Amounts in USD 000's

	Parent company 21.02.12 to 20.02.13			Parent company 21.02.11 to 20.02.12		
	P&I	M&E	Total	P&I	M&E	Total
Gross claims						
Provisions, at the beginning of the period	(761,580)	0	(761,580)	(705,222)	0	(705,222)
Claims paid*	431,595	0	431,595	343,839	0	343,839
Provisions, at the end of the period	877,519	0	877,519	761,580	0	761,580
Claims incurred – gross	**547,534**	**0**	**547,534**	**400,197**	**0**	**400,197**
Claims net of reinsurance						
Provisions, at the beginning of the period	(474,344)	0	(474,344)	(518,252)	0	(518,252)
Claims paid, net*	219,658	0	219,658	208,220	0	208,220
Provisions net, at the end of the period	442,958	0	442,958	474,344	0	474,344
Net claims cost	**188,272**	**0**	**188,272**	**164,312**	**0**	**164,312**

	Consolidated accounts 21.02.12 to 20.02.13			Consolidated accounts 21.02.11 to 20.02.12		
	P&I	M&E	Total	P&I	M&E	Total
Gross claims						
Provisions, at the beginning of the period	(974,901)	(395,341)	(1,370,242)	(930,563)	(347,139)	(1,277,702)
Claims paid*	532,682	288,049	820,731	388,575	202,411	590,986
Provisions, at the end of the period	1,053,359	290,792	1,344,151	974,901	395,341	1,370,242
Currency exchange effect	0	1,475	1,475	0	(959)	(959)
Claims incurred – gross	**611,140**	**184,975**	**796,115**	**432,913**	**249,654**	**682,568**
Claims net of reinsurance						
Provisions net, at the beginning of the period	(854,386)	(309,578)	(1,163,964)	(797,021)	(319,093)	(1,116,114)
Claims paid, net*	415,797	225,472	641,269	344,889	204,722	549,611
Provision net, at the end of the period	861,221	251,949	1,113,169	854,386	309,578	1,163,964
Net currency exchange effect	0	792	792	0	(2,320)	(2,320)
Net claims cost	**422,632**	**168,634**	**591,266**	**402,255**	**192,887**	**595,141**

* Claims paid include claims handling costs. Claims handling costs consist of both direct and indirect claims handling costs from Insurance Intermediary.

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 6 – Claims incurred gross and net of reinsurance continued
Reinsurers' share of technical provisions
Amounts in USD 000's

	Parent company			Parent company		
			As at 20.02.13			As at 20.02.12
	Premium	Claim	Total	Premium	Claim	Total
Provisions, at the beginning of the period	0	287,236	287,236	0	186,970	186,970
Change in reinsurers' provision	0	147,325	147,325	0	100,266	100,266
Provision, at the end of the period	**0**	**434,561**	**434,561**	**0**	**287,236**	**287,236**

	Consolidated accounts			Consolidated accounts		
			As at 20.02.13			As at 20.02.12
	Premium	Claim	Total	Premium	Claim	Total
Provisions, at the beginning of the period	3,664	206,278	209,943	3,520	161,588	165,108
Change in reinsurers' provision	4,420	25,387	29,806	(3,006)	46,051	43,046
Net currency exchange effect	(2,106)	(683)	(2,789)	3,150	(1,361)	1,789
Provision, at the end of the period	**5,978**	**230,982**	**236,959**	**3,664**	**206,278**	**209,943**

No changes have been made during the year as to how the reinsurers' share of technical provisions has been measured or calculated.

We have no information about the reinsurers taking part in the Company's reinsurance programme that could lead to a potential shortfall in the reinsurers' share of technical provisions.

The Company is a member of the International Group of P&I Clubs.
Technical provision regarding the Pooling Agreement is;

	Parent company		Consolidated accounts	
	As at 20.02.13	As at 20.02.12	As at 20.02.13	As at 20.02.12
Gross provision for Pool claims	94,840	74,491	164,206	171,717
Net provision for Pool claims	59,426	42,948	160,730	161,497

Note 7 – The technical results for gross operations and ceded reinsurance operations divided into business areas
Amounts in USD 000's

	Parent company			Parent company		
			21.02.12 to 20.02.13			21.02.11 to 20.02.12
	P&I	M&E	Total	P&I	M&E	Total
Gross						
Premiums earned	452,638	0	452,638	403,553	0	403,553
Claims incurred	(547,535)	0	(547,535)	(400,196)	0	(400,196)
Operating costs	(33,984)	0	(33,984)	(20,755)	0	(20,755)
Total result – gross	**(128,881)**	**0**	**(128,881)**	**(17,398)**	**0**	**(17,398)**
Ceded reinsurance						
Reinsurance premiums	(280,021)	0	(280,021)	(238,110)	0	(238,110)
Reinsurers' share of claims incurred	359,264	0	359,264	235,885	0	235,885
Reinsurance commission	8,927	0	8,927	4,636	0	4,636
Total result – ceded reinsurance	**88,169**	**0**	**88,169**	**2,411**	**0**	**2,411**
Result on technical account	**(40,712)**	**0**	**(40,712)**	**(14,987)**	**0**	**(14,987)**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 7 – The technical results for gross operations and ceded reinsurance operations divided into business areas continued
Amounts in USD 000's

	Consolidated accounts 21.02.12 to 20.02.13			Consolidated accounts 21.02.11 to 20.02.12		
	P&I	M&E	Total	P&I	M&E	Total
Gross						
Premiums earned	529,973	322,370	852,343	504,812	325,041	829,854
Claims incurred	(611,142)	(184,973)	(796,115)	(432,113)	(250,455)	(682,568)
Operating costs	(85,962)	(63,001)	(148,963)	(47,574)	(59,325)	(106,899)
Total result – gross	**(167,131)**	**74,397**	**(92,734)**	**25,125**	**15,261**	**40,387**
Ceded reinsurance						
Reinsurance premiums	(124,994)	(45,818)	(170,811)	(90,641)	(53,817)	(144,459)
Reinsurers' share of claims incurred	188,510	16,339	204,848	29,981	57,446	87,427
Reinsurance commission	10,771	7,505	18,276	6,244	8,267	14,511
Total result – ceded reinsurance	**74,287**	**(21,974)**	**52,313**	**(54,416)**	**11,896**	**(42,521)**
Result on technical account	**(92,844)**	**52,422**	**(40,422)**	**(29,291)**	**27,157**	**(2,133)**

	Parent company 21.02.12 to 20.02.13			Parent company 21.02.11 to 20.02.12		
	P&I	M&E	Total	P&I	M&E	Total
Claims incurred gross						
Current policy year	580,545	0	580,545	419,585	0	419,585
Earlier policy year	(33,009)	0	(33,009)	(19,389)	0	(19,389)
Claims incurred gross	**547,535**	**0**	**547,535**	**400,196**	**0**	**400,196**

	Consolidated accounts 21.02.12 to 20.02.13			Consolidated accounts 21.02.11 to 20.02.12		
	P&I	M&E	Total	P&I	M&E	Total
Claims incurred gross						
Current policy year	524,752	112,671	637,423	515,589	173,873	689,462
Earlier policy year	86,390	72,302	158,691	(83,476)	76,582	(6,894)
Claims incurred gross	**611,142**	**184,973**	**796,115**	**432,113**	**250,455**	**682,568**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 7 – The technical results for gross operations and ceded reinsurance operations divided into business areas continued
Amounts in USD 000's

	Parent company			Parent company		
	21.02.12 to 20.02.13			21.02.11 to 20.02.12		
	P&I	M&E	Total	P&I	M&E	Total
Received reinsurance						
Premiums earned	15,372	0	15,372	21,993	0	21,993
Claims incurred current policy year	(18,132)	0	(18,132)	(20,898)	0	(20,898)
Claims incurred earlier policy year	38,548	0	38,548	16,825	0	16,825
Acquisition cost	(2,311)	0	(2,311)	(4,259)	0	(4,259)
Net result of received reinsurance	**33,477**	**0**	**33,477**	**13,661**	**0**	**13,661**

Note 8 – Acquisition costs, remuneration and number of staff
Amounts in USD 000's

	Parent company		Consolidated accounts	
	21.02.12 to 20.02.13	21.02.11 to 20.02.12	21.02.12 to 20.02.13	21.02.11 to 20.02.12
Acquisition costs and commissions				
Sales related salaries and wages	0	0	25,854	23,175
Other acquisition costs	0	0	22,827	23,620
Insurance intermediary	23,542	22,270	0	0
Agent commission	23,773	18,493	65,403	61,168
Commissions earned	(43,142)	(37,151)	(18,276)	(14,512)
Total net acquisition costs	**4,172**	**3,612**	**95,808**	**93,452**
Number of staff	**0**	**0**	**427**	**425**

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 2013. The Ratio of 14.1 per cent (13.0 per cent last year) has been calculated in accordance with the Schedule and the guidelines issued by the International Group and is consistent with the relevant Financial Statements.

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

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 8 – Acquisition costs, remuneration and number of staff continued

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

Amounts in USD 000's

	Salary	Pension	Other benefits
Board of directors	325	0	0
CEO, salary and other benefits*	2,469	448	68

* The CEO is partly paid from the subsidiaries Gard AS, Lingard Limited and Assuranceforeningen Gard. The CEO has a remuneration guarantee that comes into force if the Board should ask him to leave his position. The remuneration guarantee gives him two years of salary in addition to a contractual six month notice period.

The CEO has a mortgage loan with a remaining balance of USD 0.154 million. The loan has an interest charge according to the interest set by the Tax Ministry in Norway. The down payment period is 4.8 years.

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

A bonus scheme has been established which includes all employees and the CEO. Bonuses will be paid if predefined targets are met. The total bonus is maximised to 20 per cent of gross salary. The bonus to be paid for accounting year 2012 is 19 per cent of gross salary.

	Parent company		Consolidated accounts	
	21.02.12 to 20.02.13	21.02.11 to 20.02.12	21.02.12 to 20.02.13	21.02.11 to 20.02.12
Auditing fee	173	100	844	857
Tax advice	0	0	35	54
Non audit services	51	29	102	144
Total auditors' fee	**223**	**129**	**981**	**1,055**

	Parent company		Consolidated accounts	
	21.02.12 to 20.02.13	21.02.11 to 20.02.12	21.02.12 to 20.02.13	21.02.11 to 20.02.12
Net operating expenses				
Bad debt	930	314	858	(5,152)
Service cost (Lingard)	73,484	63,168	0	0
Allocated to claims handling and acquisition cost	(68,487)	(58,633)	0	0
Bonus	12,756	6,293	13,785	6,293
Other operating expenses*	2,203	1,366	21,166	(1,028)
Net operating expenses	**20,886**	**12,507**	**35,808**	**113**

* Project regarding the new production system has been written off in 2012, and included in Other operating expenses with a total of USD 19.4 million.

Included in Other operating expenses are also revenues related to non insurance activities which reduce Other operating expenses.

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 9 – Financial income and expenses
Amounts in USD 000's

	Parent company		Consolidated accounts	
	21.02.12 to 20.02.13	21.02.11 to 20.02.12	21.02.12 to 20.02.13	21.02.11 to 20.02.12
Investment income				
Interest income	1,244	1,221	2,646	1,629
Dividend from subsidiaries	58,600	70,790	0	0
Income from financial instruments held for trading (portfolio investments)	1,703	9,419	29,065	40,601
Foreign exchange gains/losses	1,286	(3,980)	1,885	(8,541)
	62,833	**77,450**	**33,596**	**33,690**
Change in unrealised gain/loss of investments	**27,448**	**(27,514)**	**70,298**	**(48,760)**
Gain on financial instruments held for trading (portfolio investments)	**9,283**	**42,678**	**19,240**	**73,636**
Investment management expenses	**(2,941)**	**(2,580)**	**(9,623)**	**(9,149)**
Non-technical result	**96,623**	**90,035**	**113,512**	**49,417**

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

Note 10 – Tax
Amounts in USD 000's

	Parent company		Consolidated accounts	
	21.02.12 to 20.02.13	21.02.11 to 20.02.12	21.02.12 to 20.02.13	21.02.11 to 20.02.12
Income tax expenses				
Tax payable	3,590	2,984	6,932	11,548
Change in deferred tax	0	0	(3,318)	(3,316)
Paid foreign withheld tax	661	909	1,694	2,778
Tax expenses ordinary result	**4,252**	**3,893**	**5,309**	**11,010**

	Parent company		Consolidated accounts	
	21.02.12 to 20.02.13	21.02.11 to 20.02.12	21.02.12 to 20.02.13	21.02.11 to 20.02.12
Income tax payable				
Tax at beginning of the period	6,072	2,889	16,925	11,288
Tax payable related to the period	3,590	2,984	6,932	11,635
Tax paid during the period	(4,638)	0	(9,641)	(5,727)
Currency effects	35	199	(454)	(271)
Tax payable at end of the period	**5,059**	**6,072**	**13,762**	**16,925**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 10 – Tax continued
Amounts in USD 000's

	Parent company		Consolidated accounts	
	As at 20.02.13	As at 20.02.12	As at 20.02.13	As at 20.02.12
Deferred tax asset				
Specification of tax effect resulting from temporary differences				
Pension obligations	0	0	42,333	32,308
Equipment	0	0	(1,598)	(1,346)
Other temporary differences	0	0	2,968	(227)
Total temporary differences	**0**	**0**	**43,703**	**30,735**
Deferred tax asset, 28 per cent of total temporary differences	**0**	**0**	**12,237**	**8,606**

A deferred tax asset regarding Norwegian companies in the consolidated accounts has been recorded in the balance sheet because it is likely to be used in the future. One subsidiary has a net deferred tax asset as at 20.02.13 amounting to USD 31.3 million (20.02.12 USD 28.3 million) that is not included in the recorded amount above. This deferred tax asset is not likely to be utilised in the future.

Note 11 – Other intangible assets
Amounts in USD 000's

	Consolidated accounts	
	21.02.12 to 20.02.13	21.02.11 to 20.02.12
Cost at beginning of year	24,893	20,136
Net additions / disposals	3,024	3,028
Exchange adjustments	(1,203)	1,729
Cost at end of year	**26,714**	**24,893**
Depreciation and impairment at beginning of year	7,672	6016
Total impairment effect 2012	19,431	0
Exchange adjustments	(389)	1,656
Depreciation at end of year	**26,714**	**7,672**
Net book value at end of year	**0**	**17,221**

The group has had a project of developing new software for insurance handling. Due to technical changes the project has been closed and the total booked value has been impaired.

The impairment effect on this project has been charged to the Income Statement with a total of USD 19.4 million in 2012.

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 12 – Property and plant used in operation
Amounts in USD 000's

	Consolidated accounts As at 20.02.13
Cost at beginning of year	44,083
Net additions / disposals	4,807
Exchange adjustments	852
Cost at end of year	**49,742**
Depreciation at beginning of year	7,669
Depreciation charge for the year	552
Exchange adjustments	91
Depreciation at end of year	**8,312**
Net book value as at 20.02.2013	**41,430**
Amortisation period	20-66 years
Amortisation type	linear

Rent included in the consolidated accounts is charged to the Profit and Loss account in the period the offices are used. Any remaining rental liabilities are not included in the Balance Sheet. Total costs regarding rent in the consolidated account amounts to USD 4.7 million (USD 4.3 million last year).

Note 13 – Investments in subsidiaries
Amounts in USD 000's

	Ownership	Voting share	Place of office		Share capital	Cost price USD As at 20.02.13
AS Assuransegården	100.0%	100.0%	Norway	NOK	22,220	21,095
Gard AS	100.0%	100.0%	Norway	NOK	30,000	70,932
Gard Marine & Energy Limited	100.0%	100.0%	Bermuda	USD	190,000	197,737
Gard Reinsurance Co Ltd	100.0%	100.0%	Bermuda	USD	150,000	255,000
Hydra Insurance Company Ltd. (Gard's cell)	100.0%	100.0%	Bermuda	USD	7,698	7,698
Lingard Limited	100.0%	100.0%	Bermuda	USD	900	900
Safeguard Guarantee Company Ltd.	100.0%	100.0%	Bermuda	USD	120	30,000
Varmekrogen AS	100.0%	100.0%	Norway	NOK	100	25
Total						**583,387**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 14 – Equipment
Amounts in USD 000's

	Parent company	Consolidated accounts		
	As at 20.02.13			As at 20.02.13
	Art	Art	Equipment	Total
Acquisition cost at beginning of year	1,356	4,411	17,588	21,999
Net additions / disposals	0	5	2,425	2,430
Exchange adjustments	0	(3)	(333)	(336)
Cost at end of year	**1,356**	**4,413**	**19,680**	**24,093**
Depreciation at beginning of year	0	0	11,475	11,475
Depreciation charge for the year	0	0	2,477	2,477
Exchange adjustments	0	0	(218)	(218)
Depreciation at end of year	**0**	**0**	**13,734**	**13,734**
Net book value at end of year	**1,356**	**4,413**	**5,946**	**10,359**

Note 15 – Financial instruments and fair values of financial instruments
Amounts in USD 000's

Investments at amortised costs

	Parent company				Consolidated accounts			
	As at 20.02.13		As at 20.02.12		As at 20.02.13		As at 20.02.12	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Bonds held to maturity	13	13	13	13	2,136	2,309	3,478	4,671
Total	**13**	**13**	**13**	**13**	**2,136**	**2,309**	**3,478**	**4,671**

Financial instruments at fair value through profit and loss

	Parent company				Consolidated accounts			
	As at 20.02.13		As at 20.02.12		As at 20.02.13		As at 20.02.12	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Equities	172,480	172,480	182,376	182,376	433,282	433,282	406,402	406,402
Bonds	321,786	321,786	327,180	327,180	1,343,288	1,343,288	1,331,465	1,331,465
Real Estate Fund	23,666	23,666	11,485	11,485	23,666	23,666	11,485	11,485
Financial derivative assets	5,815	5,815	10,815	10,815	6,784	6,784	13,504	13,504
Total	**523,747**	**523,747**	**531,856**	**531,856**	**1,807,020**	**1,807,020**	**1,762,856**	**1,762,856**

The financial instruments above were designated at fair value through profit and loss at initial recognition.

GARD P. & I. (BERMUDA) LTD.

Notes to the accounts

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

Other financial investments designated at fair value through profit and loss

Amounts in USD 000's

	Parent company				Consolidated accounts			
	As at 20.02.13		As at 20.02.12		As at 20.02.13		As at 20.02.12	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Loan to employees	0	0	0	0	42,126	42,126	33,491	33,491
Bonds	5,400	5,400	0	0	13,325	13,325	7,876	7,876
Total	**5,400**	**5,400**	**0**	**0**	**55,451**	**55,451**	**41,367**	**41,367**

Determination of fair value

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

Financial instruments at fair value through profit and loss

The fair value of financial assets classified as financial instruments at fair value through profit and loss and the fair value of bonds included above is determined by reference to published price quotations in an active market. For unquoted financial assets the fair value has been estimated using a valuation technique based on assumptions that are supported by observable market prices.

Assets for which fair value approximates carrying value

For financial assets and liabilities that have a short-term maturity, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Floating rate financial investments – loans to employees

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

Fair value hierarchy

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

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

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

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

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 15 – Financial instruments and fair values of financial instruments continued
Amounts in USD 000's

	Parent company			Parent company		
			As at 20.02.13			As at 20.02.12
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial instruments						
Investments at amortised cost						
Bonds held to maturity	13	0	0	13	0	0
Financial assets at fair value through profit and loss						
Equities	172,480	0	0	182,376	0	0
Bonds	321,786	0	0	327,180	0	0
Real Estate Fund	0	23,666	0	0	11,485	0
Financial derivative assets	0	5,815	0	0	10,815	0
Other financial investments designated at fair value through profit and loss						
Bonds	5,400	0	0	0	0	0
Loans to employees	0	0	0	0	0	0
Total financial instruments	**499,679**	**29,481**	**0**	**509,569**	**22,300**	**0**
Financial liabilities						
Financial derivative liabilities	0	0	0	0	0	0
Total financial liabilities	**0**	**0**	**0**	**0**	**0**	**0**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 15 – Financial instruments and fair values of financial instruments continued
Amounts in USD 000's

	Consolidated accounts As at 20.02.13			Consolidated accounts As at 20.02.12		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial instruments						
Investments at amortised cost						
Bonds held to maturity	2,136	0	0	3,478	0	0
Financial assets at fair value through profit and loss						
Equities	433,282	0	0	406,402	0	0
Bonds	1,343,288	0	0	1,331,465	0	0
Real Estate Fund	0	23,666	0	0	11,485	0
Financial derivative assets	0	6,784	0	0	13,504	0
Other financial investments designated at fair value through profit and loss						
Bonds	13,325	0	0	7,876	0	0
Loans to employees	0	42,126	0	0	33,491	0
Total financial instruments	**1,792,031**	**72,576**	**0**	**1,749,221**	**58,480**	**0**
Financial liabilities						
Financial derivative liabilities	0	0	0	0	0	0
Total financial liabilities	**0**	**0**	**0**	**0**	**0**	**0**

During the reporting period ending 20 February 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no items or transfers into and out of Level 3 fair value measurements.

Note 16 – Financial risk
Risk management framework
The purpose of risk management is to enable the Gard group to meet its obligations to policyholders and Members. Risk management must ensure that risk-taking is consistent with the Company's risk appetite and that there is an appropriate risk-reward balance in all risk-taking activities. This risk management framework has been approved by the CEO. The Risk and Capital Committee is responsible for proposing changes to this framework to the CEO. The Risk and Capital Committee meets regularly to discuss any commercial, regulatory and organisational requirements. The mission is to improve the understanding of current and prospective risk exposures, as well as ensure sound, holistic and transparent decision-making processes in relation to risk management.

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

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

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

The tables below provide information regarding credit risk exposure as at 20 February 2013, by classifying assets according to the median rating amongst the three market leading providers, Standard & Poor's, Moody's and Fitch. This principle is also in line with new Solvency II requirements. AAA is the highest possible rating. The US long-term sovereign credit rating is considered to be AAA due to an applied median rating approach. Last year the corresponding rating used was according to the Standard & Poors rating, which was AA+.

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 16 – Financial risk continued
Amounts in USD 000's

	AAA	AA	A	BBB	BB	B	CCC/lower	Not rated	Parent company As at 20.02.13 Total
Financial instruments									
Investments at amortised cost									
Bonds held to maturity	0	13	0	0	0	0	0	0	13
Financial assets at fair value through profit and loss									
Equities	494	20,520	53,246	26,261	3,646	352	11	67,950	172,480
Bonds	264,594	4,333	22,238	26,671	2,796	892	204	58	321,786
Real Estate Fund	0	0	0	0	0	0	0	23,666	23,666
Financial derivative assets	0	0	5,815	0	0	0	0	0	5,815
Other financial investments designated at fair value through profit and loss									
Investment in subsidiaries	0	0	583,387	0	0	0	0	0	583,387
Loans to subsidiaries	0	0	38,311	0	0	0	0	0	38,311
Other financial investments	5,400	0	0	0	0	0	0	0	5,400
Reinsurers' share of gross claim reserve	0	0	421,906	12,655	0	0	0	0	434,561
Receivables	0	0	72,003	834	0	0	0	45,639	118,476
Cash and cash equivalents	0	24,581	0	0	0	0	0	0	24,581
Total	**270,488**	**49,448**	**1,196,906**	**66,420**	**6,442**	**1,244**	**215**	**137,313**	**1,728,476**

	AAA	AA	A	BBB	BB	B	CCC/lower	Not rated	Parent company As at 20.02.12 Total
Financial instruments									
Investments at amortised cost									
Bonds held to maturity	0	13	0	0	0	0	0	0	13
Financial assets at fair value through profit and loss									
Equities	1,619	16,483	43,298	42,469	3,626	369	7	74,505	182,376
Bonds	87,788	160,359	36,976	38,580	2,987	204	214	73	327,181
Real Estate Fund	0	0	0	0	0	0	0	11,485	11,485
Financial derivative assets	0	41	10,774	0	0	0	0	0	10,815
Other financial investments designated at fair value through profit and loss									
Investment in subsidiaries	0	0	533,388	0	0	0	0	0	533,388
Loans to subsidiaries	0	0	34,935	0	0	0	0	0	34,935
Reinsurers' share of gross claim reserve	0	224	269,149	16,279	1,584	0	0	0	287,236
Receivables	0	0	75,468	0	0	0	0	47,270	122,738
Cash and cash receivables	0	55,995	0	0	0	0	0	0	55,995
Total	**89,407**	**233,115**	**1,003,988**	**97,328**	**8,197**	**573**	**221**	**133,333**	**1,566,162**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 16 – Financial risk continued
Amounts in USD 000's

Consolidated accounts

	AAA	AA	A	BBB	BB	B	CCC/lower	Not rated	As at 20.02.13 Total
Financial instruments									
Investments at amortised cost									
Bonds held to maturity	2,123	13	0	0	0	0	0	0	2,136
Financial assets at fair value through profit and loss									
Equities	2,750	41,405	122,092	74,446	9,406	1,982	60	181,141	433,282
Bonds	845,212	43,089	178,233	214,378	47,689	10,966	2,506	1,214	1,343,288
Real Estate Fund	0	0	0	0	0	0	0	23,666	23,666
Financial derivative assets	0	0	6,784	0	0	0	0	0	6,784
Other financial investments designated at fair value through profit and loss									
Bonds	13,325	0	0	0	0	0	0	0	13,325
Loans to employees	0	0	0	0	0	0	0	42,126	42,126
Reinsurers' share of gross claim reserve	0	2,967	214,789	13,227	0	0	0	0	230,982
Receivables	0	0	0	0	0	0	0	192,760	192,760
Cash and cash receivables	0	143,882	0	0	0	0	0	0	143,882
Total	**863,410**	**231,356**	**521,898**	**302,051**	**57,095**	**12,948**	**2,566**	**440,908**	**2,432,232**

Consolidated accounts

	AAA	AA	A	BBB	BB	B	CCC/lower	Not rated	As at 20.02.12 Total
Financial instruments									
Investments at amortised cost									
Bonds held to maturity	3,465	13	0	0	0	0	0	0	3,478
Financial assets at fair value through profit and loss									
Equities	3,936	40,605	101,340	81,988	7,924	1,327	42	169,241	406,403
Bonds	222,784	725,105	203,842	143,618	33,116	986	1,270	744	1,331,465
Real Estate Fund	0	0	0	0	0	0	0	11,485	11,485
Financial derivative assets	0	415	13,089	0	0	0	0	0	13,504
Other financial investments designated at fair value through profit and loss									
Bonds	7,876	0	0	0	0	0	0	0	7,876
Loans to employees	0	0	0	0	0	0	0	33,491	33,491
Reinsurers' share of gross claim reserve	18	34,388	106,470	39,734	3,300	0	0	22,368	206,278
Receivables	0	0	0	0	0	0	0	174,503	174,503
Cash and cash receivables	0	195,638	0	0	0	0	0	0	195,638
Total	**238,079**	**996,164**	**424,741**	**265,340**	**44,340**	**2,313**	**1,312**	**411,832**	**2,384,121**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 16 – Financial risk continued
Amounts in USD 000's

Collateral
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Credit risk is mitigated by entering into collateral agreements. Management monitors the market value of the collateral and requests additional collateral when needed. There is no collateral as at 20 February 2013. For financial derivatives collateral was received from one counterparty as at 20 February 2013 in the amount of USD 1.4 million.

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

Age analysis of receivables after provision for bad debt:

					Parent company
	Not due	0-60 days	61-90 days	Above 90 days	As at 20.02.13 Total
Receivables	108,453	0	2,115	7,907	118,475
Total	**108,453**	**0**	**2,115**	**7,907**	**118,475**

					Parent company
	Not due	0-60 days	61-90 days	Above 90 days	As at 20.02.12 Total
Receivables	115,242	1,200	614	5,682	122,738
Total	**115,242**	**1,200**	**614**	**5,682**	**122,738**

					Consolidated accounts
	Not due	0-60 days	61-90 days	Above 90 days	As at 20.02.13 Total
Receivables	166,452	12,818	3,148	10,342	192,760
Total	**166,452**	**12,818**	**3,148**	**10,342**	**192,760**

					Consolidated accounts
	Not due	0-60 days	61-90 days	Above 90 days	As at 20.02.13 Total
Receivables	142,056	12,310	3,225	16,912	174,503
Total	**142,056**	**12,310**	**3,225**	**16,912**	**174,503**

Impaired receivables
As at 20.02.13 there are impaired receivables in the parent company of USD 1.9 million (20.02.12 USD 1.0 million) and there are impaired receivables in the consolidated accounts of USD 9.7 million (20.02.12 USD 8.8 million). No collateral is held as security for the impaired receivables, but the receivables can be deducted from future claim payments if any. Impairment allowance is included in net operating expenses.

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

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 16 – Financial risk continued
Maturity profile
The tables below set out the maturity profile of assets and liabilities combining amounts expected to be recovered within one year, between one and five years and more than five years. Assets and liabilities not covered by IFRS 7 are classified as other assets and other liabilities in the table below.

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

Amounts in USD 000's

						Parent company As at 20.02.13
	Carrying value	Within 1 year	1 – 5 years	More than 5 years	No maturity date	Total
Financial assets						
Investments in subsidiaries	583,387	0	0	0	583,387	583,387
Investments at amortised cost	13	0	0	13	0	13
Financial assets at fair value through profit and loss	523,747	21,164	289,106	17,236	196,241	523,747
Other financial investments designated at fair value through profit and loss	5,400	5,400	0	0	0	5,400
Reinsurers' share of technical provisions	434,561	130,977	261,302	42,283	0	434,561
Receivables	156,786	118,476	0	0	38,311	156,786
Cash and cash equivalents	24,581	24,581	0	0	0	24,581
Total financial assets	**1,728,476**	**300,597**	**550,407**	**59,532**	**817,939**	**1,728,476**
Accrued income and prepayments	3,711	3,711	0	0	0	3,711
Other assets	1,356	0	0	0	1,356	1,356
Total assets	**1,733,542**	**304,308**	**550,407**	**59,532**	**819,294**	**1,733,542**
Financial liabilities						
Financial derivative liabilities	0	0	0	0	0	0
Technical provisions	1,638,089	264,484	527,652	85,383	760,570	1,638,089
Provision for other liabilities	6,350	0	5,059	1,291	0	6,350
Payables and accruals	88,641	88,641	0	0	0	88,641
Total financial liabilities	**1,733,080**	**353,125**	**532,711**	**86,674**	**760,570**	**1,733,080**
Other liabilities	463	0	0	0	463	463
Total liabilities	**1,733,542**	**353,125**	**532,711**	**86,674**	**761,032**	**1,733,542**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 16 – Financial risk continued
Amounts in USD 000's

						Parent company As at 20.02.12
	Carrying value	Within 1 year	1 – 5 years	More than 5 years	No maturity date	Total
Financial assets						
Investments in subsidiaries	533,388	0	0	0	533,388	533,388
Investment at amortised cost	13	0	0	13	0	13
Financial assets at fair value through profit and loss	531,856	80,283	212,714	44,999	193,860	531,856
Other financial investments designated at fair value through profit and loss	0	0	0	0	0	0
Reinsurers' share of technical provisions	287,236	81,546	175,674	30,016	0	287,236
Receivables	157,672	122,737	0	0	34,935	157,672
Cash and cash equivalents	55,995	55,995	0	0	0	55,995
Total financial assets	**1,566,160**	**340,561**	**388,388**	**75,028**	**762,183**	**1,566,160**
Accrued income and prepayments	8,584	8,584	0	0	0	8,584
Other assets	1,356	0	0	0	1,356	1,356
Total assets	**1,576,100**	**349,145**	**388,388**	**75,028**	**763,539**	**1,576,100**
Financial liabilities						
Financial derivative liabilities	0	0	0	0	0	0
Technical provisions	1,470,490	216,213	465,782	79,585	708,910	1,470,490
Provision for other liabilities	7,489	0	6,072	1,417	0	7,489
Payables and accruals	97,658	97,658	0	0	0	97,658
Total financial liabilities	**1,575,637**	**313,871**	**471,854**	**81,002**	**708,910**	**1,575,637**
Other liabilities	463	0	0	0	463	463
Total liabilities	**1,576,100**	**313,871**	**471,854**	**81,002**	**709,373**	**1,576,100**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 16 – Financial risk continued
Amounts in USD 000's

Consolidated accounts
As at 20.02.13

	Carrying value	Within 1 year	1 – 5 years	More than 5 years	No maturity date	Total
Financial assets						
Investment at amortised cost	2,136	0	0	2,136	0	2,136
Financial assets at fair value through profit and loss	1,807,020	319,182	765,866	262,047	459,925	1,807,020
Other financial investments designated at fair value through profit and loss	55,451	5,400	7,925	42,126	0	55,451
Reinsurers' share of technical provisions	236,830	75,466	138,889	22,475	0	236,830
Receivables	192,760	192,760	0	0	0	192,760
Cash and cash equivalents	143,882	143,882	0	0	0	143,882
Total financial assets	**2,438,079**	**736,690**	**912,680**	**328,784**	**459,925**	**2,438,079**
Accrued income and prepayments	29,269	29,269	0	0	0	29,269
Other assets	64,027	0	10,359	12,237	41,430	64,027
Total assets	**2,531,374**	**765,958**	**923,039**	**341,021**	**501,356**	**2,531,374**
Financial liabilities						
Financial derivative liabilities	0	0	0	0	0	0
Technical provisions	2,400,651	566,835	808,238	130,786	894,792	2,400,651
Provision for other liabilities	62,160	6,837	6,925	48,398	0	62,160
Payables and accruals	68,099	68,099	0	0	0	68,099
Total financial liabilities	**2,530,911**	**641,771**	**815,163**	**179,184**	**894,792**	**2,530,911**
Other liabilities	463	0	0	0	463	463
Total liabilities	**2,531,374**	**641,771**	**815,163**	**179,184**	**895,255**	**2,531,374**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 16 – Financial risk continued
Amounts in USD 000's

					Consolidated accounts	
						As at 20.02.12
	Carrying value	Within 1 year	1 – 5 years	More than 5 years	No maturity date	Total
Financial assets						
Investments in subsidiaries						
Investment at amortised cost	3,478	0	0	3,478	0	3,478
Financial assets at fair value through profit and loss	1,762,856	186,391	740,164	418,415	417,886	1,762,856
Other financial investments designated at fair value through profit and loss	41,367	0	7,876	33,491	0	41,367
Reinsurers' share of technical provisions	209,942	62,226	126,160	21,556	0	209,942
Receivables	174,503	174,503	0	0	0	174,503
Cash and cash equivalents	195,638	195,638	0	0	0	195,638
Total financial assets	**2,387,784**	**618,758**	**874,200**	**476,940**	**417,886**	**2,387,784**
Accrued income and prepayments	33,697	33,697	0	0	0	33,697
Other assets	72,763	0	10,524	8,606	53,633	72,763
Total assets	**2,494,244**	**652,455**	**884,724**	**485,546**	**471,519**	**2,494,244**
Financial liabilities						
Financial derivative liabilities	0	0	0	0	0	0
Technical provisions	2,353,615	546,767	838,040	143,190	825,618	2,353,615
Provision for other liabilities	55,148	8,956	16,925	29,268	0	55,148
Payables and accruals	85,018	85,018	0	0	0	85,018
Total financial liabilities	**2,493,781**	**640,741**	**854,965**	**172,458**	**825,618**	**2,493,781**
Other liabilities	463	0	0	0	463	463
Total liabilities	**2,494,244**	**640,741**	**854,965**	**172,458**	**826,081**	**2,494,244**

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

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

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 16 – Financial risk continued

The tables below summarise assets and liabilities by major currencies:

Amounts in USD 000's

					Parent company As at 20.02.13
	USD	EUR	GBP	Other	Total
Assets					
Investments in subsidiaries	491,335	0	0	92,052	583,387
Loan to subsidiaries	0	0	0	38,311	38,311
Investments at amortised cost	13	0	0	0	13
Portfolio investments at fair value through profit and loss	312,209	57,229	44,144	110,165	523,747
Other financial investments	5,400	0	0	0	5,400
Reinsurers' share of gross premium reserve	0	0	0	0	0
Reinsurers' share of gross claims reserve	233,528	81,631	48,444	70,958	434,561
Receivables from direct insurance operations	41,398	491	1	177	42,067
Receivables from reinsurance operations	11,055	0	0	0	11,055
Receivables from group companies	62,603	0	0	0	62,603
Other receivables	2,750	0	0	0	2,750
Equipment	1,356	0	0	0	1,356
Cash and cash equivalents	5,189	11,904	0	7,488	24,581
Deferred tax asset	0	0	0	0	0
Accrued income and other prepayments	3,626	83	0	2	3,711
Total assets	**1,170,462**	**151,338**	**92,589**	**319,153**	**1,733,542**
Liabilities					
Statutory reserve	463	0	0	0	463
Gross premium reserve	0	0	0	0	0
Gross claims reserve	471,568	164,839	97,825	143,287	877,519
Contingency reserve	760,570	0	0	0	760,570
Pension obligations	235	0	1,056	0	1,291
Income tax payable	0	0	0	5,059	5,059
Deferred tax liability	0	0	0	0	0
Payables arising out of direct insurance operations	588	0	0	0	588
Payables arising out of reinsurance operations	33,821	0	0	0	33,821
Liabilities to financial institutions	0	0	0	0	0
Payables group companies	32,688	0	0	0	32,688
Other payables	1,326	472	668	2,125	4,591
Accruals and deferred income	5,241	1,500	1,000	9,211	16,952
Total liabilities	**1,306,500**	**166,811**	**100,549**	**159,682**	**1,733,542**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 16 – Financial risk continued
Amounts in USD 000's

	USD	EUR	GBP	Other	Parent company As at 20.02.12 Total
Assets					
Other intangible assets	0	0	0	0	0
Property and plant used in operation	0	0	0	0	0
Investments in subsidiaries	441,337	0	0	92,051	533,388
Loan to subsidiaries	0	0	0	34,935	34,935
Investments at amortised cost	13	0	0	0	13
Portfolio investments at fair value through profit and loss	324,015	51,759	43,109	112,973	531,856
Other financial investments	0	0	0	0	0
Reinsurers' share of gross premium reserve	0	0	0	0	0
Reinsurers' share of gross claims reserve	194,837	23,423	24,740	44,236	287,236
Receivables from direct insurance operations	46,851	317	6	96	47,270
Receivables from reinsurance operations	4,078	0	0	0	4,078
Receivables from group companies	71,390	0	0	0	71,390
Other receivables	0	0	0	0	0
Equipment	1,356	0	0	0	1,356
Cash and cash equivalents	16,748	6,198	0	33,049	55,995
Deferred tax asset	0	0	0	0	0
Accrued income and other prepayments	8,574	0	0	9	8,583
Total assets	**1,109,199**	**81,697**	**67,855**	**317,349**	**1,576,100**

	USD	EUR	GBP	Other	Parent company As at 20.02.12 Total
Liabilities					
Statutory reserve	463	0	0	0	463
Gross premium reserve	0	0	0	0	0
Gross claims reserve	516,615	62,106	65,598	117,260	761,580
Contingency reserve	708,910	0	0	0	708,910
Pension obligations	280	0	1,137	0	1,417
Income tax payable	0	0	0	6,072	6,072
Deferred tax liability	0	0	0	0	0
Payables arising out of direct insurance operations	1,462	53	0	0	1,515
Payables arising out of reinsurance operations	26,059	0	0	0	26,059
Liabilities to financial institutions	0	0	0	0	0
Payables group companies	48,898	0	0	0	48,898
Other payables	6,965	379	276	51	7,671
Accruals and deferred income	7,574	362	724	4,855	13,515
Total liabilities	**1,317,226**	**62,900**	**67,735**	**128,238**	**1,576,100**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 16 – Financial risk continued
Amounts in USD 000's

					Consolidated accounts
					As at 20.02.13
	USD	EUR	GBP	Other	Total
Assets					
Other intangible assets	0	0	0	0	0
Property and plant used in operation	0	9	14,088	27,333	41,430
Investments at amortised cost	13	0	0	2,123	2,136
Portfolio investments at fair value through profit and loss	1,093,909	220,856	127,000	365,255	1,807,020
Other financial investments	7,444	0	0	48,007	55,451
Reinsurers' share of gross premium reserve	3,456	2,208	0	184	5,848
Reinsurers' share of gross claims reserve	126,695	45,787	18,500	40,000	230,982
Receivables from direct insurance operations	122,309	25,343	2,468	13,598	163,718
Receivables from reinsurance operations	8,908	0	0	0	8,908
Other receivables	0	0	0	20,134	20,134
Equipment	1,331	69	334	8,625	10,359
Cash and cash equivalents	44,812	27,747	4,512	66,811	143,882
Deferred tax asset	0	0	0	12,237	12,237
Other prepayments and accrued income	20,289	3,543	737	9,128	29,269
Total assets	**1,429,166**	**325,562**	**167,639**	**613,436**	**2,531,373**
Liabilities					
Gross premium reserve	88,679	32,114	7,556	33,359	161,708
Gross claims reserve	725,567	257,260	131,665	229,659	1,344,151
Contingency reserve	895,255	0	0	0	895,255
Pension obligations	534	37	3,189	44,638	48,398
Income tax payable	0	0	26	13,736	13,762
Payables arising out of direct insurance operations	1,042	69	53	19	1,183
Payables arising out of reinsurance operations	16,617	1,260	233	391	18,501
Other provisions for liabilities	0	0	0	0	0
Other payables	0	8,011	8,990	0	17,001
Accruals and deferred income	10,388	3,904	1,102	16,020	31,414
Total liabilities	**1,738,082**	**302,655**	**152,814**	**337,823**	**2,531,373**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 16 – Financial risk continued
Amounts in USD 000's

				Consolidated accounts	
	USD	EUR	GBP	Other	As at 20.02.12 Total
Assets					
Other intangible assets	0	8	12,634	4,579	17,221
Property and plant used in operation	0	0	0	36,414	36,414
Investments at amortised cost	0	0	0	3,478	3,478
Portfolio investments at fair value through profit and loss	1,108,593	165,717	107,384	381,162	1,762,856
Other financial investments	7,444	0	0	33,923	41,367
Reinsurers' share of gross premium reserve	3,354	296	14	0	3,664
Reinsurers' share of gross claims reserve	189,190	10,692	2,047	4,349	206,278
Receivables from direct insurance operations	132,593	20,328	1,292	8,787	163,000
Receivables from reinsurance operations	4,221	0	0	0	4,221
Other receivables	6,190	62	21	1,009	7,282
Equipment	879	68	33	9,544	10,524
Cash and cash equivalents	99,854	11,783	11,684	72,317	195,638
Deferred tax asset	0	0	0	8,606	8,606
Other prepayments and accrued income	26,298	2,873	477	4,049	33,697
Total assets	**1,578,614**	**211,827**	**135,586**	**568,217**	**2,494,244**
Liabilities					
Gross premium reserve	137,163	17,430	3,162	0	157,755
Gross claims reserve	1,037,513	159,486	57,880	115,363	1,370,242
Contingency reserve	826,081	0	0	0	826,081
Pension obligations	280	0	3,483	33,838	37,601
Income tax payable	0	0	90	16,835	16,925
Payables arising out of direct insurance operations	1,463	104	53	133	1,753
Payables arising out of reinsurance operations	12,953	0	0	0	12,953
Liabilities to financial institutions	0	0	0	623	623
Other payables	30,721	1,169	643	6,678	39,211
Accruals and deferred income	24,492	2,805	525	3,279	31,101
Total liabilities	**2,070,665**	**180,994**	**65,836**	**176,749**	**2,494,244**

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

GARD P. & I. (BERMUDA) LTD.

Notes to the accounts

Note 16 – Financial risk continued

Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Gard group's equity price risk exposure relates to financial instruments whose values will fluctuate as a result of changes in market prices.

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

Financial instruments – sensitivity analyses

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

Amounts in USD 000's

	Parent company		Consolidated accounts	
	As at 20.02.13	As at 20.02.12	As at 20.02.13	As at 20.02.12
Impact on fixed income portfolio investments given an increase of 50 basis points	(4,554)	(5,461)	(20,674)	(19,646)
Impact on equity portfolio given a 10% drop in quoted market prices	(10,799)	(12,606)	(36,879)	(35,043)
Impact on total investment portfolio given a change of 10% in foreign exchange rates against USD	(7,854)	(14,492)	(53,461)	(51,753)

The sensitivity analysis assumes no correlation between equity price, interest rate, property market and foreign currency rate risk. It also assumes that all other receivables and payables remain unchanged and that no management action is taken. The Gard group has no significant risk concentrations which is not in line with the overall investment guidelines set by the Company's Board.

Any impact from risks tested in the table above is not, due to tax regulations, assumed to have any taxable impact.

The methods used above for deriving sensitivity information and significant variables have not changed from the previous period.

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

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

Financial derivatives

Financial derivatives are integrated components in the investment philosophies and processes of the Gard group's fund management. They are used for risk management, liquidity improvement, cost reduction and to optimise return within the guidelines set for the Gard group's fund management. Financial derivatives contribute to reducing the risk of the assets not being able to cover the Gard group's liabilities. The Gard group has implemented derivative overlay programme whereby, regional equity specialists are employed with mandates which have historically provided value creation from active management. The market exposure is then hedged out through equity futures contracts in order to maintain total equity market exposure within the allowed range, and simultaneously fixed income exposure is gained through interest rate swap contracts.

Investment guidelines

The key features of the Gard group's derivative guidelines are as follows:

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

Compliance monitoring

Compliance with the guidelines is monitored on an ongoing basis through the use of both internal and external resources. Even though the investment managers have internal risk analysis and compliance monitoring processes it is necessary to have independent verification based on alternative sources of data. The global custodian is therefore responsible for detailed compliance monitoring and reporting both at the overall fund level and the individual portfolio level. The investment managers are also subject to a semi-annual independent assessment of investment processes and skills to ensure that, *inter alia*, risk management and compliance monitoring routines are satisfactory.

Valuation and reporting

All derivative instruments are carried at independently sourced market values in accordance with principles described under Note 2. Underlying contract values represent the value of the underlying gross commitments of all open contracts.

Types of financial derivatives used during the financial year:

Forward exchange contracts

A forward exchange contract is a contract between two parties whereby one party contracts to sell and the other party contracts to buy, one currency for another, at an agreed future date, at a rate of exchange which is fixed at the time the contract is entered into.

Interest rate options

An option is a contract in which the writer of the option grants the buyer of the option the right to purchase from or sell to the writer a designated instrument at a specific price within a specified period of time. An interest rate option can be written on cash instruments or futures, and is used to manage the interest rate and volatility exposure of the portfolio. Written options generate gains in stable rate environments, but may create obligations to buy or sell underlying securities under greater rate movements. Purchased options are used to generate gains based on interest rate forecasts.

Interest rate futures

An interest rate futures contract is a standardised agreement between a buyer (seller) and an established exchange or its clearing house in which the buyer (seller) agrees to take (make) delivery of a financial rate instrument at a specified price at the end of a designated period of time.

Interest rate swaps

An interest rate swap is an agreement between two parties to exchange periodic interest payments. In the most common type of swap, one party agrees to pay the other party fixed-interest payments at designated dates for the life of the contract. This instrument is used to change interest rate risk by changing the cash flow of fixed rate bonds to adjustable rate bonds or vice versa.

Equity index future

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

GARD P. & I. (BERMUDA) LTD.

Notes to the accounts

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

Amounts in USD 000's

				Parent company
	Notional 20.02.13	Notional 20.02.12	Fair Value 20.02.13	Fair Value 20.02.12
Type of derivatives				
Interest rate related				
Futures	58,879	64,051	11,531	(24,927)
Options	107	677	(36)	0
Swaps	315,205	462,977	5,852	10,815
Total interest rate related	**374,191**	**527,704**	**17,346**	**(14,112)**
Futures offset			(11,531)	24,927
Net interest rate related			**5,815**	**10,815**
Equity related contracts				
Futures	161,974	145,593	(161,602)	(110,389)
Futures offset	0	0	161,602	110,389
Net equity related	**161,974**	**145,593**	**0**	**0**
Foreign currency related				
Forward exchange contracts in other currencies than USD			(151,046)	(95,844)
USD receivables related to foreign currency contracts			153,796	93,795
Net foreign currency related*			**2,750**	**(2,050)**
Net financial derivatives asset			**8,566**	**8,765**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 17 – Financial derivatives at fair value through profit and loss continued
Amounts in USD 000's

	Consolidated accounts			
	Notional 20.02.13	Notional 20.02.12	Fair Value 20.02.13	Fair Value 20.02.12
Type of derivatives				
Interest rate related				
Futures	164,373	150,076	(31,556)	(58,388)
Options	1,390	6,900	(472)	(3)
Swaps	386,705	574,898	7,255	13,508
Total interest rate related	**552,469**	**731,873**	**(24,773)**	**(44,884)**
Futures offset			31,556	58,388
Net interest rate related			**6,784**	**13,504**
Equity related contracts				
Futures	222,442	203,373	(219,051)	(167,481)
Futures offset	0	0	219,051	167,481
Net equity related*	**222,442**	**203,373**	**0**	**0**
Foreign currency related				
Forward Exchange contracts in other currencies than USD			(201,217)	(174,211)
USD receivables related to foreign currency contracts			216,366	175,623
Net foreign currency related**			**15,148**	**1,413**
Net financial derivatives asset			**21,932**	**14,917**

* The derivative overlay programme adjusted the equity allocation down by USD 219 million, and thereby maintained the total equity exposure to 14.9 per cent (19.7 per cent with property included) as of 20 February 2013.

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

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 18 – Receivables from direct insurance operations
Amounts in USD 000's

	Parent company		Consolidated accounts	
	As at 20.02.13	As at 20.02.12	As at 20.02.13	As at 20.02.12
Direct and received premium	6,462	3,736	19,288	15,190
Direct and received premium through broker	57	98	85,192	86,225
Accrued deferred call	37,528	44,452	46,062	58,529
Not closed premium	0	0	19,556	9,182
Claims related debtors, reinsurers	0	0	3,370	2,690
Provision for bad debts	(1,981)	(1,016)	(9,750)	(8,816)
Receivables from direct insurance operations	**42,067**	**47,270**	**163,718**	**163,000**

Note 19 – Other receivables and other payables
Amounts in USD 000's

	Parent company		Consolidated accounts	
	As at 20.02.13	As at 20.02.12	As at 20.02.13	As at 20.02.12
Other receivables				
Other receivables	0	0	4,810	3,714
Foreign currency related derivative	2,750	0	15,288	3,568
Investment transactions in progress	0	0	36	1
Total other receivables	**2,750**	**0**	**20,134**	**7,282**
Other payables				
Other payables	2,160	1,748	13,425	10,801
Financial derivative liabilities	0	2,050	140	2,150
Investments transactions in progress	2,431	3,873	3,436	26,260
Total other payables	**4,591**	**7,671**	**17,001**	**39,211**

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

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 20 – Cash and cash equivalents

Cash and cash equivalents includes bank deposits and cash in hand, of which USD 15.6 million as at 20 February 2013 is restricted cash. The Company has a group account agreement and participates in a cash pool agreement. Both agreements are made with the Company's main bank connection that is Nordea Bank Norge ASA. The group account agreement implies that the Company can make overdrafts on individual bank accounts as long as the Company's total bank deposit is positive.

Gard P. & I. (Bermuda) Ltd. has an overdraft facility with Nordea Bank Norge ASA for an amount of USD 40 million. Through the cash pool agreement all the participating companies can make use of this overdraft facility. The cash pool agreement secures efficient use of the operating bank deposits through the companies' opportunities to make use of the overdraft facility on individual bank accounts accumulating up to USD 40 million in aggregate for the companies participating in the agreement. Each company participating in the cash pool agreement is jointly liable for the overdraft facility through unsecured guarantees.

Note 21 – Pensions

Amounts in USD 000's

Gard P. & I. (Bermuda) Ltd. has entered into pension contracts with former employees. These contracts are financed directly through the Company's operations. The subsidiaries have entered into various pension plans with both former and present employees. The pension plans are both contribution plans and defined benefit plans. From 9 February 2009 all defined benefit related pension plans have been closed. New employees after this date become members of the defined contribution agreement. Payments to pension contribution agreements are charged to the accounts in the same period as the related salaries. The pension plans satisfy the demands according to the Norwegian Pension Act.

Defined benefit related pension plans entitle the employees to a defined level of future pension payments. Such future pension payments are mainly dependent on the number of contributory years and the salary level on retirement and are financed through an insurance scheme in a life insurance company. In addition all employees can apply for a tariff based early retirement pension (AFP) from the age of 62. As of 1 January 2011 the AFP is no longer an early retirement scheme that ends at age 67, but is a lifelong additional pension scheme you may apply for until the age of 70 years.
For the employees who could choose between the two AFP regimes, born 1944-1948, Gard will maintain an offer of a contributory pension from 65 – 67 years equivalent of the AFP agreement ending in 2010. This is financed directly from the operations of the Company.

The top management coverage above 12G previously secured by a life insurance company has been closed and paid-up policies have been issued. The Company's obligation regarding these policies has been renegotiated under a new agreement with Norsk Tillitsmann Pensjon. The obligation is secured through a pledge deposit on a bank account owned by Gard AS.

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

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

Note 21 – Pensions continued
Amounts in USD 000's

	Parent company		Consolidated accounts	
	As at 20.02.13	As at 20.02.12	As at 20.02.13	As at 20.02.12
Pension cost				
Defined benefit related pension plans				
Pension benefits earned during the year	(45)	(1,161)	9,045	8,539
Interest expense on earned pension	28	93	3,501	4,061
Yield on pension funds	0	0	(2,563)	(3,042)
Effect of estimation deviation	10	112	7,272	4,760
Net pension costs earning related plan	**(7)**	**(956)**	**17,255**	**14,318**
Pension contribution agreements	**0**	**0**	**2,118**	**2,960**
Total pension cost	**(7)**	**(956)**	**19,373**	**17,278**
Liabilities according to the actuarial calculations				
Pension obligation gross	(1,386)	(1,428)	(143,790)	(125,362)
Pension funds at market value	0	0	66,314	60,130
Effects on estimation deviations not charged to the profit and loss	95	10	29,078	27,631
Net pension obligation at end of year	**(1,291)**	**(1,418)**	**(48,398)**	**(37,601)**
	Per cent	Per cent	Per cent	Per cent
Financial assumptions				
Discount rate	3.40	2.60	3.40	2.60
Assumed annual salary regulation	3.25	3.50	3.25	3.50
Assumed pension increase	1.75	0.10	1.75	0.10
Assumed regulations of public pensions	3.00	3.50	3.00	3.50
Assumed yield on funds	3.40	4.10	3.40	4.10
Actual yield on funds			5.80	4.74

Note 22 – Statutory Reserve
Gard P. & I. (Bermuda) Ltd. is registered under and regulated by the Insurance Act 1978 and its regulations. Under these regulations the Company is required to maintain USD 462,500 in statutory capital and surplus. The Company is under the supervision of the Bermuda Monetary Authority (BMA) and has to be in compliance with a set of regulatory requirements. All regulatory requirements are complied with as at 20 February 2013.

Note 23 – Changes in contingency reserve
Amounts in USD 000's

	Parent company		Consolidated accounts	
	As at 20.02.13	As at 20.02.12	As at 20.02.13	As at 20.02.12
Contingency reserve as at beginning of year	708,911	637,756	825,618	789,695
Total result	51,659	71,155	69,176	35,923
Contingency reserve as at end of year	**760,570**	**708,911**	**894,794**	**825,618**

GARD P. & I. (BERMUDA) LTD.
Notes to the accounts

P&I policy year accounts as at 20 February 2013
Amounts in USD 000's

Policy year	2012	2011	2010	2009 closed year
Premiums and calls				
Premiums	480,533	442,526	420,357	424,780
	480,533	**442,526**	**420,357**	**424,780**
Additional calls debited	2,257	59,416	44,369	28,940
Estimated deferred call	46,062	0	0	0
Total premiums and deferred calls	**528,852**	**501,942**	**464,726**	**453,720**
Reinsurance premiums	(124,815)	(92,079)	(77,356)	(75,124)
	404,037	**409,863**	**387,370**	**378,596**
Incurred claims net				
Claims paid	174,743	250,508	218,398	201,162
Estimates on outstanding claims	228,562	125,694	113,236	48,734
IBNRs	109,390	22,204	13,586	9,125
Unallocated Loss Adjustment Expenses	12,057	5,430	5,256	1,622
	524,752	**403,836**	**350,476**	**260,643**
Acquisition cost and net operating expenses	69,297	41,330	43,899	88,304
	594,049	**445,166**	**394,375**	**348,947**
Technical result	**(190,012)**	**(35,303)**	**(7,005)**	**29,649**

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 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 15 per cent deferred call levied for the 2012 policy year. The original estimate for the year was set to 25 per cent.

3. The approximate yield of a 10 per cent supplementary call on the open policy years would be:

   2010 policy year USD 28.2 million
   2011 policy year USD 28.9 million
   2012 policy year USD 30.7 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 before policy year 2009, USD 166.3 million, consists of estimated outstanding claims in the amount of USD 125.7 million and estimates for IBNR claims of USD 40.6 million.

KEY FINANCIALS GARD GROUP

Amounts in USD millions, ETC basis

	2005	2006	2007	2008	2009	2010	2011	2012	20 February 2013
Premiums written gross	531.2	558.3	646.8	721.1	795.8	811.6	792.2	855.0	884.2
Premiums earned net	401.9	420.5	545.1	623.4	700.9	701.3	677.8	700.1	712.2
Claims costs net	-344.3	-374.4	-517.9	-579.7	-435.6	-527.2	-532.5	-595.1	-591.2
Operating expenses net	-63.5	-77.5	-88.0	-98.3	-108.3	-120.5	-101.4	-92.4	-130.7
Result on technical account	**-5.9**	**-31.4**	**-60.8**	**-54.6**	**157.0**	**53.6**	**43.9**	**12.6**	**-9.7**
Result on non-technical account	**69.1**	**90.2**	**133.4**	**125.4**	**-292.9**	**195.3**	**140.2**	**49.4**	**113.5**
Net result before tax	63.2	58.8	72.6	70.8	-135.9	248.9	184.1	62.0	103.8
Tax	-2.2	2.1	10.4	-2.3	-14.2	-8.8	-8.6	-11.1	-5.3
Net result after tax	**61.0**	**60.9**	**83.0**	**68.5**	**-150.1**	**240.1**	**175.5**	**50.9**	**98.5**
Changes in deferred call	–	-8.3	-9.4	–	–	-41.5	-28.2	-14.5	-30.7
Combined ratio	101	107	111	109	78	92	94	98	101
Free reserves	388.9	438.4	512.0	580.5	430.4	638.4	790.2	826.1	895.3

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