

# DIRECTORS' REPORT AND FINANCIAL STATEMENTS

for the six months to 20 August 2018



Together we  
enable sustainable  
maritime  
development

# FINANCIAL HIGHLIGHTS

Six months to 20 August 2018

668

**Gross written premium**  
USD MILLIONS, ETC BASIS

78

**Combined ratio net**  
PER CENT, ETC BASIS

27

**Result**  
USD MILLIONS, ETC BASIS

-1.1

**Investment return**  
PER CENT

1,276

**Equity**  
USD MILLIONS

3,179

**Assets**  
USD MILLIONS

A+

**Standard & Poor's rating**

# FIVE YEAR COMPARISON

	12 months				6 months	
	2015	2016	2017	2018	20.08.2017	20.08.2018
<b>Gross written premium</b> USD millions, ETC basis	991	911	824	775	664	668
<b>Result</b> USD millions, ETC basis	87	85	215	193	150	27
<b>Combined ratio</b> Per cent, ETC basis	88	83	83	91	77	78
<b>Equity</b> USD millions	969	1,017	1,135	1,249	1,285	1,276
<b>Assets</b> USD millions	2,747	3,012	2,825	2,867	3,239	3,179

# CEO'S OPERATIONAL REVIEW

I am pleased to announce that, for the first six months of the 2018 financial year, the surplus after tax on an Estimated Total Call (ETC) basis was USD 27 million. As of 20 August 2018, the consolidated equity which provides security and stability for the membership stood at USD 1,276 million, compared to USD 1,249 million on 20 February 2018. The non-technical result was a loss of USD 41 million, including an investment return of minus 1.1 per cent.

This period has demonstrated a strong technical performance and a growth in gross written premium compared to the same period last year. For the group as whole, the Combined Ratio Net (CRN) was 78 per cent, delivering a technical result of USD 69 million. This is a result of disciplined risk selection and the continuation of the benign claims environment, both in terms of frequency and severity, that we have seen in recent years.

With investment results volatile, ensuring that we have a balanced book of underwriting becomes increasingly important. Being excellent at the fundamentals, assessing and handling maritime risk, is our first priority to deliver on our Members' and clients' needs. There is no doubt that the quality of our membership, our continued focus on loss prevention and our strong claims handling capabilities have contributed positively to this outcome.

It has been a busy first half year not least because of our involvement in activities that bring knowledge and people together for sustainable maritime development. The world's oceans are its greatest common resource to create growth and jobs in areas including transport, food, energy, tourism, and minerals. Their long-term health is a key component in the well-being of society at large.

In June, Gard became part of the United Nations' Action Platform for the Ocean, a working group to take a comprehensive review of the role of the ocean industries in achieving UN's 17 Sustainable Development Goals. We have attended two meetings so far and we have been actively engaged in the delivery of its first report on ocean governance and regulation. Our participation in the Platform is an important contribution to the overall strategic direction we see for our organisation going forward.

## **Business review**

### *Protection & Indemnity*

Gross written premium for P&I for the six months to August 2018 amounted to USD 508 million, a reduction of USD 25 million (five per cent) from the same period last year. This reflects market trends with decreasing premium volumes driven by falling insurance rates and a moderate growth in the world fleet. Tonnage development, however, has been positive. The 2018 renewal season produced a net tonnage gain and there has been an overall increase of nearly 4 million gross tonnes since then.

The combined ratio for P&I was steady year on year, at 78 per cent against 77 per cent in the first six months of 2017. P&I claims incurred for own account totalled USD 139 million, an increase of USD 9 million from the same period last year. This was mainly in the non-mutual book where the result is not as strong as for the comparative period.

Over the last few years, our insurance performance has been better than forecast with both fewer claims and fewer large claims than forecast. There is no doubt that the shipping industry has improved their processes and reduced the overall number of accidents. Members of Gard do not just reflect these trends, many are at the forefront of them – leading the drive for improvement. Thus, the quality of our membership is a key component in delivering a strong performance.

### *Marine & Energy*

For Marine & Energy, gross written premium for the six months to 20 August 2018 amounted to USD 160 million, an increase of USD 28 million (21 per cent) from the same period last year. The combined ratio for Marine & Energy improved in the first six months of 2018, falling to 75 per cent from 95 per cent in the first six months of 2017.

Claims incurred for own account totalled USD 56 million, a reduction of USD 13 million from the same period last year and primarily accounted for by a large reduction in a single claim.



# CEO'S OPERATIONAL REVIEW

## continued

Eligible own funds	20 August 2018	20 February 2017
Tier 1 Basic own funds	1,172	1,192
Tier 2 Ancillary own funds	335	328
Tier 3 Other own funds	0	0
Eligible own funds	1,507	1,520

The ongoing soft market in marine continues to cause concern as pricing needs to reflect the possibility of major claims. However, during the first six months of 2018 we have increased our market share and line size in a competitive market, with new owners choosing to put significant tonnage with Gard. The strength of our claims handling, and ability to lead claims effectively to get businesses back on track, is seen as a strong proposition in the current market environment. From a wider perspective, good claims handling has the beneficial effect of reducing the cost and suffering for society at large.

The energy market by contrast has seen some hardening of rates, although premiums are probably still too low in a market segment prone to large claims. There has also been a pick-up in activity, with more vessels and rigs being employed.

### Investments

Over the six months to 20 August 2018, the Gard group achieved an investment return of minus 1.1 per cent against a benchmark of minus 1.2 per cent, compared to a positive return of 3.7 per cent in the same period last year. The group's investment portfolio increased from USD 2,156 million as at 20 February 2018 to USD 2,185 million as at 20 August 2018.

The equity investments gave a negative return of 3.6 per cent, whilst real estate investments gave a return of 4.5 per cent and fixed-income investments delivered minus 1.0 per cent.

The return for the period to 20 August 2018 was mainly driven by increasing interest rates and a strong appreciation in the US dollar. Emerging markets in particular experienced strong headwinds and this was one of reasons which accounts for our performance during the first six months of the year.

### Capital and risk management

Over the six months to 20 August 2018, the Gard group continued to be very strongly capitalised. The probability that Gard would have to raise additional capital from its mutual Members by way of unbudgeted supplementary calls is low.

Gard has a simple capital structure consisting of Tier 1 capital through equity, which is earned and available, high quality Tier 2 capital in the form of unbudgeted supplementary calls, and tax assets included as Tier 3 capital.

The Gard group manages its capital in such a way that all its regulated entities meet local regulatory capital requirements at all times.

### Industry issues

#### Sanctions

On 8 May 2018, President Trump announced the decision of the United States government to cease their participation in the Joint Comprehensive Plan of Action (JCPOA) – more commonly known as the Iran nuclear deal. The US will reimpose the nuclear-related sanctions following 90 and 180-day wind-down periods. When the final wind-down period finishes on 4 November 2018, the re-imposed US extra territorial sanctions will likely impact maritime trade with Iran and the insurance of such trade.

Gard and the International Group of P&I Clubs are monitoring and assessing the situation closely and are engaging with the US Office of Foreign Assets Control (OFAC), the European Union External Action Service and the European Commission in order to obtain clarity with regard to the implementation of the reinstatement of sanctions in the US, the replacement of the Blocking Regulation in the

EU and the impact this will have in relation to shipowners' liability and club cover.

Once the sanctions are in place, insurers will experience increased difficulties in settling claims involving Iranian entities, including claims incurred by innocent third parties in lawful trade.

#### Tax

On 8 October 2018, the Norwegian Ministry of Finance proposed changes to the tax legislation for insurance companies as well as the implementation of BEPS (Base Erosion and Profit Shifting). Tax exemption for premium income for marine insurers which are considered "real mutual" companies was not proposed at this time as an approval by ESA (EFTA Surveillance Agency) is still pending. The cost of a conversion of contingency reserve to equity capital has previously been charged and is booked as a deferred tax liability. The proposed changes to the tax system are fully reflected in the accounts.

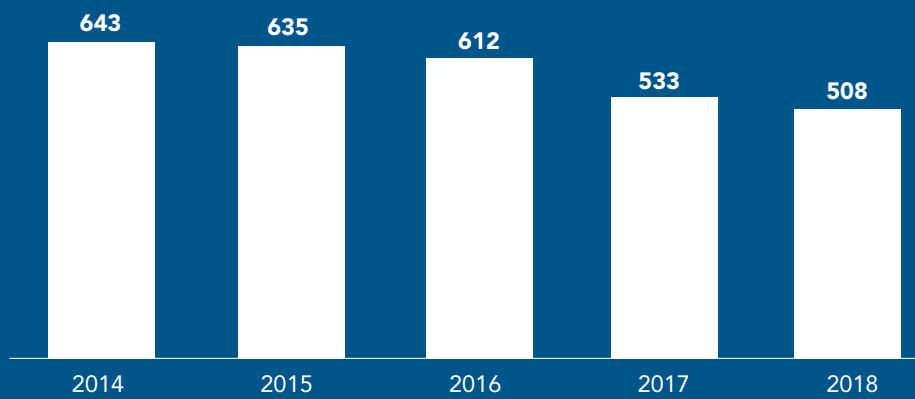
#### Being prepared

This report is only a snapshot of the first half of our year and there is no room for complacency – experience tells us that circumstances can change rapidly. Nevertheless, our strategy of stability and predictability means that we believe we are well-positioned to handle new challenges: we have products to protect the assets, income and liabilities of our Members and clients, a well-balanced insurance portfolio, a capital base that helps our Members and clients manage their risks but most of all a mindset where we are always scanning the horizon for squalls or sunshine.

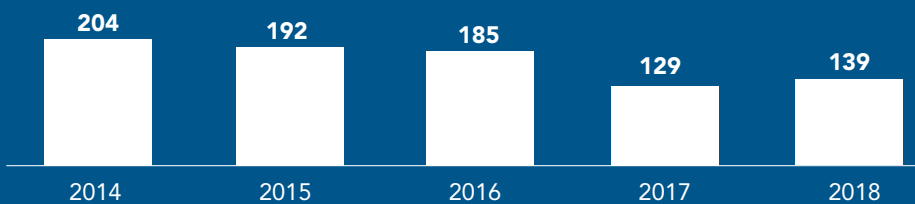
**Rolf Thore Roppestad**  
Chief Executive Officer



**Gross written premium, P&I**  
USD million, six months to 20 August



**Claims incurred for own account, P&I**  
USD million, six months to 20 August

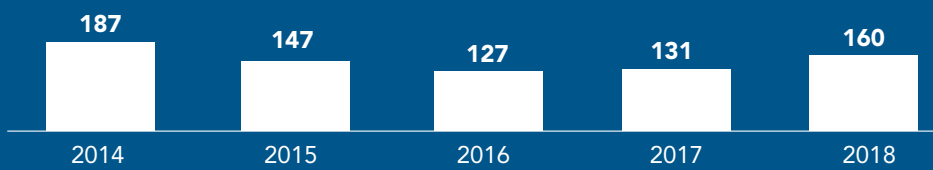






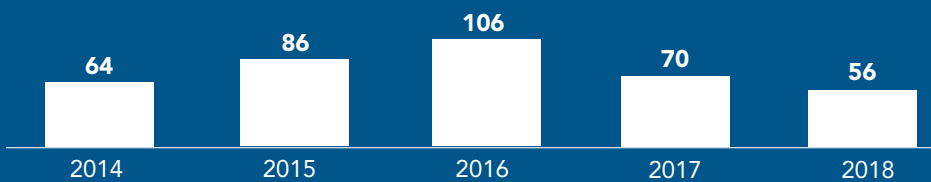
### Gross written premium, Marine & Energy

USD million, six months to 20 August



### Claims incurred for own account, Marine & Energy

USD million, six months to 20 August



# SUMMARY INCOME STATEMENT

Gard P. & I. (Bermuda) Ltd.

Amounts in USD 000s	Consolidated accounts	
	21.02.18 to 20.08.18	21.02.17 to 20.08.17
Gross earned premium*	374,060	371,542
Earned premium for own account	305,312	307,878
Other insurance related income	1,291	1,087
Claims incurred for own account**	194,935	199,104
Operating expenses	43,126	39,066
Technical result	68,541	70,796
Non-technical result***	(41,429)	79,076
Result	27,112	149,872
Combined Ratio Net (CRN)	78%	77%

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

\*\* Claims handling costs' share of Operating expenses are included in Claims incurred for own account.

\*\*\* Taxation and Other comprehensive income/(loss) are included in Non-technical result.

# SUMMARY BALANCE SHEET

Gard P. & I. (Bermuda) Ltd.

Amounts in USD 000's	Consolidated accounts	
	As at 20.08.18	As at 20.02.18
Investments at fair value	2,172,634	2,160,197
Reinsurers' share of technical provisions	302,422	254,892
Cash and equivalents	169,408	171,780
Other assets	534,431	280,257
<b>Total assets</b>	<b>3,178,895</b>	<b>2,867,126</b>
Equity	1,276,142	1,249,030
Gross premium reserve	409,440	115,920
Gross claims reserve	1,287,900	1,338,266
Other liabilities	205,413	163,910
<b>Total equity and liabilities</b>	<b>3,178,895</b>	<b>2,867,126</b>

# INCOME STATEMENT ON LINES OF BUSINESS

Gard P. & I. (Bermuda) Ltd.

Amounts in USD 000's	P&I	21.02.18 to 20.08.18	
		M&E	Consolidated
Gross earned premium	255,689	118,371	374,060
Earned premium for own account	204,141	101,171	305,312
Claims incurred for own account*	138,734	56,201	194,935
Operating expenses	22,633	19,202	41,835
Technical result	42,774	25,768	68,541
Non-technical result**	12,220	(51,346)	(41,429)
Result	54,994	(25,578)	27,112
Combined ratio net	79%	75%	78%

\* Claims handling costs' share of operating expenses are included in Claims incurred for own account.

\*\* Taxation and Other comprehensive income/(loss) are included in Non-technical result.

# CONTACT DETAILS FOR GARD'S GLOBAL NETWORK

## Lingard Limited

Trott & Duncan Building  
17A Brunswick Street  
Hamilton HM 10  
Bermuda

**Tel** +1 441 292 6766  
**Email** [companymail@lingard.bm](mailto:companymail@lingard.bm)

## Gard AS

Kittelsbuktveien 31  
NO-4836 Arendal  
Norway

**Tel** +47 37 01 91 00  
**Email** [companymail@gard.no](mailto:companymail@gard.no)

## Gard AS

Skipsbyggerhallen  
Solheimsgaten 11  
NO-5058 Bergen  
Norway

**Tel** +47 37 01 91 00  
**Email** [companymail@gard.no](mailto:companymail@gard.no)

## Gard AS

Dronning Eufemias gate 6  
NO-0191 Oslo  
Norway

**Tel** +47 37 01 91 00  
**Email** [companymail@gard.no](mailto:companymail@gard.no)

## Oy Gard (Baltic) Ab

Bulevardi 46  
FIN-00120 Helsinki  
Finland

**Tel** +358 30 600 3400  
**Email** [gardbaltic@gard.no](mailto:gardbaltic@gard.no)

## Gard (Greece) Ltd

2, A. Papanastasiou Avenue  
185 34 Kastella, Piraeus  
Greece

**Tel** + 30 210 413 8752  
**Email** [gard.greece@gard.no](mailto:gard.greece@gard.no)

## Gard (HK) Ltd

Room 3003, 30/F  
The Centrium, 60 Wyndham Street  
Central  
Hong Kong

**Tel** +852 2901 8688  
**Email** [gardhk@gard.no](mailto:gardhk@gard.no)

## Gard (Japan) K.K.

Shiodome City Center 8F  
1-5-2 Higashi Shinbashi  
Minato-ku, Tokyo 105-7108  
Japan

**Tel** +81 3 5537 7266  
**Email** [gardjapan@gard.no](mailto:gardjapan@gard.no)

## Gard (Japan) K.K.

Vogue 406,  
3-9-36 Higashimura, Imabari-City,  
Ehime 799-1506,  
Japan

**Tel** +81 898 35 3901  
**Email** [gardjapan@gard.no](mailto:gardjapan@gard.no)

## Gard (North America) Inc.

40 Fulton Street  
New York, NY 10038  
USA

**Tel** +1 212 425 5100  
**Email** [gardna@gard.no](mailto:gardna@gard.no)

## Gard (Singapore) Pte. Ltd.

72 Anson Rd  
#13-02 Anson House  
Singapore 079911  
Singapore

**Tel** +65 6709 8450  
**Email** [gardsingapore@gard.no](mailto:gardsingapore@gard.no)

## Gard (UK) Limited

7 Bishopsgate  
London EC2N 3AR  
United Kingdom

**Tel** +44 (0)20 7444 7200  
**Email** [garduk@gard.no](mailto:garduk@gard.no)

## Gard Marine & Energy- Escritório de Representação no Brasil Ltda

Rua Lauro Muller 116 – suite 2401  
Botafogo, 22290-160,  
Rio de Janeiro, RJ,  
Brazil

**Tel** +55 (21) 3037 9764  
**Email** [gardbrasil@gard.no](mailto:gardbrasil@gard.no)

**Emergency Telephone Number**  
+47 90 52 41 00

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

