

# Financial Condition Report

Gard M&E Ltd ('Gard M&E')

31 December 2023



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## EXECUTIVE SUMMARY

This report covers Gard Marine & Energy Limited's ('Gard M&E') business and performance, system of governance, risk profile, valuation for Economic Balance Sheet (EBS) purposes and capital management. Gard M&E's Board of Directors has ultimate responsibility for these matters. The Board maintains a proper overview of the company's business and risk profile with the assistance of various governance and control functions that have been put in place to monitor and manage the company's business.

In the tables, values are stated in USD million. Values below USD 500,000 are displayed as '0'.

An empty cell means that there is no value to state. Rounding differences +/- one unit can occur.

<b>Gard M&amp;E Ltd, key figures</b>		
USD million	<b>31.12.2023</b>	<b>31.12.2022</b>
<b>Solvency II balance sheet</b>		
Assets	782	669
Technical provisions	338	271
Other liabilities	114	98
<b>Total statutory economic capital and surplus</b>	<b>329</b>	<b>300</b>
<b>Eligible capital</b>		
Tier 1 capital	329	300
Tier 2 capital	0	0
Tier 3 capital	0	0
<b>Eligible capital</b>	<b>329</b>	<b>300</b>
<b>Required Capital</b>		
BSCR	151	134
Minimum Margin of Solvency	33	33
<b>Bermuda Solvency Capital Requirement Ratio</b>		
Eligible capital to meet BSCR Ratio	217%	224%
Eligible capital to meet Minimum Margin of Solvency Ratio	993%	896%
Tier 1 share of total eligible own funds	100%	100%

Gard M&E fulfils the minimum solvency capital requirements (hereafter referred to as Minimum Margin of Solvency or MMS) and Bermuda Solvency Capital Requirement (BSCR) stipulated by the supervisory authorities as of the reporting date of 31 December 2023.

The principles used to determine the solvency ratio are explained in this document. Chapter D describes the valuation principles used to determine eligible capital, and Chapter E those used to determine the BSCR.

## A. Business and performance

The section discusses the group structure and all legal entities included in the group and states the underwriting and investment performance of Gard Re.

Gard is a marine and energy insurance group that is active in Protection and Indemnity (P&I) and Marine and Energy (M&E) business. Gard operates in global markets, offering insurance solutions to corporate customers, often through insurance brokers. Its global presence and activities allow the company to achieve efficient risk diversification.

The financial statements for the year ending 31 December 2023 cover the activity for the period from 1 January 2023 to 31 December 2023. The accounts for the previous year, cover the activity for the period from 21 February 2022 to 31 December 2022 – a period of 314 days. Due to the different number of days in these two periods, the numbers for this year and the previous year will not be fully comparable.

The statement of comprehensive income shows a positive result for the period of USD 44.0 million compared to a positive result of USD 36.9 million last year.

The gross written premium was USD 508.1 million. Gross earned premium was USD 497.4 million, an increase of USD 27.9 million or 6 per cent from the shorter last year (21.02 to 31.12.22), but below expectations. The Marine area is below expectations due to a softer market as a result of reduced object values within some segments, Energy is above, and Builders Risk is on expectations.

The earned premium for own account is USD 218.2 million.

Claims incurred for own account is USD 184.4 million. The overall claims development is better than expected. Energy and Builders Risk is performing better, but Marine is above/worse. Marine has faced four claims above USD 5 million and several medium sized claims.

The technical result is a profit of USD 14.9 million compared to a strong profit of USD 69.9 million last year. The combined ratio net is 93 per cent.

Gard M&E seeks to add returns through a diversified investment portfolio. The non-technical result is a positive USD 24.7 million.

## B. System of governance

The section discusses the Gard group's system of governance which Gard M&E is part of.

Gard has an effective system of governance, which provides for sound and prudent management.

An assessment of the risk management system concluded that the system is adequate considering the size and complexity of the operations.

The individual elements of the System of Governance at Gard can be found in section B.

## C. Risk profile

In the context of its business operations, Gard M&E enters a broad variety of risks, where the main risks are underwriting risk and market risk. Gard M&E is also exposed to counterparty default risk, operational risk, liquidity risk, business risk, compliance risk and reputational risk. How these risks are dealt with is described in section C.

Total BSCR as of 31 December 2023 was USD 151 million, an increase of 17 million during the period.

The premium risk increased from USD 70 million to USD 77 million caused by the change in financial year-end from 20 February to 31 December 2022, which gave 314 days as opposed to 365 days for the reporting period for 2023 and increased net premiums written accordingly. The reserve risk increased from USD 56 million to USD 74 million due to an increase in gross loss and loss expense provisions. Catastrophe risk decreased from USD 46 million to USD 44 million

The BSCR for market risk was USD 37 million as of 31 December 2023. Equity investment risk increased from USD 20 million to USD 23 million during the period due to an increase in the equity portfolio. Fixed-income investment risk has increased from USD 8 million to USD 9 million due to an increase in the portfolio of bond mutual funds. Interest rate/liquidity risk has increased from USD 15 million to USD 17 million due to an increase in the portfolio of bonds. Currency risk has decreased slightly from USD 0.4 million to USD 0.1 million, while concentration risk was zero, down from USD 1 million in the previous year.

Credit risk has increased from USD 15 million to USD 17 million due to an increase in receivables from affiliates and reinsurers.

The operational risk capital requirement has decreased from USD 3 million to USD 1 million due to a reduction in operational risk capital charge from 2 per cent to 1 per cent.

The material risks that Gard is facing are believed to be captured in the risk landscape.

#### **D. Valuation for Solvency purposes**

This section specifies and describes the valuation of assets and liabilities for Economic Balance Sheet (EBS) purposes, and the differences between the bases, methods and main assumptions used for the valuation of assets for EBS purposes and those used in statutory financial statements.

The fair value of assets is mainly measured on a mark-to-market basis, determined by reference to published price quotations in active markets. For unquoted financial assets, the fair value has been estimated using a valuation technique based on assumptions that are supported by observable market prices (mark-to-model).

The technical provisions under BSCR include the sum of net best estimate premium provisions, the discounted value of net best estimate loss and loss expense provisions and risk margin. For BSCR purposes the calculation of the discounting effect for the technical provisions has been prepared based on risk-free spot rates distributed by the Bermuda Monetary Authority (BMA). The risk margin calculation has been prepared by using the Solvency II standard method. Valuation methods are elaborated on in section D.

#### **E. Capital management**



Rolf Thore Roppestad  
Chief Executive Officer



Torunn Biller White  
Chief Risk Officer

30 April 2023

The section describes the capital management of the Gard group, and the capital requirement and eligible capital of Gard Re.

The Gard group aims to hold sufficient capital and liquidity as well as constrain its risk-taking to ensure that the group can continue to operate following an extreme loss event with the same risk tolerance for insurance risk. The probability that the Gard group would have to raise additional capital from its mutual Members by way of unbudgeted supplementary calls should be low.

The Gard group aims to manage its capital such that all its regulated entities always meet local regulatory capital requirements. This was the case throughout the financial year up to 31 December 2023.

Gard M&E has a simple capital structure consisting of Tier 1 capital through equity capital, which is fully paid in and available, no Tier 2 capital consisting of excess of encumbered assets less capital requirement applicable to the encumbered assets, and no Tier 3 capital. 100 per cent of all available capital is assigned to the highest quality level (Tier 1). Capital management is described in section E.

#### **Declaration**

'We the undersigned attest that, to the best of our knowledge and belief, this financial condition report fairly represents the financial condition of the Company in all material respects as of 31 December 2023.'

# A BUSINESS AND PERFORMANCE

## A 1 Business

### A 1.1 Group structure

The parent company of the group, Gard Bermuda, is a mutual insurance association. The other companies in the group are joint-stock companies fully owned and controlled by Gard Bermuda, except for Gard Norway, which is a mutual insurance association controlled by Gard Bermuda through an agreement on the exercise of ownership rights.

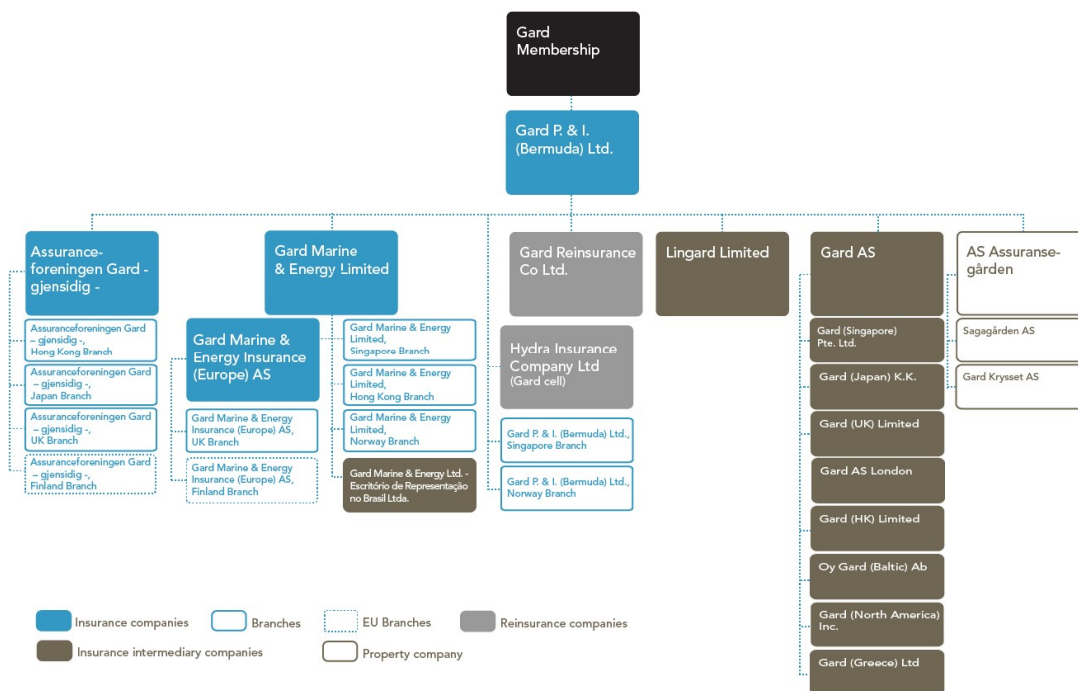
There are no external capital owners involved who expect a return on capital invested, or who otherwise have voting rights at the general meetings of the companies.

The mutual Members of Gard Bermuda obtain the benefit of the value creation generated by the group's business through reduced mutual premiums. Correspondingly, the right and ability to levy unbudgeted supplementary calls to recapitalize the group is a fundamental element of the Members' mutual risk-sharing.

The Gard group consists of four direct insurance entities, two captive reinsurance companies, one insurance management company, eight insurance intermediary companies, one representative office and a property company. The insurance entities have eleven branches in six different jurisdictions.

In general, there are separate direct insurance companies for the P&I business and the Marine & Energy business. There are EEA-domiciled direct insurance companies and Bermuda-based insurance entities. Risk and capital in the group are pooled through the captive Gard Re.

Hydra is a Bermuda-registered segregated accounts company that was established by the 13 parties to the International Group of P&I Clubs' Pooling Agreement to reinsure certain layers of risk retained by the parties to the Pooling Agreement. The Hydra Gard cell is wholly owned by Gard Bermuda. Branches have been established where required to conduct business.



## A 1.2 Legal entities

### A 1.2.1 Gard group

Test 'Gard group' is the totality of legal entities ultimately controlled by Gard P. & I. (Bermuda) Ltd. The Gard group is under group supervision by the Norwegian Financial Supervisory Authority (FSA) (Finanstilsynet), based on an agreement between FSA and the Bermuda Monetary Authority (BMA).

### A 1.2.2 Gard Bermuda

Gard P. & I. (Bermuda) Ltd. ('Gard Bermuda') is the parent company of the Gard group. The company is a mutual insurance association domiciled in Bermuda and registered by the Bermuda Monetary Authority (BMA). The manager of Gard Bermuda is Lingard Limited.

Gard Bermuda provides Protection & Indemnity (P&I) and related insurance products to its Members, who are shipowners, operators and charterers with ships entered into the association. As a mutual insurance association, the company is owned by its Members. There are no external capital owners.

Gard Bermuda carries out its direct insurance business through branches in Norway and Singapore. The general agents of the branches are Gard AS in Norway and Gard (Singapore) Pte. Ltd. in Singapore.

The Members of Gard Bermuda are also Members of Gard Norway and *vice versa*.<sup>1</sup> However, all of the Members of the two associations exercise membership rights through the parent company in accordance with the group structure. Gard Bermuda has been given the right to exercise membership rights on behalf of the entire membership in Gard Norway. Thus, Gard Norway is treated as a subsidiary of Gard Bermuda in the same way as the other wholly-owned subsidiaries, such as Gard M&E, Gard Re, Lingard, and Gard AS.

Gard Bermuda and Gard Norway are members of the International Group of P&I Clubs and both are parties to the International Group of P&I Clubs' Pooling Agreement. The Pooling Agreement is the contractual basis for the sharing of claims among the P&I Clubs and the collective purchase of market

reinsurance. The two associations are recorded as 'Paired Associations' in the Pooling Agreement, with Gard Bermuda as the principal.

Gard Bermuda is regulated by the BMA.

### A 1.2.3 Gard Norway

Assuranceforeningen Gard - gjensidig - ('Gard Norway') is the Norwegian P&I Club founded in Arendal, Norway, in 1907. The company is registered and domiciled in Norway and is licensed by the Norwegian Ministry of Finance. The head office of Gard Norway is in Arendal, Norway. Gard AS acts as an intermediary for Gard Norway.

Gard Norway provides P&I and related insurance products to its Members, who are shipowners, operators and charterers with ships entered into the club. As a mutual insurance association, the company is owned by its Members. There are no external capital owners.

Based on the group's governance structure, Gard Bermuda has the power to govern and control the business activities of Gard Norway. This includes the power to appoint the members of its Board of Directors. Based on internationally accepted accounting standards, this creates the legal basis required for the consolidation of the two companies' accounts.<sup>2</sup>

Gard Norway is primarily used as a vehicle for writing direct P&I business in certain countries where an EU/EEA-based insurer is required or preferred to comply with local regulations.

Gard Norway is regulated by the Norwegian FSA.

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<sup>1</sup> See Article 2.6 of the Byelaws of Gard P&I Bermuda and Article 4.7 of the Statutes of Gard P&I Norway. Gard P&I Bermuda and Gard P&I Norway have entered into mutual reinsurance agreements whereby the two associations reinsure each other.

<sup>2</sup> Reference is made to the International Accounting Standard 27 Consolidated and Separate Financial Statements (IAS 27).



#### A 1.2.4 Gard M&E

Gard Marine & Energy Limited ('Gard M&E') is a joint-stock company and a wholly-owned subsidiary of Gard Bermuda. The company is domiciled in Bermuda. The manager of Gard M&E is Lingard Limited.

Gard M&E offers Marine and Energy insurance products on a commercial basis to shipowners and operators, and operators within the international oil and gas industry. Gard M&E carries out its direct insurance business through branches in Norway, Hong Kong and Singapore. The general agents of the branches are Gard AS in Norway, Gard (HK) Ltd. in Hong Kong and Gard (Singapore) Pte. Ltd. in Singapore.

Gard Marine & Energy Limited – Escritório de Representação no Brasil Ltda. (Gard Brazil) is a subsidiary of Gard M&E and is registered and domiciled in Brazil. Gard Brazil is authorised to carry out insurance agency activities in Brazil on behalf of Gard M&E.

#### A 1.2.5 Gard M&E Europe

Gard Marine & Energy Insurance (Europe) AS ('Gard M&E Europe') is a wholly-owned subsidiary of Gard M&E and is registered and domiciled in Arendal, Norway and licensed by the Norwegian Ministry of Finance to carry out Marine and Energy business.<sup>3</sup>

Gard M&E Europe is primarily used as a vehicle for writing M&E business in certain countries where an EU/EEA-based insurer is required or preferred to comply with local regulations. Gard AS acts as an intermediary for Gard M&E Europe.

Gard M&E Europe is regulated by the Norwegian FSA.

#### A 1.2.6 Gard Re

Gard Reinsurance Co Ltd ('Gard Re') is a joint-stock company and is a wholly-owned subsidiary of Gard Bermuda. The company is domiciled in Bermuda and is registered by the BMA. The manager of Gard M&E is Lingard Limited.

Reinsurance agreements have been entered into between Gard Re, as the reinsurer, and Gard Bermuda and Gard M&E as the reassured, covering a certain proportion of these two direct insurers'

retained risks. A stop-loss reinsurance agreement has also been entered into between Gard M&E and Gard Norway.

Gard M&E is regulated by the BMA.

#### A 1.2.7 Hydra Insurance Company Ltd

Hydra Insurance Company Ltd ('Hydra') is a segregated accounts company. It is permitted to create 'segregated accounts' or 'cells' to segregate the assets and liabilities attributable to a particular segregated account from those attributable to other segregated accounts and the company's general account.

Hydra was established by the parties to the International Group of P&I Clubs' Pooling Agreement as a captive insurance company to reinsure certain layers of risk retained by the parties to the Pooling Agreement. Each party to the Pooling Agreement owns a segregated account in Hydra and is responsible for its own account, or cell, within the company. The Hydra Gard cell is wholly owned by Gard Bermuda.

Hydra Insurance Company is regulated by the BMA.

#### A 1.2.8 Lingard Limited

Lingard Limited ('Lingard') is a joint-stock company domiciled in Bermuda. It is a wholly-owned subsidiary of Gard Bermuda and is registered as an Insurance Manager by the Bermuda Monetary Authority.

Lingard has entered into management agreements with each of Gard Bermuda, Gard M&E and Gard M&E whereby it has delegated the responsibility of administering the day-to-day business and corporate functions of these Bermuda-domiciled companies. Certain insurance intermediary functions, such as *inter alia*, underwriting and claims handling, are sub-delegated under an agency agreement with Gard AS as an insurance intermediary.

Lingard is regulated by the BMA.

#### A 1.2.9 Gard AS

Gard AS is a Norwegian joint-stock company domiciled in Arendal, Norway, and a wholly-owned subsidiary of Gard Bermuda. Gard AS is registered

<sup>3</sup> Classes 6, 8, 9, 12 and 13 in the Norwegian regulations of 18 September 1995 on insurance classes.

with the Norwegian Financial Supervisory Authority as an insurance agent.

Gard AS has entered into separate agency agreements with Gard Norway, Gard M&E Europe and Lingard pursuant to which Gard AS acts as an agent and intermediary with regard to the portfolios of direct business of Gard Bermuda, Gard Norway, Gard M&E and Gard M&E Europe. The agency agreements give Gard AS, *inter alia*, the power to conclude contracts of insurance on behalf of the companies and to handle claims which fall within the scope of each company's insurance coverage.

Gard AS has also established a service network of wholly-owned subsidiaries (random order);

- i. Finland – Oy Gard (Baltic) Ab
- ii. United Kingdom/England – Gard (UK) Limited

- iii. United States – Gard (North America) Inc.
- iv. Hong Kong – Gard (HK) Limited
- v. Greece – Gard (Greece) Ltd
- vi. Japan - Gard (Japan) K.K.
- vii. Singapore - Gard (Singapore) Pte. Ltd.

These subsidiaries are the Members' and clients' local contact points and perform, *inter alia*, insurance intermediary services in their respective local markets on behalf of Gard AS' principals.

Gard AS is regulated by the Norwegian FSA.

Name	Function	Entity
Norwegian Financial Supervisory Authority (Finanstilsynet) Revierstredet 3 0151 Oslo Norway  Phone: +47 22 93 98 00 Main contact: Linn Therese Jørgensen	Regulator	Gard group Gard Norway Gard M&E Europe Gard AS Gard Bermuda NUF Gard M&E NUF
Bermuda Monetary Authority BMA House 43 Victoria Street Hamilton Bermuda  Phone: +441 295 5278	Regulator	Gard Bermuda Gard M&E Gard RE Hydra Gard Cell Lingard
KPMG AS Kystveien 14 4841 Arendal Norway  Phone: +47 45 40 40 63	External auditor	Gard group Gard Norway Gard M&E Europe Gard AS Gard Bermuda NUF Gard M&E NUF
KPMG Bermuda 4 Par-La-Ville RD Hamilton Bermuda  Phone: +441 295 5063	External auditor	Gard group Gard Bermuda Gard M&E Gard RE Hydra Gard Cell Lingard

### A 1.3 Lines of business and geographical areas

Gard is a mutual Marine and Energy insurance group which principally provides two lines of insurance business:

- Protection and Indemnity (P&I) is liability insurance for owners, charterers and operators of ships and mobile offshore units.

- Marine and Energy (M&E) which includes Marine products such as Hull & Machinery and Loss of Hire insurance for shipowners, as well as Builder's Risk insurance for shipyards. Energy includes products such as property and casualty insurance for operators and contractors in the upstream oil and gas industry, with a focus on

offshore operations. Energy also includes insurance for offshore wind farms.

Gard's mission 'Together, we enable sustainable maritime development' - means the Association helps Members and clients, people and society make the most of opportunities at sea. This sets the direction of our business. The core purpose of the Association is to help Gard's Members and clients in the Marine industries to manage risk and its consequences. The two main components of Gard's value proposition are strong financial security and excellent service. This is combined with effective and efficient claims handling, strong risk selection and good pricing skills.

Gard operates in global markets, offering insurance solutions to mainly corporate customers, often through insurance brokers. Most markets where Gard operates are highly competitive. The main competitors besides the other P&I clubs are the London insurance market, large global insurance and reinsurance companies, and national and local insurance companies.

Gard Bermuda and Gard Norway are members of the International Group of P&I Clubs (IG), which covers close to 90 per cent of the world's ocean-going tonnage. The 13 P&I clubs in the IG share claims above a certain level and collectively purchase reinsurance programs. Gard is the largest club in the IG and insures approximately 19 per cent of the tonnage and represents about 15 per cent of the total premium written by the IG clubs. Gard is one of the world's leading Marine insurers with a market share of 8 per cent in the global Marine Hull market and is a medium-sized capacity provider in Energy.

#### **A 1.4 Significant events in the reporting period**

There are no significant events in the reporting period to be disclosed.

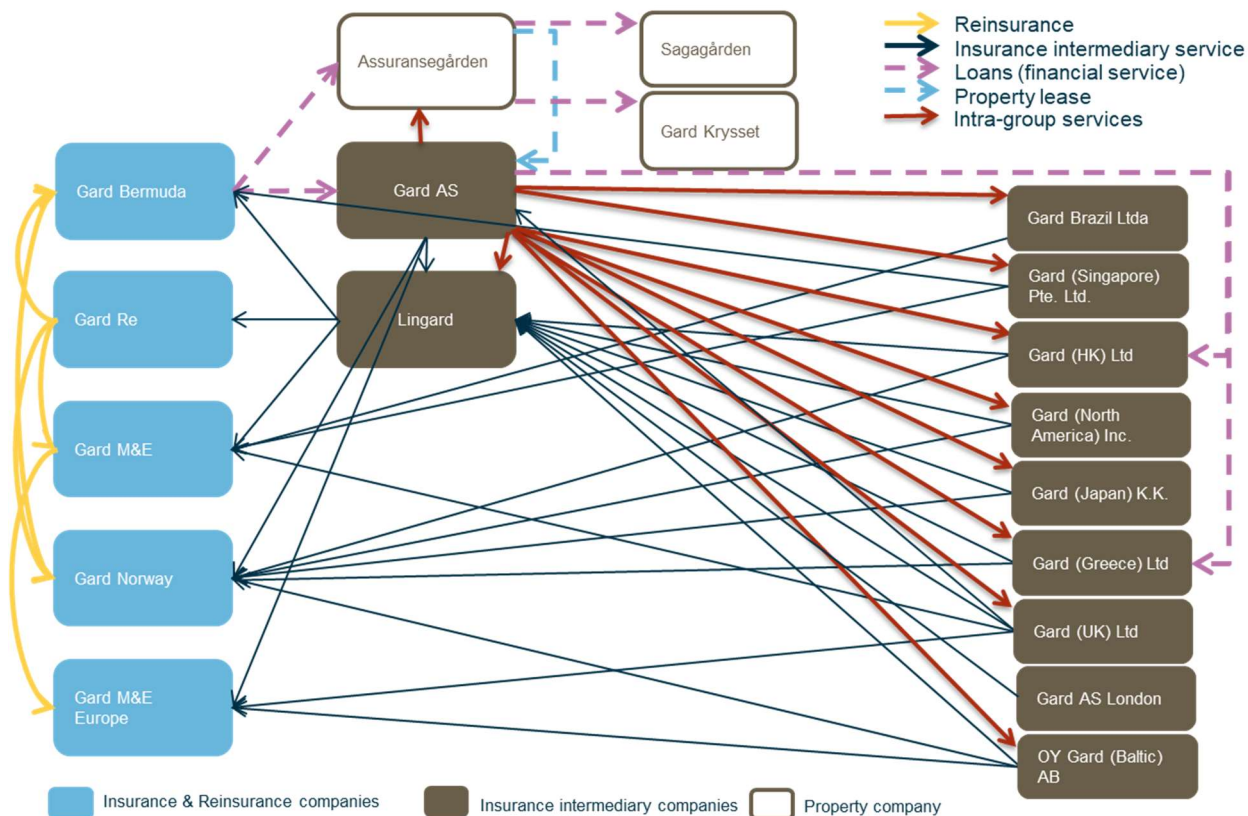
#### **A 1.5 Operations and transactions within the group**

Material intra-group operations and transactions within the group are:

- **Reinsurance.** Reinsurance of insurance risk between the insurance entities
- **Insurance intermediary services.** Services from the insurance intermediary companies to the insurance entities
- **Intra-group services** provided by Gard AS, such as technical, financial and human resource services
- **Financial services.** Loans and property leases between certain entities

Other intercompany transactions that exist between entities in the group are not listed as any such transactions are deemed non-material. Gard AS and its subsidiaries act as intermediary agents, and Lingard acts as Manager for the insurance entities in the Gard group. Some functions are sub-delegated from Lingard to Gard AS and subsidiaries.

Internal reinsurance agreements between entities in the group are established to achieve efficient utilisation of the capital in the group and to contain the risk profile of the direct insurance companies within their respective risk tolerance levels. Besides, the reinsurance arrangements between Gard Bermuda and Gard Norway facilitate the mutual membership of both associations.



### A 1.6 Holders of qualifying holdings in the undertaking

Gard is established as a mutual insurance association, owned by its Members. There are no external capital owners. The Members of Gard P&I Bermuda are also Members of Gard Norway and vice versa. However, all the Members of the two associations exercise membership rights through the parent company in accordance with the group structure. Gard P&I Bermuda has been given the right to exercise membership rights on behalf of the entire membership in Gard Norway. Thus, Gard Norway is treated as a subsidiary of Gard P&I Bermuda in the same way as the other wholly-owned subsidiaries, such as Gard M&E and Gard Re.

### A 1.7 Consolidation of group data

The consolidated financial statements comprise Gard P. & I. (Bermuda) Ltd. and the companies over which the Company has a controlling interest. In as much as the Company has the right to exercise membership rights in Gard Norway, the Company controls all voting rights in Gard 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 following the same accounting principles for both parent and subsidiaries. The acquisition method is applied when accounting for business combinations.

## A 2 Underwriting performance

The financial statements for the year ending 31 December 2023 cover the activity for the period from 1 January 2023 to 31 December 2023.

The statement of comprehensive income shows a positive result for the period of USD 44.0 million compared to a positive result of USD 36.9 million last year.

The gross written premium was USD 508.1 million.

Gross earned premium was USD 497.4 million, an increase of USD 27.9 million or 6 per cent from the shorter last year (21.02 to 31.12.22), but below expectations. The Marine area is below expectations due to a softer market as a result of reduced object values within some segments, Energy is above, and Builders Risk is on expectations.

The earned premium for own account is USD 218.2 million.

Claims incurred for own account is USD 184.4 million. The overall claims development is better than expected. Energy and Builders Risk is performing better, but Marine is above/worse. Marine has faced four claims above USD 5 million and several medium-sized claims.

The technical result is a profit of USD 14.9 million compared to a strong profit of USD 69.9 million last year. The combined ratio net is 93 per cent.

Gard M&E seeks to add returns through a diversified investment portfolio. The non-technical result is a positive USD 24.7 million.

### **Marine**

Gross earned premium was USD 415 million, an increase of USD 13 million or 3 per cent from the shorter last year (21.02 to 31.12.22). The Marine area is below expectations due to a softer market because of reduced object values within some segments.

Claims incurred for own account are USD 166 million against USD 100 million last year. The claim development is worse than expected. Marine has faced four claims above USD 5 million and several medium-sized claims.

The Marine area produced a negative technical result of USD 6 million which is worse than expected with a CRN of 103 per cent.

### **Energy**

Gross earned premium was USD 82 million, an increase of USD 15 million or 22 per cent up from the shorter last year (21.02 to 31.12.22). The increase is as expected.

Claims incurred for own account are USD 19 million up from USD 10 million last year. The claim development has been better than expected and the business area has faced no large claims in the period.

The Energy area produced a positive technical result of USD 21 million which is better than planned with a CRN of 51 per cent.

Gard M&E, technical result USD million	31.12.2023		
	Marine	Energy	Total
Gross written premium	416	92	508
Gross earned premium	415	82	497
Ceded reinsurance	(240)	(39)	(279)
<b>Earned premium for own account</b>	<b>175</b>	<b>43</b>	<b>218</b>
<b>Other insurance related income</b>	<b>1</b>	<b>0.2</b>	<b>1</b>
Claims incurred, gross:			
Incurred this year	311	29	340
Incurred previous years	12	0	12
Total claims incurred, gross	323	30	353
Reinsurers' share of gross incurred claims	(157)	(11)	(168)
<b>Claims incurred for own account</b>	<b>166</b>	<b>19</b>	<b>184</b>
Insurance related expenses for own account	14	3	17
Other insurance related expenses	2	1	3
<b>Technical result</b>	<b>(6)</b>	<b>21</b>	<b>15</b>

Gard M&E, technical result USD million	31.12.2022		
	Marine	Energy	Total
<b>Technical result</b>			
Gross written premium	328	56	383
Gross earned premium	402	67	469
Ceded reinsurance	(241)	(33)	(275)
<b>Earned premium for own account</b>	<b>161</b>	<b>34</b>	<b>195</b>
<b>Other insurance related income</b>	<b>0</b>	<b>-</b>	<b>0</b>
Claims incurred, gross:			
Incurred this year	186	23	209
Incurred previous years	(0)	(8)	(8)
Total claims incurred, gross	186	14	200
Reinsurers' share of gross incurred claims	(86)	(4)	(91)
<b>Claims incurred for own account</b>	<b>100</b>	<b>10</b>	<b>110</b>
Insurance related expenses for own account	11	2	13
insurance related expenses	2	0	2
<b>Technical result</b>	<b>49</b>	<b>21</b>	<b>70</b>

### A 3 Investment performance

For the fiscal year, the investment portfolio returned USD 24 million, a marked improvement from USD -19 million the previous year.

With the backdrop of a US economy that proved more positive than what many had feared in 2022, strong equity- and credit markets were the main contributors to the result. All asset classes in the portfolio delivered good returns, and especially investments in corporate bonds, helped by both a higher level of interest rates as well as continued reduction of credit spreads. Equity investments were the second largest contributor, followed by government debt.

Most expenses related to investment activities are accounted for within the net asset value of investment funds and will have an impact on changes in unrealised gain & loss. Expenses outside investment funds are predominately related to interest payments on swap contracts. Total expenses linked to investment activities are in line with expectations.

There were no major changes to the portfolio's strategic asset allocation between the two periods. Gard operates a dynamic approach to strategic asset allocation, meaning that the target allocation to asset classes is considered as a range rather than a fixed target. This allows for greater

flexibility in asset allocation that enables the Group to better adjust its overall risk profile in response to changing conditions whilst maintaining its longer-term strategic targets.

#### Gard M&E Ltd, investment income and expenses by asset class

31.12.2023	Equities and investment funds	Bonds	Financial derivatives	Other financial investments	Total
Income	-	2	-	-	3
Expenses	-	-	-	-	-
Realised gain & loss	-	(1)	-	-	(1)
Change in unrealised gain & loss	21	2	-	-	22
<b>Total</b>	<b>21</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>24</b>

31.12.2022	Equities and investment funds	Bonds	Financial derivatives	Other financial investments	Total
Income	-	1	-	-	1
Expenses	-	-	-	-	-
Realised gain & loss	-	-	-	-	-
Change in unrealised gain & loss	(6)	(14)	-	-	(20)
<b>Total</b>	<b>(6)</b>	<b>(13)</b>	<b>-</b>	<b>-</b>	<b>(19)</b>

## A 4 Performance of other activities

There are no other material income and expenses for the company.

## A 5 Any other material information

There is no other material information to be disclosed.

# B SYSTEM OF GOVERNANCE

## B 1 General information on the system of governance

### B 1.1 Governance structure

#### **Governance Principles**

Gard Bermuda is the parent company of the Gard group. Each subsidiary is a legal entity organised under the law of its country of incorporation and subject to its domestic laws and regulations. The Boards of Directors (BoD) of each subsidiary give due consideration to applicable laws and the constitutional documents of the relevant company. To the extent appropriate and consistent with such laws and regulations, the BoD of the individual subsidiary shall comply with directions from the BoD of Gard Bermuda as the ultimate shareholder of the relevant subsidiary.

#### **Composition of Boards and Committees**

The Members of Gard Bermuda and Gard Norway are the owners of the Gard group. For this reason, the composition of the governing corporate bodies of the various legal entities of the group should to the extent possible and practical, mirror the composition of the membership of the two associations with regard to, *inter alia*, the categories of tonnage entered and geographical spread. Participation in sub-committees established by the BoD of the parent company is widely distributed.

#### **Roles and responsibilities for governing bodies**

The General Meeting of Gard Bermuda is the highest authority in the group. It has no direct risk governance function.

The BoD of Gard Bermuda is ultimately responsible for the management of the group. It sets the overall strategy and is involved in all significant decisions, including the establishment of general principles for the administration of the company's funds. It determines the risk appetite and Comfort zone at the group level through the Gard group Risk Policy as well as the Investment Guidelines. The BoD shall be informed of any breach of minimum capital requirements. It has delegated authority in respect of overseeing the day-to-day management to the Executive Committee (ExCom). The Risk Management function, the Compliance function and the Internal Audit function report to the BoD in matters relating to risk management and compliance.

The Executive Committee is given the task to implement strategies and decisions determined by the BoD and make the operational decisions that are required for this purpose within the overall strategy, risk appetite and Comfort zone established by the BoD. It makes recommendations on the risk appetite and Comfort zone. The Executive Committee approves the risk tolerance and overall limits for material risk exposures and determines how much risk each of the subsidiaries is allowed to take. It monitors compliance with the overall risk appetite and Investment Guidelines and shall make recommendations to the BoD following the contingency procedures. The Executive Committee shall be informed about any significant weaknesses in the Risk Management System and/or the internal model.

The Audit Committee is responsible for overseeing the integrity of the financial reporting, compliance monitoring, the performance of the external and internal auditors, internal control and treatment of complaints procedures. Reports from the Internal Audit function shall be addressed to the Audit Committee.

The Risk Committee shall have oversight of the group's risks with a particular focus on reviewing the group's risk strategy, risk appetite, risk tolerance, and risk profile and assessing the effectiveness of the risk management framework. The Risk Committee shall also consider the risks' impact on both the financial and non-financial goals of the group.

The Remuneration Committee's role is to establish transparent procedures for reviewing and determining the remuneration of the Directors and the Chief Executive Officer and to make recommendations thereon to the Executive Committee and the BoD as the case may be. The Remuneration Committee shall also review Gard's remuneration policy in general, including the operation of any employee incentive scheme from time to time. The Remuneration Committee shall ensure that the compensation structure is in line with the group risk appetite statement approved by the BoD.



The Boards of Directors of the subsidiary insurance companies (i.e., Gard M&E, Gard M&E Europe, Gard Norway and Gard Re) are responsible for considering and approving the financial plan and new business for underwriting and ensuring compliance with local regulations. They review and endorse the group risk appetite statement approved by the BoD and the Executive Committee.

The President holds the office of Chief Executive Officer (CEO) of Gard Bermuda, Gard M&E, Gard AS and Gard Norway and is an *ex officio* member of the Executive Committee. The CEO is responsible for implementing the Risk Management System and for ensuring that risk-taking is aligned with the risk appetite. The CEO shall monitor that all risks are appropriately managed and shall inform the Executive Committee and the BoD of any breaches in accordance with the contingency procedures.

The Board's ability to delegate its powers regarding the day-to-day management of the company is limited as stated in the By-Laws of Gard Bermuda. BoD of Gard Bermuda has issued terms of reference for the CEO, which documents the role and authority of the CEO and Manager in line with current practices.

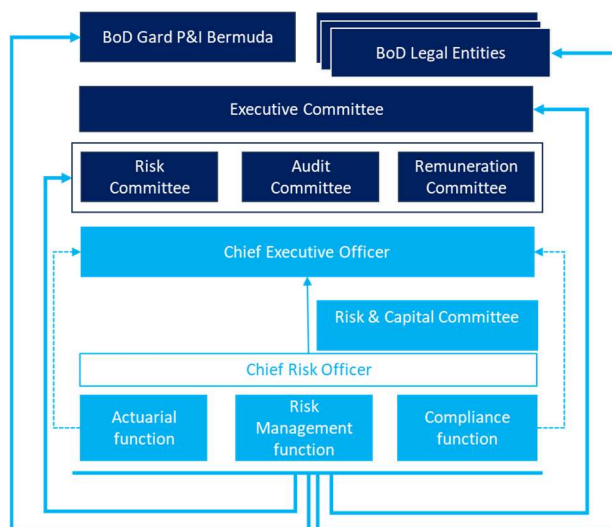
The Senior Vice Presidents (SVP) in the Group Leadership Team (GLT) report to the CEO.

The Risk and Capital Committee is an advisory forum to the CEO on matters relating to risk and capital management. It comprises the CEO, Chief Risk Officer, Chief Financial Officer, Chief Investment Officer, Chief Legal Counsel, Group Chief Underwriting Officer, Head of Accounting and Head of Business Control. Relevant reports to the Executive Committee, Risk Committee, Audit Committee and/or the BoD, shall be reviewed by the Risk and Capital Committee before submission.

All key functions are equipped with proper resources and skills. The reporting lines to one another and the BoD have been clearly defined.

The following figure illustrates the roles and responsibilities of the governing bodies, key decision-makers, and the second and third line of defence functions. The figure also illustrates how the risk management function is integrated into the decision-making process of Gard. For more information regarding the Three Lines of Defence model and how the risk management function is

integrated into the organisational structure of Gard see chapter B 3.3.



### B 1.2 Remuneration policy

The remuneration enables the Gard group to attract and retain superior talent and to provide competitive terms to motivate people towards their highest performance. It is in line with the group's business strategies, objectives and long-term interests. The remuneration shall encourage prudent risk management, ensuring that no employee is encouraged to take risks exceeding the risk appetite as defined in the Group Risk Policy approved by the BoD of Gard Bermuda.

The remuneration of all employees, including members of governing or supervisory bodies of companies within the group, is appropriate with regard to the individual's function and responsibilities and the nature, scope and complexity of the relevant business activities. It is commensurate with industry standards and is proportional to the individual's respective duties.

The compensation structure is based on the philosophy that the success of Gard is the result of the joint efforts of the whole organisation. It underpins the value of teamwork and collective performance across individual departments and offices.

The remuneration governance structure is clear, transparent and effective.

### **Governance**

The remuneration of Directors and members of supervisory bodies of a legal entity of the group is determined by the General Meeting of the relevant legal entity. The remuneration of the CEO of a legal entity is determined by the BoD of that legal entity. The remuneration of staff below the CEO level is determined by the CEO or those being delegated authority by the CEO to determine such matters.

The members of the remuneration committee are independent and should not be employees of the Gard group. They must have sufficient knowledge and experience in risk analysis to independently assess the group's remuneration policy and the compensation programs' fitness.

### **Remuneration structure**

The remuneration that employees receive for their professional activities with the group shall be stipulated in their individual contracts of employment. It consists of a salary, supplemented by a collective bonus scheme, pension plan and other benefits.

Remuneration for each role in the Gard group shall be reasonable and fair.

The majority of Gard's staff is employed by Gard AS in Norway. Their terms of employment with respect to remuneration are governed to a certain extent by the collective wage agreement, made between the finance sector union, Finansforbundet, and the Norwegian Financial Services Association (Finans Norge), which the Gard group has agreed to abide by.

The variable component of the remuneration shall be small relative to the overall compensation for all employees. The maximum bonus achievable for employees shall be in accordance with applicable regulatory requirements. The bonus shall be calculated using several key performance indicators. It shall not encourage any employee to take on risks outside of Gard's risk appetite.

For members of the Group Leadership Team (GLT) and defined Key Employees, there is a bonus scheme as defined in the Solvency II directive. The maximum bonus payable to members of GLT and other Key Employees under the collective scheme shall be 100 per cent of the bonus payable to employees in general, but a proportion of the bonus triggered by the collective scheme shall be deferred for a period of 36 months from the expiry of the financial year the bonus is linked. The payment after three years of the deferred component is subject to some further terms and conditions, including defined financial performance targets for the three years. Certain Key Employees are not participating in the collective bonus scheme due to the Solvency II requirement of independence between the control functions and the results achieved in the operating units.

In the bonus scheme, there is an individual bonus component based on an individual assessment conducted by the CEO in consultation with the Chairman of the Executive Committee of Gard P. & I. (Bermuda) Ltd.

Gard shall conduct annual reviews with each employee to determine a remuneration package for each employee that is commensurate with that employee's contribution to the group.

### **Pension scheme**

Most employees in Gard have a defined contribution pension plan. A contribution plan is a retirement plan in which a certain amount or percentage of salary is set aside each year by the association for the benefit of each of its employees.

Some members of the GLT and certain key personnel have a pension scheme that gives them the right to retire at 60 years of age and covers income included and above 12 times 'G'. G is a base rate used as the basis for calculation benefits. G is adjusted annually and is approved each year by the Norwegian parliament. This pension scheme is secured by an agreement with Norsk Tillitsmann Pensjon/Nordic Trustee. The obligation is secured through a pledged deposit on a bank account owned by Gard AS.

## **B 1.3 Assessment of the adequacy of the system of governance**

The system of governance is assessed as adequate considering the size, nature and complexity of the Gard group's operations, and sufficient to ensure that

all the risks the entities in the group are exposed to are appropriately dealt with and that the applicable requirements in respect of the governance system are being met.

## B 2 Fit and proper requirements

The regulations in Bermuda, Norway and other countries require insurance companies to ensure that the members of the governing corporate bodies collectively possess the right professional qualifications, knowledge and experience. This is known as the 'fit and proper' requirement.

All persons who effectively run the group's business, including the members of the BoD, the Executive Committee, GLT, and key functions, hereunder, the Actuarial function, Risk Management function, Compliance function, and Internal Audit function, must at all times be fit and proper for the role. 'Fit' implies that their professional qualifications, knowledge and experience must be adequate to enable sound and prudent management and 'proper'

requires the person to be of good repute and integrity.

As a standard procedure, each year before the Annual General Meeting, the Election and Governance Committee reviews the current composition of the group's various boards and committees to ensure that they each meet the overall 'fit and proper' criteria. Members of Gard's boards and committees, and candidates to be nominated for election to boards and committees, are required to complete a questionnaire and curriculum vitae prepared by the Election and Governance Committee.

## B 3 Risk management system including ORSA

### B 3.1 Strategy

The purpose of the risk management system is to ensure that material risks are managed in accordance with our corporate objectives and risk-carrying capacity.

Gard's risk strategy establishes, through the risk appetite statement, the level of risk that Gard deems to be acceptable as part of its 'business as usual'-activities.

The risk appetite of Gard is to hold sufficient capital and liquidity as well as constrain its risk-taking to ensure that it can continue to operate following an extreme loss event with the same risk tolerance for insurance risk. The risk-taking must be aligned with Gard's risk-carrying capacity.

Gard aims to fulfil the following key objectives:

- Have a high probability of meeting its insurance liabilities and providing its services
- Preserve the continuity of its offering after an extreme loss event
- Have the flexibility and competence to help Members and clients manage new risks and pursue attractive business opportunities as and when they arise

The risk profile of Gard is managed to provide Members and customers with high security so that Gard can meet its liabilities, protect the capital base, and minimise long-term premium costs for the Members.

The risk strategy is reviewed annually as part of the financial plan process.

The following principles define Gard's approach to risk management:

- **Controlled risk-taking** – We have an unambiguous definition of our risk appetite. We only accept risks in line with our risk appetite, which we understand and are able to manage
- **Clear accountability** – Authority is delegated and responsibilities are clearly defined. Individuals are accountable for the risks they take on. There is no reward for taking risks that are outside our risk appetite
- **Responsiveness** – Efficient information flow and effective decision-making procedures enable sufficient risk monitoring and prompt remediation if and when the risk profile deteriorates
- **Independent control** – Our Risk Management function, Compliance function and Internal Audit

function provide independent advice, challenge the business functions, and monitor the effectiveness of the Risk Management System. The independent control functions shall have unrestricted access to the CEO, the Executive Committee, the Audit Committee, the Risk Committee and the BoD, and shall report any issues of concern in a timely manner

- **Risk culture** We are open and transparent about losses and failures. We take corrective action and learn from mistakes

### B 3.2 Key elements of Gard's risk management system

The risk management system consists of the following components:

#### Risk appetite and limits

Our overall risk appetite and Comfort zone (target range for capitalization) are defined in accordance with Gard's risk-carrying capacity and corporate objectives. This cascades into limits by risk type and legal entities. This forms the basis for all risk management, monitoring and reporting.

#### Risk policies

These are policies describing the processes and procedures for managing material risk exposures. The purpose of the policies is to ensure consistent and adequate risk and capital management.

#### Risk management cycle

Risks are identified, assessed, managed, monitored and reported according to the following principles:

- **Identify** – Material risks are defined and described in the risk landscape (see chapter C)
- **Assess** – Material risks and emerging risks are assessed regularly and at least annually. The Own Risk and Solvency Assessment process is the main process for assessing the overall risk and solvency position at a group, legal entity level and branches
- **Manage** – Risk is managed proactively, on an individual and aggregated level, in line with the risk appetite and risk tolerance
- **Monitor** – There is regular monitoring of the risk exposures and the alignment with the risk appetite. The purpose of the monitoring is to

ensure that adequate remedial actions can be taken swiftly if necessary

- **Report** – There is regular reporting of risk exposures from the 2<sup>nd</sup> line to the CEO and the BoD of the legal entities, as well as to the Executive Committee, the Audit Committee, the Risk Committee and the BoD of Gard Bermuda

#### Internal model

Gard's internal model is used to calculate the internal capital requirements of the group and all insurance entities. The internal model is also used to calculate the regulatory capital of the Gard group, Gard Norway and Gard M&E Europe. For more information see B 3.5 Determination of Gard's own solvency needs, B 3.6 Risk management system for internal model, and E 2.1 Calculation of group solvency requirements.

#### Contingency procedures

There are contingency procedures in place describing how to respond to a breach in Risk Appetite or limits, ensuring that appropriate and proportionate remedial actions are taken when needed.

#### Disclosure

There are procedures in place to ensure that information about risk and capital that is disclosed to regulators, rating agencies and other external stakeholders, is appropriate, accurate, timely and complete.

### B 3.3 Implementation and integration of the risk management system

Risk governance is based on the three lines of defence model, with clearly defined roles and responsibilities. Risk execution is carried out in the business functions (1<sup>st</sup> line), risk oversight is primarily carried out by the Risk management, Compliance and Actuarial functions (2<sup>nd</sup> line), and independent assurance is provided by Internal Audit (3<sup>rd</sup> line). External audit conducts an independent and objective assessment of the financial statements and financial reporting.

**1<sup>st</sup> line of defence functions:** Accountable for implementing, embedding, and using the Risk Management System, hereunder:

- Establishing and delivering the business plan within the risk appetite and managing the risk exposure
- Identifying and evaluating all material risks within their area of responsibility
- Monitoring and analysing changes in the risk exposure regularly and assessing these against the risk appetite

**2<sup>nd</sup> line of defence functions:** The Risk Management and Compliance functions are responsible for developing and maintaining the Risk Management System for the 1<sup>st</sup> line to use in its day-to-day business and for providing an independent and forward-looking view of the risk profile to the BoD and the Executive Committee, hereunder:

- Support the 1<sup>st</sup> line of defence in assessing material risks
- Provide value-adding challenges and support to help ensure that risk has been adequately considered in all significant business decisions

- Assure the Executive Committee and BoD that the Risk Management System is being operated effectively by the 1<sup>st</sup> line
- Make remedial recommendations in respect of limit breaches and improvements to the Risk Management System

The 2<sup>nd</sup> line of defence functions shall operate efficiently and effectively and be independent of the 1<sup>st</sup> line of defence. The 2<sup>nd</sup> line of defence functions is responsible for their respective tasks across the group, including all subsidiaries and associated companies.

**3<sup>rd</sup> line of defence function:** Responsible for providing independent assurance on the adequacy and effectiveness of the Risk Management System to the Audit Committee, the Executive Committee, and the BoD. The internal audit function is appointed by and reports to the Audit Committee.

The three lines of defence model is illustrated in the figure below.



### B 3.4 Own Risk and Solvency Assessment (ORSA)

The ORSA process comprises the totality of processes that Gard utilises to identify, assess, monitor, manage and report risks in the short and long term, as well as determine capital requirements.

The ORSA report is prepared annually by the Risk Management function consistently for all areas and on behalf of all insurance companies, branches and management companies in the Gard group. The risk profile, capital and solvency situation and outlook over the planning period are reviewed throughout the year for each legal entity by key executive members.

Additional risk and solvency assessments will be conducted when required by changes in the capital adequacy or risk profile. The financial plan is used for projecting the future development of the risk profile and future capital and solvency requirements and the findings from the ORSA process are used in the financial planning process and any decisions on group contributions, and capital contributions within the group and owners' general discount.

The ORSA report is approved by the Executive Committee<sup>4</sup> and the Boards of Directors of all legal entities and distributed to the Norwegian FSA (Finanstilsynet), the Bermuda Monetary Authority (BMA) and other relevant authorities after the internal approval process is finalised.

### **B 3.5 Determination of Gard's own solvency needs**

To determine the economic capital requirements given Gard's risk profile, Gard uses an internal model.

The first internal model in Gard was developed in 2004 and has since been refined to meet business needs and regulatory requirements. All insurance undertakings in Gard are included in the internal model. Economic capital is used for all internal purposes, such as capitalisation, hereunder assessment of capital against risk appetite and Comfort zone, financial planning, reinsurance and investment planning.

The model provides the best estimate of risk and ensures a consistent understanding of the risk exposures and solvency requirements across all legal entities. Results from the internal model are communicated quarterly to the Executive Committee/BoD, the Risk Committee, the Group Leadership Team and other key decision-makers.

The economic capital expresses the potential loss over a one-year time horizon with a confidence level of 99.5 per cent. This is consistent with industry practice and Solvency II.

## **B 3.6 Risk management system for internal model**

### **B.3.6.1 Roles and responsibilities**

The Executive Committee ensures effective governance of the internal model and decides on major changes to the model. The Executive Committee approves the output of the internal model four times a year.

The BoD of each insurance entity ensures that the model design and operations are aligned with the entity's risk profile and the use of the internal model output.

The Risk Committee ensures that the model design and operations are aligned with Gard's risk profile and that there are adequate independent review procedures in place around the internal model design, operation, and validation. The Risk Committee reviews output from the internal model four times a year.

The Risk and Capital Committee reviews the output from the model four times a year and challenges the assumptions and results. The Risk and Capital Committee will also review the model on an ad hoc basis.

The CEO ensures that there are sufficient resources to develop, monitor and maintain the model.

The CRO ensures appropriate design development and operations of the internal model, ensures that testing and validation of the model takes place, analyses the performance of the internal model, reports to the various committees and communicates model results of major weaknesses and limitations in the internal model.

### **B.3.6.2 Internal model validation process**

The internal model is validated at least annually to verify that the internal model is current, uses reliable and relevant data, remains fit for the purposes intended under changing conditions, and is operated and maintained by personnel with adequate expertise and experience.

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<sup>4</sup> The Board of Directors in Gard Bermuda has delegated the authority to approve the ORSA report to the Executive Committee.

The validation shall be conducted by an independent reviewer who can provide an objective challenge of the internal model design, parameterisation, and implementation. The independent reviewer shall not have been directly involved in the development and operations of the internal model and should be free from influence from those responsible for the development and operations of the internal model.

## B 4 Internal control system

### B 4.1 Elements of internal control system

Gard's internal control system is built on the three lines of defence model as described in section B 3.3, where preventive and detective controls shall be carried out in the 1st line of defence, risk oversight, detective controls and monitoring shall be carried out by the 2<sup>nd</sup> line of defence, and independent assurance concerning the adequacy and effectiveness of the internal control system shall be provided by the 3<sup>rd</sup> line of defence.

The internal controls shall contribute to the prevention of financial losses or other adverse outcomes such as loss of reputation through timely and proactive control of relevant risks. Effective prevention averts or mitigates risks before any loss occurs. The internal control system shall also contribute to the detection of irregular business conduct at an early stage, deviations from agreed standards for process execution or data errors that have caused or may cause losses/adverse outcomes. Early detection enables timely and effective actions to avoid any recurrence and to implement preventive measures for similar risks.

When Gard designs and implements internal controls, the following key principles apply:

- Internal controls shall be embedded in the business to continually improve the quality and security of our operations, and foster a positive risk culture
- Both preventive and detective controls shall be proportionate to the nature, scale and complexity of the operations and risks involved
- Periodic reviews of the adequacy and effectiveness of internal controls shall be carried out

The BoD is ultimately responsible for the internal control framework. The Audit Committee is responsible for assessing the adequacy of the

### B 3.7 Material intra-group outsourcing arrangements

See section A 1.2.8 Lingard and A 1.2.9 Gard AS for management and agency agreements within the Gard group.

internal control system. The Audit Committee receives an annual report from the management concerning internal control, as well as independent reports from the internal auditors on the adequacy and effectiveness of the internal control system.

The CEO must ensure that the organisation has an adequate and effective internal control system in place, with suitable processes, systems and activities to control and monitor that Gard's business is conducted properly.

### B 4.2 Compliance function

Gard's compliance function consists of a Group Compliance function and Regional Compliance Officers (RCO). The RCOs are appointed in all Gard offices outside of Norway but are supported by the Group Compliance function in identifying, assessing, monitoring and reporting risks. The Group Compliance Officer (GCO) reports to the CRO but has a direct reporting line to the CEO and the Audit Committee of Gard P. & I. (Bermuda) Ltd. and the BoD and Managing Directors of each legal entity in the group. The CGO is fully independent and has no operational responsibilities within the 1st line of defence.

The GCO is responsible for ensuring that Gard operates within a clearly defined compliance framework.

The regional compliance function shall provide advice to and challenge the local business functions and contribute to adequate management of compliance risk. The RCOs ensure that the entities registered in the specific jurisdiction remain compliant with governing laws, regulations and administrative provisions. They are also the local point of contact with local FSAs. The RCO's report to the GCO on compliance matters. The segregation of duty between the Managing Director and the Regional Compliance Officer roles was completed in

2022 when a new Regional Compliance Officer was appointed in Gard Japan.

Members of the compliance function should normally not have operational responsibility or authority over any of the activities or operations it reviews. Given that the number of employees in the regional offices

is limited and the nature of Gard's business is complex, the Regional Managing Directors may act as Regional Compliance Officers. The Regional Managing Directors have a wide perspective of the regional office as well as detailed knowledge about the Gard group and are also the local contact points for local regulatory bodies and authorities.

## B 5 Implementation of the internal audit function

The internal audit function forms part of the 3<sup>rd</sup> line of defence function, assuring Gard's management and the Audit Committee that material risks are identified and managed within the group's stated risk appetite. The internal audit function also provides independent and objective assurance that the governance processes and systems of internal control are adequate and effective to identify and mitigate the most significant risks that could threaten the achievement of Gard's objectives.

The scope of work of the internal audit function is to determine whether Gard's system of risk management and internal controls and governance processes, as designed and represented by the management, are adequate and functioning effectively to ensure that:

- a) Material risks are appropriately identified and managed
- b) Established policies, procedures and processes are adequate, appropriate and implemented to manage risks within defined risk appetite, and are effective to meet regulatory and legal requirements
- c) Significant financial, managerial, and operating information is accurate, reliable, and timely
- d) Employees' actions comply with policies, standards, procedures, and applicable laws and regulations
- e) Significant legislative or regulatory issues impacting the organisation are recognised and addressed properly
- f) Opportunities for improving management control, profitability, business processes and Gard's reputation may be identified during audits. They will be communicated to the appropriate level of management

An annual plan is prepared based on the internal audit's risk assessment and Gard's targets. The audit

plan is prepared in dialogue with the administration and is approved by the Audit Committee. The internal audit function evaluates the appropriateness and effectiveness of the group's management and control processes. The function also provides targeted and structured feedback on the organisation's compliance with guidelines and relevant legal requirements. The internal audit function shall contribute to continuous improvement in management and control. All critical and less critical suggestions for improvements in internal control established routines and control plans are summarised in internal audit reports, which are presented to the Audit Committee.

The principal point of contact and administrative reporting line is the CGO and Quality Management.

The internal audit teams are functionally independent and objective from the activities audited and the day-to-day internal control processes of the organisation and shall be able to conduct an assignment on their own initiative, with free and unfettered access to people and information, in respect of any relevant department, establishment or function of the organisation, including the actions of outsourced activities.

Internal Audit is authorised to:

- Have unrestricted access to all functions, records, property, and personnel, including all documents pertaining to meetings of the boards and other governing bodies of the organisation
- Obtain the necessary assistance of personnel in the organisation, as well as other specialised services from within or outside the organisation
- Have full and free access to management and the Audit Committee



## B 6 Implementation of Actuarial function

The actuarial function is organised within the Actuary and Risk Capital team. The team is led by the actuarial function holder. The actuarial function holder reports to the CRO but has unrestricted access to the CEO, the Executive Committee and the

BoD. The Actuarial function is independent of the actuary in the Actuarial Reserving team.

## B 7 Outsourcing

Gard's core purpose is delivered through three pillars of excellence: knowledge and expertise, financial strength and long-term relationships. This also governs our approach to external service providers. Gard assesses service providers thoroughly, ensuring that Gard only enters contractual relationships with providers that support our values and ethical standards. Gard takes a long-term perspective when entering into agreements with external service providers.

Outsourcing is a way of getting access to sufficient scale and adequate competence which could not effectively be achieved by providing the service in-house.

Outsourcing contracts must comply with all the relevant regulatory requirements. In order to ensure this, Gard's legal department shall be consulted in all cases, with additional external legal advice sought where appropriate.

### Intra-Group outsourcing

During 2023 Group Risk together with Group Legal reviewed the Group's progress with regards to the implementation of the identified recommended actions vis-à-vis the 2022 report.

The assessment did not identify any material risks regarding the managerial bodies being able to meet their regulatory obligations.

The 2023 assessment identified no material changes to the risk types, except for operational risk, where the implementation of recommended actions from 2022 has reduced the risk. No new recommended actions have been identified in the 2023 assessment.

### Internal Control

To ensure that the outsourcing of any critical or essential functions or activities does not lead to material impairment of the quality of Gard's governance system, the service provider must have in place adequate risk management and internal

control system, and Gard must maintain the contractual right to issue instructions concerning the outsourced function or activity.

Gard's outsourcing policy was reviewed in 2023 as per updated Norwegian regulations. The risk assessment process pertaining to entering outsourcing contracts is now an integral part of the Outsourcing Policy. The responsibility for the risk assessment process is now placed under the Chief Risk Officer

### Business continuity and exit strategy

The outsourcing arrangement must be established in such a way that business can continue in the event the contract with the licensee is terminated. Thus, Gard shall secure title and ownership to all records, documents and information and rights to use computer software systems and programs for a certain period after the relevant outsourcing agreement has been terminated, as required to manage and operate the business without any interruptions.

The contractual terms and conditions with the service provider must have an agreed and embedded workable exit plan placing obligations on all parties to fully assist and co-operate to ensure the contract is terminated with the minimum disruption.

### Monitoring and oversight

The governing body or role that has entered into an outsourcing contract is responsible for monitoring that the contractual terms are being adhered to and that all parties honour their obligations under the contract.

Based on the findings from the internal audit pertaining to third-party risk management from primo 2023, the monitoring guidelines pertaining to third-party risk – including outsourcing contracts – have been reviewed.

The monitoring of significant outsourcing contracts should take place as part of the annual legal entity review.

Monitoring should cover the following risk components of services provided by external parties:

- Business Continuity risk: to which extent will a failure in the provisioning of the service impact Gard's ability to continue to provide its services to its members and clients;
- Internal Control risk: the risk that contracted service cannot be delivered consistently at agreed quality levels due to inadequate control systems in place;
- Concentration risk: to which extent the sum of all contracted services to a single provider creates too great a dependency on this provider for the Group;
- Financial risk: to which extent does the provider's solvency or liquidity pose a risk to providing the necessary services to the Group;
- Compliance risk: to which extent does the service provider comply with the regulatory requirements that Gard is subject to pertaining to anti-money laundering, sanctions, data privacy, information security, business continuity and wider Environmental, Social and Governance (ESG) requirements.

#### Reporting

Gard shall notify the relevant supervisory authorities before the outsourcing of critical and or important functions or activities as required and of any subsequent material developments for those functions or activities. This may include material changes in the outsourcing arrangements, a change of service provider or major problems with the performance of the service provider.

#### Roles and responsibilities

The CEO shall administer the daily business of the group on behalf of the Executive Committee. The CEO is responsible for entering into contracts on the group's behalf when this is required to implement its strategy, goals and financial plan, taking into consideration the risk appetite and Comfort zone as determined by the company's Board of Directors.

Major contracts which may significantly impact the way a Gard entity operates shall be signed by that

entity's CEO or Managing Director. The Executive Committee shall be informed before entering into any contracts that may alter the group's operating model and/or that may involve significant risk or costs.

All Senior Vice Presidents and most senior managers have been delegated authority to enter into contracts in their respective areas of responsibility, however, the CEO shall be informed of any significant engagements before their execution. Contracts entered into in the ordinary course of business, for example, a contract with a local loss adjustor can be signed by personnel with the relevant level of authority.

When Gard legal entities enter into contracts between themselves, the signatory for each legal entity may be the same person, acting in a different capacity. For example, the Managing Director of Lingard may sign the contract on behalf of Gard Bermuda as its insurance manager, and on behalf of Gard M&E as its insurance manager.

The Legal Department shall be responsible for reviewing significant contracts before they are signed. They shall also keep a record of all contracts made between Gard legal entities.

Group Risk is responsible for ensuring that the necessary risk assessments are executed before entering relevant contracts. Group Risk shall also keep a record of all executed risk assessments and that identified, required mitigating actions are implemented.

Gard outsources the internal audit function, IT services and fund management. The Internal Audit function is based in Norway, the IT services provider is based in India and the fund management company is based in Ireland.

## B 8 Any other information

There is no other material information to be disclosed.

## C RISK PROFILE

In the context of its operations, Gard enters into a broad variety of risks. Gard aims to have a comprehensive understanding of its risk profile by identifying, assessing and measuring its risk through multiple approaches.

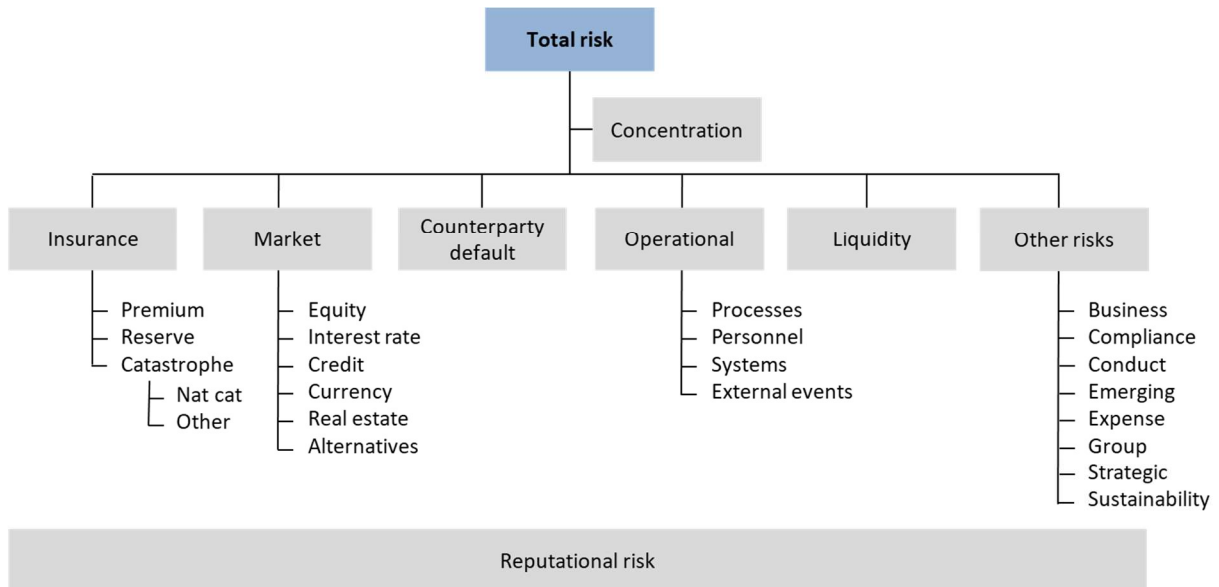
The material risks which Gard is facing are believed to be captured in the risk landscape. The risk landscape comprises both quantifiable risks and non-quantifiable risks that arise from doing business. The risk landscape is shown in the figure below.

Gard uses the BSCR for calculating regulatory capital requirements for Bermuda insurance entities. However, to determine the economic capital, Gard uses an internal risk capital model. All material quantifiable risk types are within the internal risk

model scope. This includes underwriting risk (insurance risk), market risk, counterparty default risk and operational risk. Besides, Gard uses various exposure measures and stress tests to quantify its risk profile. All material risks are assessed at least annually through the ORSA process and quarterly through the model updates. Significant internal or external events may require additional assessments. To test Gard's ability to withstand severe conditions, several stress tests are conducted regularly.

The risk identification process ensures that material risks are identified and assessed from a group and legal entity perspective. It considers the industry, the type of Members and clients and the global nature of the organisation and covers existing and emerging risks.

### Gard's risk landscape



The material risks for Gard M&E are described in section C1.

# C1 Material risks

The below table summarizes the various risks included in the Bermuda Solvency Capital Requirement:

<b>Gard M&amp;E Ltd, material risks</b>		
<b>BSCR risk type</b>	<b>31.12.2023</b>	<b>31.12.2022</b>
<b>Market risk</b>		
Fixed Income Investment Risk	9	8
Equity Investment Risk	23	20
Interest Rate / Liquidity Risk	17	15
Currency Risk	0	0
Concentration Risk	-	1
<b>Underwriting risk</b>		
Premium Risk	77	70
Reserve Risk	74	56
Credit Risk	17	15
Catastrophe Risk	44	46
Diversification	(111)	(100)
<b>BSCR (after diversification)</b>	<b>150</b>	<b>131</b>
Operational Risk	1	3
<b>BSCR</b>	<b>151</b>	<b>134</b>

The BSCR of USD 151 million as of 31 December 2023 represents an increase of USD 17 million during the period.

**Market risk** is defined as the risk of economic losses resulting from deviations in the value of assets and/or liabilities caused by market prices or volatilities of market prices differing from their expected values.

Gard is mainly exposed to market risk through the investment portfolio. The investment portfolio is set up to match the maturity of the liabilities. Gard M&E is part of a cash pool with Gard Bermuda and AS Assuransegården.

Gard obtains diversification in its investment portfolio through asset allocation within and between different asset classes. On the liability side, Gard is exposed to market risk through changes in interest rates and exchange rates.

The BSCR calculation for market risk is factor-based.

Market risk includes fixed-income investment risk, equity investment risk, interest rate/liquidity risk, currency risk and concentration risk. The BSCR for market risk was USD 37 million as of 31 December 2023. Equity investment risk increased from USD 20 million to USD 23 million during the period due to an increase in the equity portfolio. Fixed-income investment risk has increased from USD 8 million to

USD 9 million due to an increase in the portfolio of bond mutual funds. Interest rate/liquidity risk has increased from USD 15 million to USD 17 million due to an increase in the portfolio of bonds. Currency risk has decreased slightly from USD 0.4 million to USD 0.1 million, while concentration risk was zero, down from USD 1 million in the previous year.

**Underwriting risk** arises from existing claims (reserve risk), future claims (premium risk) and catastrophe risk (cat risk) and originates from claims being different from what is expected. Many of the covers provided by Gard have high exposures, and potentially, very high severity. These claims fluctuate from year to year and the results are volatile.

The premium and reserve risk capital requirement calculation has a factor-based approach, based on geographically diversified net premium written and geographically diversified net loss & loss expense provisions. The basis for catastrophe risk is net probable maximum loss for natural catastrophes (after reinsurance) plus a 10 per cent credit risk charge on reinsurance share of maximum probable catastrophe loss, less total catastrophe premium.

The premium risk increased from USD 70 million to USD 77 million caused by the change in financial year-end from 20 February to 31 December in 2022, which gave 314 days as opposed to 365 days for the

reporting period for 2023 and increased net premiums written accordingly. The reserve risk increased from USD 56 million to USD 74 million due to increase in gross loss and loss expense provisions. Catastrophe risk decreased from USD 46 million to USD 44 million.

Credit risk is calculated as a factor-based charge on receivables and reinsurance receivables depending on credit rating. Credit risk has increased from USD 15 million to USD 17 million due to an increase in receivables from affiliates and reinsurers.

Operational risk is the risk of losses arising from inadequacy or failure of internal processes or because of events triggered by employee-related, system-induced, or external factors. Operational risks are an 'invisible' part of our business activities, and the focus is therefore on risk avoidance and risk minimisation.

## C2 Other risks

### **Business risks**

Business risk is the risk of losses or failure to meet business objectives due to unexpected changes to legal and regulatory conditions, changes in the economic and social environment, as well as changes in business profile and the general business cycle. The Gard group has companies and branches in several jurisdictions. Unexpected changes initiated by e.g. the regulators in one part of the group may have consequences for other parts of the group.

Gard does not hold capital against business risk. The level of business risk is deemed acceptable given the business model and capital flexibility of the Group.

### **Compliance risks**

Compliance risk is the risk of legal or regulatory sanctions, material economic loss, or loss to the reputation the group may suffer as a result of its non-compliance with laws and regulations which govern the business activities.

Gard group comprises companies and branches in several jurisdictions, as well as captive reinsurance companies, insurance intermediary companies, subsidiaries, and a property company. As a natural consequence of the group structure Gard is subject to several regulatory regimes such as those of Norway, the UK, Bermuda, Hong Kong, Singapore and Japan. Unexpected changes in legal and

Operational risk is reviewed annually through an internal self-assessment and reported to the Audit Committee. The process enables Gard to identify, prioritise, and manage operational risks. Within this operational risk review business process risks (including data quality), compliance risks, fraud risks and information security risks are considered in particular.

The operational risk factor under BSCR is based on an assessment of Corporate Governance, Risk Management Function, Risk Identification, Risk Measurement, Risk Response and Risk Monitoring & Reporting, from which the operational risk capital charge is derived.

The operational risk capital requirement has decreased from USD 3 million to USD 1 million due to a reduction in operational risk capital charge from 2 per cent to 1 per cent.

regulatory conditions, as well as changes in the economic and social environment in which the group operates, may pose a risk to Gard.

Compliance risk is managed through ongoing monitoring of regulatory environments that Gard operates in, as well as periodic regulatory reviews with participants from all jurisdictions where Gard conducts business. Tools that are implemented to reduce compliance risk are supplemented by compliance training programmes.

Gard does not hold capital against compliance risk directly, but indirectly through the operational risk capital charge. The level of compliance risk is deemed acceptable given the business model.

### **Reputational risks**

Gard's business is built on the trust of its Members and clients, as well as other stakeholders. The Gard group must be seen to act with integrity towards all its Members and clients, regulators and other stakeholders.

Gard's reputation may be damaged due to e.g.:

- Data breach and privacy (GDPR)
- Misalignments (non-compliance) with regulatory requirements
- Sanctions non-compliance

- Failing to keep up with the changing beliefs of stakeholders, e.g., ESG issues
- Wrongdoing from top management, CEO or board members

Gard does not hold capital against reputational risk as such but holds capital against many of the risk events that could damage the reputation of the company. The level of reputational risk is deemed acceptable

### Sustainability risks

The insurance sector is exposed to climate-related risks and both the insurance portfolio and the investments of a company could potentially be affected simultaneously. Increases in extreme weather could affect the covered assets while the investment portfolios could be vulnerable to transition risks. In the stakeholder assessments Gard has conducted, climate-related issues have scored high. Risks associated with climate change are also repeatedly highly ranked in the relevant risk outlooks.

Gard has taken a comprehensive approach to climate-related risks through materiality assessments and scenario analyses, and by establishing a Climate Expert Group with representatives from 10 different departments across the organisation.

**Sustainability risk assessment:** Gard has conducted a double materiality assessment to evaluate the sustainability risks that are important to its business and stakeholders. The assessment was based on the Corporate Sustainability Reporting Directive (CSRD) guidelines and the results will be published in the Annual Report for 2023.

**Human impact risk:** Gard publishes a Human Rights Due Diligence report every year, following the Norwegian Transparency Act. The latest internal risk assessment found no actual or significant potential adverse impacts, but it did find some common areas where practices can be improved. These areas include policies covering responsible business conduct, codifying decent working conditions and formal grievance mechanisms.

**Physical climate risk:** Climate change has increased the frequency and severity of extreme

## C3 Risk mitigation

Reinsurance is a method to ensure that insurance liability risk is kept within the overall risk appetite and Comfort zone and that rating and regulatory requirements are met.

weather events and is expected to continue to do so going forward. Gard has not observed significant trends in the number or cost of claims associated with extreme weather, but it continues to monitor the development. Gard is especially concerned about fixed objects that cannot avoid the weather, such as windfarms, ships in lay-up and shipyards. Gard's insurance portfolio could also be indirectly affected by the reinsurance market, which could face capacity or premium challenges due to extreme events.

**Transition climate risk:** The world is moving towards carbon neutrality and the shipping sector will have to comply with new emission targets and pricing mechanisms from the IMO and the EU. Gard expects to be able to adjust its pricing and investment portfolios rapidly, but it also sees a challenge in ensuring that it has the relevant skills and expertise to adapt to the changing regulations and requirements. Gard also anticipates that the transition will alter the market segments it insures, as some fossil fuel-related assets could decline in value or maintenance, while renewable energy assets could increase in demand and complexity.

**Gard's response to climate risk:** Gard has a Climate Expert Group that monitors the developments and identifies opportunities related to climate change. Gard also aims to increase its portfolio share of offshore wind and other renewables, such as tidal and solar power, and to support the energy transition with its competence and understanding. Gard's investments are exposed to transition risks, but a screening by MSCI showed that its equity portfolio has a low carbon intensity and a high ESG rating. Gard recognizes that transition risks go beyond carbon intensity and that ESG ratings have limitations.

**Litigation risks:** Gard has not identified significant litigation risks related to climate issues, as its coverage is limited to physical assets and specific events. However, it acknowledges that there has been a considerable increase in climate-related litigation taking place and that it will follow the developments closely.

Reinsurance is used to ensure continuity after an extreme loss event; providing flexibility to help

Members and clients manage new risks and pursue business opportunities.

The reinsurance program is established to protect against high-severity, low-frequency claims.

Gard Bermuda is a member of the International Group of P&I Clubs' Pooling Agreement, which is an agreement between twelve P&I clubs to mutually reinsure each other by sharing claims. This claim-sharing agreement is underpinned by an extensive market reinsurance program, which the International Group of P&I clubs arranges.

Gard follows the customary insurance practice of reinsuring with other insurance and reinsurance companies a portion of the risks under the policies it writes. These reinsurance arrangements are meant to protect Gard against the severity of losses on individual claims and unusually serious occurrences

in which a number of claims produce an aggregate extraordinary loss.

Gard has different reinsurance programs for different classes of business.

The collectability of reinsurance retrocessions is largely a function of the solvency of reinsurers. The credit exposure on Gard's reinsurance program is in accordance with the guideline of only accepting reinsurers with an A- (Stable) or higher rating. The company is however faced with BBB- rating exposures through the IG Pooling Agreement. Among the twelve clubs, five have ratings of BBB+ or lower. Counterparty default risk on the pool and reinsurance is reduced through multiple layers of financial security

## C4 Risk concentration

Risk concentration cuts through and across risk types as well as within single risks. The most material risk concentrations are within the insurance and market risk.

Concentration within and between the other single risks is not considered material.

Risk concentration is mainly managed through limits, e.g., limits on exposures held for investments per rating category, exposures to a single counterparty, and maximum aggregated exposure to a single reinsurer. The limits are monitored and reported regularly.

## C5 Prudent person principle

The BoD of Gard approves the overall investment policy. The investment policy contains the objectives, principles, risk appetite and constraints governing investment-related decisions.

The BoD has ultimate overall responsibility for decision-making on investment matters and has delegated responsibility for implementing the investment strategy to the Executive Committee (ExCom). ExCom is therefore responsible for determining the investment strategy and setting the Strategic Asset Allocation at the Group level and constructing an appropriate benchmark. The composite benchmark is defined to make a representation of the asset allocation and liability structure of the group. The allocation is reviewed at least annually. ExCom also monitors compliance with the Investment Policy and sets specific limits and restrictions on deviations from the strategic asset allocation and is required to notify the BoD

when it deems it necessary to operate outside of the target ranges. ExCom takes a total market risk view when implementing strategies within the overall policy.

Investment management is responsible for implementing the asset management strategy as determined by the BoD and ExCom. The asset management is primarily outsourced to independent fund managers and is mainly coordinated through the Gard Unit Trust Fund (Gard UTF) for insurers within the group. Gard is not doing any active internal asset management at an individual security selection level but may use financial instruments such as ETFs to alter the asset allocation at a strategic level.

Gard's objective for its investment portfolio is to maximize long-term investment returns within its risk appetite and risk tolerances. Hence, the Gard group seeks to take on investment risks that are expected

to be rewarded over the long term, in the form of excess returns relative to liabilities, in a diversified manner. The combination of assets and investment management approaches shall be consistent with the investment objectives, risk tolerances and investment constraints detailed in the Investment Guidelines and the Risk Management Policy.

The currency exposure and maturity profile of the investments should broadly reflect the Gard group's liability structure, liquidity and cash flow requirements and solvency position. In effect, Gard considers its investment strategy on a holistic basis and assesses the risks of its investment portfolio on

## C5 Risk sensitivity

Gard performs various sets of stress tests. The main methods used are the following:

### **Insurance risk stress tests**

A set of extreme events for insurance risk have been identified and the realistic possible loss to Gard has been estimated. The scenarios are calculated using Gard's exposure to actual insured objects, showing the expected loss, gross and net of external reinsurance, by line of business. Further, to calculate the loss by each legal entity, internal reinsurance is applied. The most severe losses from a single extreme event would be a scenario where Gard is exposed across several product areas with separate reinsurance programs. The Gard group may experience multiple extreme events in a single year.

### **Reverse stress tests**

Complementary to insurance risk stress tests and market risk stress tests, reverse stress testing is carried out to identify scenarios that would be the probable cause of business failure. 'Business failure' is defined as the solvency position falling below a level where the business model becomes unviable. A consequence of this would be that counterparties and other stakeholders could be unwilling to transact with or provide capital to the Gard group and, where relevant, existing counterparties may seek to terminate their contracts.

The reverse stress tests identify events that will jeopardize the Gard group's solvency, but not circumstances that will cause Gard to 'cease being a going concern'. The results of the reverse stress tests answer the question of which scenarios represent real risks to the existence of the company.

a net basis, after allowing for liabilities. Derivatives are permitted, but shall only be used for risk mitigation, efficient portfolio management or cost-efficient execution.

As a general principle, Gard relies on several sources of information when making its investment decisions. Gard uses information provided by third parties (e.g. financial institutions, asset managers and rating agencies) in addition to an internal assessment of risk and return.

The reverse stress tests are based on one insurance scenario and one market scenario.

The stress tests are quantitative. Gard is aware of other non-quantifiable situations which could also render the business model unviable.

There are policies and contingency plans in place describing how to take immediate action or act as precautionary measures in advance, to restore or improve the solvency capital adequacy.

### **Multi-year stress tests**

To complement the one-year stress tests, multi-year stress scenarios have been developed to test the effect on the capitalisation of the group by an adverse development over time. Three scenarios have been assessed. The estimated total probability for each of the scenarios is low.

#### **1. Increased demand for Marine transport**

An increased demand in the world for Marine transport, resulting in high utilisation of the available ships and crew, affects both claims frequency and severity.

#### **2. Financial market crisis**

The scenario describes a situation where the market values are over-priced at  $t=0$  and the market is being re-priced over three years.

#### **3. Combined insurance risk and market risk scenario**

The scenario describes a situation where higher claims concur with adverse movements in global financial markets for years.



The Gard group will in all the above scenarios still be compliant with regulatory requirements - without any management actions - at the end of the stress period.

#### **Market risk stress and drawdown risk tests**

Several stress tests using a range of scenarios for short-term market shocks as well as for longer, multi-year periods have been performed to estimate the potential impact on Gard's portfolio and capital situation. Market shocks are assumed to be one-off instantaneous changes in asset prices and portfolio allocations. Combined scenarios, in which several factors experience simultaneous shifts in prices,

have been designed in line with EIOPA's Insurance Stress Test specifications, published in May 2018.

We have also stressed the portfolio to model historical events. Especially drawdown risk happening at the same time for multiple asset classes constitutes an adverse tail event and reduces diversification benefits.

## C6 Any other information regarding the risk profile

There is no other material information to be disclosed

### D VALUATION FOR SOLVENCY PURPOSES

This section specifies and describes the valuation of assets and liabilities for solvency purposes, and the differences between the bases, methods and main assumptions used for the valuation of assets for solvency purposes and those used for financial statements.

The bases, methods, and assumptions are similar for all legal entities and follow the principles outlined in the Solvency II directive, i.e.:

- Assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction (fair value)
- Liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction
- The materiality principle shall be considered when valuing assets and liabilities. Information is material if its omission or misstatement influences the decision-making or the judgement of the users of that information, including the supervisory authorities
- The valuation shall assume that the company will continue to operate and write new business

for the foreseeable future ('going concern basis')

The economic balance sheet ('Solvency II balance sheet') represents a risk-based view of the entire balance sheet at a given date, where assets and liabilities are valued in line with the above concepts. The table below summarises each material class of assets and liabilities the value according to Solvency II together with the values of the assets recognised and valued in the statutory accounts.

The statutory account values in the balance sheet are classified according to Solvency II rules and are different from the values in the balance sheet in the Financial Statements.

No changes have been made to the recognition and valuation bases used or to the estimates during the reporting period.

There are no differences in major parts of the balance sheet items in the valuation for solvency purposes and those used for the valuation in statutory accounts. The main difference is the discounting of reserves and risk margin that are included in the Solvency II values.

## Gard M&E Ltd, Economic balance sheet

USD million, as of 31.12.2023	Economic Balance Sheet	Statutory Financial Statement	Difference
<b>Assets</b>			
Cash and cash equivalents	26	26	-
Total bonds and debentures	408	408	-
Total equity investments	72	72	-
Advances to affiliates	31	31	-
Total accounts and premiums receivable	222	222	-
Total reinsurance balances receivable	3	3	-
Total sundry assets	20	43	(23)
<b>Total assets</b>	<b>782</b>	<b>805</b>	<b>(23)</b>
<b>Liabilities</b>			
<b>Liabilities</b>			
Net premium provisions	94	-	94
Net unearned premium reserves	-	111	(111)
Net loss and loss expense provisions	233	243	(11)
Risk margin	12	-	12
<b>Technical provisions – non-life</b>	<b>338</b>	<b>355</b>	<b>(16)</b>
Insurance and reinsurance balances payable	103	103	-
Tax liabilities	9	7	2
Amounts due to affiliates	1	1	-
Accounts payable and accrued liabilities	1	24	(23)
Total sundry liabilities	0	-	0
<b>Total other liabilities</b>	<b>114</b>	<b>135</b>	<b>(21)</b>
Total statutory economic capital and surplus	329	315	14
<b>Total liabilities</b>	<b>782</b>	<b>805</b>	<b>(23)</b>

The statutory accounts values in the balance sheet are classified according to Bermuda rules and are different from the balance sheet in the Financial Statements

No changes have been made to the recognition and valuation bases used or to estimations during the reporting period.

For Gard Re, only the line of business ‘Energy Offshore / Marine’ is applicable.

## D 1 Valuation of assets

Gard group has mainly investments in the following asset classes; investment funds, bonds, equities, other investments, and property. The investment assets are held in custody at Northern Trust.

In the statutory accounts balance sheet, the fair value of assets is mainly measured on a mark-to-market basis. The fair value 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 (mark-to-model).

There are no significant differences between the valuation of GAAP (statutory accounts) and Solvency II balance sheets.

### D 1.1 Total sundry assets

The difference between EBS value and statutory accounts value is made up of the deferred acquisition costs that are included in the statutory account's value.

Gard M&E, deferred acquisition costs		
	Solvency II value	Statutory accounts value
Deferred acquisition costs	-	0

## D 2 Valuation of technical provisions

This section specifies and describes the valuation of technical provisions and reinsurance recoverables for Solvency purposes.

The technical provisions under Solvency II are determined as the sum of best estimate liabilities and the risk margin.

The best estimate liabilities are shown both on a gross basis and for the reinsurers' share. The risk margin is shown on a net basis reflecting the risk mitigation effect.

### Best estimate liabilities

The calculation of the best estimate liabilities is based on the projection of future cash inflows and outflows like premiums, claims and expenses.

### Risk margin

A risk margin is included in the technical provisions. The risk margin is calculated in accordance with the requirement set out for the Solvency II standard formula per legal entity. Diversification between legal entities is not considered. Risk margin is not included in the statutory accounts.

### D 2.1 Valuation of technical provisions – basis (data) and methods

#### Basis

In the calculation of the best estimate liabilities

under Solvency II, the business of the Gard group is split into homogenous risk groups, such that the nature, scale, and complexity of the business are considered.

#### Methods

Best estimate provisions (on a net basis) represent the discounted best estimate of all future cash flows relating to future exposure arising from policies that the insurer is obligated to at the valuation date. The best estimate is the probability-weighted average of the present value of the future in and out-flow cashflows. The best estimate liabilities are calculated separately for the best estimate premium provisions and the best estimate claims provisions.

The best estimate premium provisions relate to claim events occurring after the valuation date. All future cash flows from premiums, losses and costs relating to unearned incepted and bound but not incepted (BBNI) business is calculated.

The best estimate claim provision relates to claim events occurring before the valuation date. All future cash flows from losses and costs relating to these losses are calculated considering the discounting effects.

The cash flows for premiums, claims and costs are modelled separately.

There is no deviation in the valuation methods between the different lines of business. Therefore, the valuation methods described below are valid for all risk categories.

### **Claim provisions**

For the evaluation of claim provisions, total outstanding liabilities due to loss and allocated loss adjustment expenses, the reserves held are based on the following:

- For the calculation of the incurred but not reported claims (IBNR), Gard uses the developments of the claim incurred i.e., claim paid plus claim reserves, as the basis for future expected developments. This is primarily due to the volatility of large single payments that can distort any paid development factors
- For the analysis of IBNR, Gard uses accident and development quarters to calculate the ultimate incurred claims
- For the definition of risk categories, the following three main criteria are used:
  - A fit with the established business dimensions
  - Similar underlying drivers of risk.
  - Sufficient amount of data within each risk category
- The financial plan is used as the initial expected ultimate incurred (also known as 'Apriori').

The current reinsurance program is on the same basis as last year's reinsurance program and is taken into account on a large claim basis.

The claim provisions are broken down into case reserves, IBNR, unallocated loss adjustment expenses (ULAE) and binary events. The case reserves and IBNR figures are the reserves that directly attribute to the claims, while the ULAE estimate is related to expenses that cannot be directly attributed to a specific claim or incident. Binary events are the provisions held for potential claims that Gard does not have in the data. The IBNR, binary event and ULAE reserves are calculated and reported by the Actuarial Reserving and Reinsurance Support team and controlled by the Actuarial function.

The only differences between the Solvency II and the statutory account figures for claims provisions

are that the Solvency II figures include the discounting effect.

### **IBNR**

The development of losses for the Gard group is typically analysed using standard actuarial methods such as the Chain ladder, Bornhuetter Ferguson and Benktander methods. The method selection is based on the quarters and the significance of large losses that may have occurred. The external reinsurer's share is based on the reinsurer's share of the individual losses including development in excess of the retention. All internal reinsurance is calculated net of the effect of external reinsurance.

### **ULAE**

To calculate ULAE, the Actuarial Reserving and Reinsurance Support team divides the claim provisions (case reserves and IBNR) between reported claim provisions and unreported claim provisions. The unreported claim provision is multiplied by a ratio of unallocated expenses paid to total claims paid,  $\pi$ . The reported future claim reserves are multiplied with  $\pi$  and  $(1-r)$ , where  $r$  is the proportion of claims handling cost due to claim registration.

### **Binary events**

The binary event reserve is meant to satisfy the additional coverage of technical liabilities from a best-estimate basis to an all-possible outcomes basis. This is a measure of the potential volatility that is envisaged but has not been experienced to date. To bring the best estimate to include 'all possible outcomes, a binary event factor is calculated based on historical binary event factors, tail values from our internal model and estimated volatility in our claims data.

### **Best estimate premium provisions**

The calculation of best estimate premium provisions is the best estimate of all future cash flows such as claim payments, expenses and future premiums due, relating to future exposure arising from unearned incepted and BBNI business. The future expected cash flow calculation is based on the expected combined ratio for the relevant business. This estimation is done on a gross basis and for the reinsurer's share of the business.

The difference in the method for calculating premium provision under Solvency II and the

statutory accounts is that the Solvency II method calculates the effect of all expected future cash flows, while the statutory accounts are depositing the unearned premium in full.

### Main assumptions

The calculation of the best estimate liabilities, development pattern and estimated ultimates are applied to the segments used for N-GAAP reserving. The pattern and ultimates are determined on run-off triangles using traditional actuarial methods. The triangles are generated using reconciled data.

## D 2.2 Uncertainty associated with the value of technical provisions

As with all insurance businesses, there is a degree of uncertainty over the exact amount that will be needed to settle claim liabilities, and there are several potential sources that contribute to this uncertainty.

- **Claims environment:** One of the key assumptions for the claim liabilities is that historical claim developments are indicators for future developments. Uncertainty remains surrounding the ultimate outcome of long-tailed casualty claims. The early years are not necessarily fully developed and incurred values on these years help in forming the estimates for the more recent years. A sensitivity test on the loss development factors showed that with a 10 per cent point increase in the incremental development factor, the gross IBNR increases

by 8.0 per cent. A 10 per cent decrease reduces the gross IBNR by 8.2 per cent

- **Financial Plan:** Another assumption for the claim liabilities is that the financial plan indication of the pure loss (Apriori) can be used in helping to assess the number of liabilities for less mature development periods. This means that any uncertainty in the financial plan also applies to the best estimates. Sensitivity tests show that an increase of the Apriori estimate by 10 per cent increases gross IBNR by 7.1 per cent. A decrease of Apriori by 10 per cent decreases gross IBNR by 7.1 per cent.
- **Currency:** Even though the reserves are reported in USD, parts of the liabilities are exposed to exchange rate fluctuations and inflation rates in other currencies. This means that fluctuations in foreign exchange rates can influence ultimate claims.

## D 2.3 Best estimate liabilities

The difference between the Solvency II value and the Statutory account's value of technical provisions is due to discounting effects and BBNI gross. Further, commission provisions are deducted from the Solvency II values in the technical provisions, while they are reported as deferred acquisition costs for the statutory account values. The retained earnings are included in the statutory account values of technical provisions.

### Gard M&E Ltd, best estimate technical provisions

USD million, as of 31.12.2023	EBS value	Statutory accounts value
Technical provisions – non-life	605	684
Risk margin	12	0
<b>Technical provisions</b>	<b>617</b>	<b>684</b>

## D 2.4 Risk margin

The risk margin is an estimated cost of capital due to the unpaid claim provisions held. The cost of capital is calculated by using a capital-to-provision percentage of 6 per cent, payment pattern, and expected yield of capital.

## D 2.5 Total other liabilities

There are no differences in valuation for Accounts payable and accrued liabilities between the EBS and statutory balance sheet as there is no reinsurance commission provision for the company.

## D 3 Alternative methods for valuations

When determining the value of an asset, it is necessary to assess whether the market is active or not. If the market is active, the value can be taken directly from the market or comparable assets traded in the same market. If the market cannot be categorised as active, the market value is determined using valuation models.

Gard's assets are mainly valued using quoted market prices in active markets for the same or similar assets. Listed shares are valued on an item-by-item basis and bonds are valued based on realised

quoted prices in active markets. Alternative valuation methods can occur for real estate funds, where there are no active markets, or the relevant markets are deemed to be inactive.

Alternative valuation methods are only used for a non-significant part of the investment portfolio and the same principles are used both in the Solvency II balance sheet and statutory balance sheet.

## D 4 Any other material information

There is no other material information to be disclosed.

# E CAPITAL MANAGEMENT

Under Solvency II a company's own funds consist of basic own funds, ancillary own funds and deferred tax assets:

**Basic available capital:** Excess of assets over liabilities

**Ancillary own funds:** Items other than basic own funds which can be called upon to absorb losses

Basic own funds can be classified in Tiers 1, 2 or 3. Tier 1 funds are equity capital that is fully paid in and available. Tier 1 is further classified as either 'unrestricted' or 'restricted'. Tier 3 is deferred tax assets.

Ancillary own fund is classified as Tier 2. This is high-quality capital in the form of unbudgeted supplementary calls. Ancillary own fund items

## E 1 Eligible capital

Eligible capital is made up of total statutory economic capital and surplus less encumbered assets.

Eligible capital can be classified into tiers 1, 2 or 3, based on 'permanence' and 'loss absorbency'. Tier 1 funds are of the highest quality.

The classification into tiers is relevant to the determination of eligible capital, that is capital that qualifies for covering the regulatory capital requirements – BSCR and Minimum Margin of Solvency (MMS) i.e., minimum capital requirement. The minimum capital requirement must be covered by Tier 1 and Tier 2 basic own funds.

### E 1.1 Available capital

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

Gard aims to manage the capital for the group so that all its regulated entities always meet local regulatory capital requirements. Gard is subject to different capital requirements depending on the country of operation, and the type of business conducted. In each country, the local regulator

require the prior approval of the supervisory authority to be considered when determining their own funds.

The classification into tiers is relevant to the determination of eligible own funds. These are the own funds that are eligible for covering the regulatory capital requirements – Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR). The MCR must be covered by basic own funds classified as Tier 1.

specifies the minimum amount and type of capital that each regulated entity must hold. Gard targets to hold, in addition to the minimum capital required to comply with the solvency requirements, an adequate buffer to ensure that each of its regulated subsidiaries meets the local capital requirements over time. If an entity should fall below the target capital level, the management action will be to increase capitalisation or de-risk the portfolio to bring the capital ratio back to an acceptable level.

The different management actions will vary with the company and the type of business it writes.

Means to strengthen the capitalization may be:

- Adjust premium reduction to members
- Make an unbudgeted supplementary call on members
- Dividend payments from subsidiaries
- Sale of assets of participations
- Issue subordinated debt
- Parent company guarantee
- Capital injection – group contribution from the parent company
- De-risk assets (e.g., reduce equities exposure)

- De-risk liabilities (e.g., changes to reinsurance – reduce retention for own share)

The total statutory capital and surplus as calculated in the statutory financial statement was USD 405 million for Gard M&E on 31 December 2023.

Technical provisions are calculated according to the requirements under EBS. The risks arising from the uncertainties connected to the calculation of technical provisions are quantified as part of the reserve risk.

The capital and surplus as calculated in the EBS was USD 409 million for Gard M&E (see table Economic balance sheet, in chapter D Valuation for solvency

purposes. The first table below explains the difference between total assets, total liabilities, and total statutory economic capital and surplus between EBS and statutory accounts as of 31 December 2023.

The second table below shows eligible capital classified in tiers.

<b>Gard M&amp;E Ltd, difference between statutory accounts and EBS</b>		
<b>USD million</b>	<b>31.12.2023</b>	<b>31.12.2022</b>
Capital and surplus statutory account	327	283
Capital and surplus EBS	328	300
<b>Difference between statutory accounts and EBS</b>	<b>(1)</b>	<b>(17)</b>
<u>Specification of difference:</u>		
Deposit assets encumbered	(1)	
Deferred Acquisition Costs	23	22
Deferred tax assets	11	-
Gross Loss and Loss Expense Provision	(21)	(20)
Gross Premium Provisions	(58)	(55)
Reinsurance Recoverables	51	48
Risk Margin	12	9
Deferred tax liabilities	3	-
Reinsurance Commission Provisions	(23)	(22)
<b>Total</b>	<b>(1)</b>	<b>(17)</b>
<b>Gard M&amp;E Ltd, total eligible capital as under EBS</b>		
<b>USD million</b>	<b>31.12.2023</b>	<b>31.12.2022</b>
Tier 1	328	300
Tier 2	-	-
Tier 3		

## E 2 Capital Requirements

BSCR under EBS was USD 151 million as of 31 December 2023. The total eligible capital to meet the BSCR was USD 328 million. The Transition Enhanced Capital Requirement Ratio was 217 per cent.

MMS under EBS standard formula was USD 33 million. The eligible capital to meet MMS was USD 328 million.

The MMS is calculated based on defined factors. The MMS is calculated as the higher of:

- 15 per cent of statutory accounts Net loss and loss expense provisions



- 25 per cent of BSCR

Material changes to BSCR in the period are mainly due to:

- Reduced currency risk

- Reduced concentration risk
- Increased premium risk
- Increased reserve risk

## E 3 Internal model

The Gard group has an internal risk capital model which is used to manage risk at both group and entity levels.

## E 4 Compliance with MMS/BSCR

Gard M&E has been compliant with both the Minimum Margin of Solvency and the BSCR during the last financial year.

## E 5 Any other material information

There is no other material information to be disclosed.

## F SIGNIFICANT EVENTS

There have been no events after the reporting date of 31 December 2022 leading to any material changes to the capital and solvency position provided in this report.

# Appendix 1 Abbreviations Gard companies

## Gard companies

Below are the full names of all Gard companies with the short names in brackets. The short name is being used in the report.

### Insurance Companies

- Gard P. & I. (Bermuda) Ltd. ('Gard Bermuda')
- Assuranceforeningen Gard - gjensidig - ('Gard Norway')
- Gard Marine & Energy Limited ('Gard M&E')
- Gard Marine & Energy Insurance (Europe) AS ('Gard M&E Europe')
- Gard Reinsurance Co Ltd ('Gard Re')

### Branches to the insurance companies

- Gard P. & I. (Bermuda) Ltd., Norwegian Branch ('Gard Bermuda NUF')
- Gard P. & I. (Bermuda) Ltd., Singapore Branch ('Gard Bermuda Singapore')
- Assuranceforeningen Gard - gjensidig -, Japan Branch ('Gard Norway Japan')
- Assuranceforeningen Gard - gjensidig -, Hong Kong Branch ('Gard Norway Hong Kong')
- Assuranceforeningen Gard - gjensidig -, UK Branch ('Gard Norway UK')
- Assuranceforeningen Gard - gjensidig -, Finland Branch ('Gard Norway Finland')
- Gard Marine & Energy Limited, Norwegian Branch ('Gard M&E NUF')
- Gard Marine & Energy Limited, Singapore Branch ('Gard M&E Singapore')
- Gard Marine & Energy Limited, Hong Kong Branch ('Gard M&E Hong Kong')

- Gard Marine & Energy Insurance (Europe) AS, UK Branch ('Gard M&E Europe UK')
- Gard Marine & Energy Insurance (Europe) AS, Finland Branch ('Gard M&E Europe Finland')

### Subsidiaries to Gard Marine & Energy Limited

- Gard Marine & Energy Ltd.- Escritório de Representacao no Brasil Ltda.

### Management company

- Lingard Limited ('Lingard')

### Insurance Intermediary company

- Gard AS ('Gard AS')

### Subsidiaries to Gard AS

- Gard (Singapore) Pte. Ltd.
- Gard (Japan) K.K.
- Gard (UK) Limited
- Gard (HK) Limited
- OY Gard (Baltic) Ab
- Gard (North America) Inc.
- Gard (Greece) Ltd.

### Property company

- AS Assuransegårdenc('Assuransegården')
- Sagagården AS
- Gard Krysset AS

### All the above companies and branches

- Jointly referred to as 'Gard' or 'Group'

## Appendix 2 Other abbreviations

**ALAE:** ALLOCATED LOSS ADJUSTMENT EXPENSES

**BBNI:** BOUND BUT NOT INCEPTED INCOME

**BEL:** BEST ESTIMATE LIABILITY

**BMA:** BERMUDA MONETARY AUTHORITY

**BOD:** THE BOARDS OF DIRECTORS

**BOF:** BASIC OWN FUNDS

**BSCR:** BASIC SOLVENCY CAPITAL REQUIREMENT

**CEO:** CHIEF EXECUTIVE OFFICER

**CFO:** CHIEF FINANCIAL OFFICER

**CIO:** CHIEF INVESTMENT OFFICER

**CRO:** CHIEF RISK OFFICER

**ETC:** ESTIMATED TOTAL CALL

**EXCOM:** THE EXECUTIVE COMMITTEE

**FINANSTILSYNET:** THE NORWEGIAN FINANCIAL SUPERVISORY AUTHORITY (FSA)

**GLT:** GROUP LEADERSHIP TEAM

**IBNR:** INCURRED BUT NOT REPORTED

**IFRS:** INTERNATIONAL FINANCIAL REPORTING STANDARDS

**IG:** INTERNATIONAL GROUP

**INTERNAL MODEL:** GARD'S INTERNAL RISK CAPITAL MODEL

**LOD:** LOSSES OCCURRING DURING

**MCR:** MINIMUM CAPITAL REQUIREMENT

**OGD:** OWNER'S GENERAL DISCOUNT

**ORSA:** OWN RISK AND SOLVENCY ASSESSMENT

**RM:** RISK MANAGEMENT

**SAA:** STRATEGIC ASSET ALLOCATION

**SCR:** SOLVENCY CAPITAL REQUIREMENT

**SVP:** SENIOR VICE PRESIDENT

**ULAE:** UNALLOCATED LOSS ADJUSTMENT EXPENSES

**VP:** VICE PRESIDENT

**QRT:** QUANTITATIVE REPORTING TEMPLATE