gard p&i

2002

The Gard P&I Annual Report

20th February 2002

CONTENTS

Highlights

SUMMARY

Increased premium income, together with an improved claims picture, contributes to an improved result overall compared with last year, notwithstanding losses on investments. The full estimated supplementary call is being levied for the second successive year leaving the general contingency reserve marginally lower. Entered tonnage reaches record levels.

FUNDS

Total funds available to pay claims stand at USD 626 million.

GENERAL CONTINGENCY RESERVE

Reduces by USD 5 million. Still below the lower end of the "comfort zone" set by the Committee. But, with the reserve at USD 195 million, the Association remains financially strong.

SUPPLEMENTARY CALLS

The full forecast supplementary call of 25 per cent has been ordered for the 2001 policy year. Despite substantial deficits on the last two policy years, no further calls are anticipated on those years and Members are advised that only a significant deterioration for the 2001 policy year would result in a further supplementary call being made.

CLAIMS

The 2001 policy year shows signs of improvement compared with the 2000 policy year, which was particularly claims intensive. The positive run off of claims for previous policy years has increased, emphasising the conservative approach taken to the setting of claims reserves.

ENTERED TONNAGE

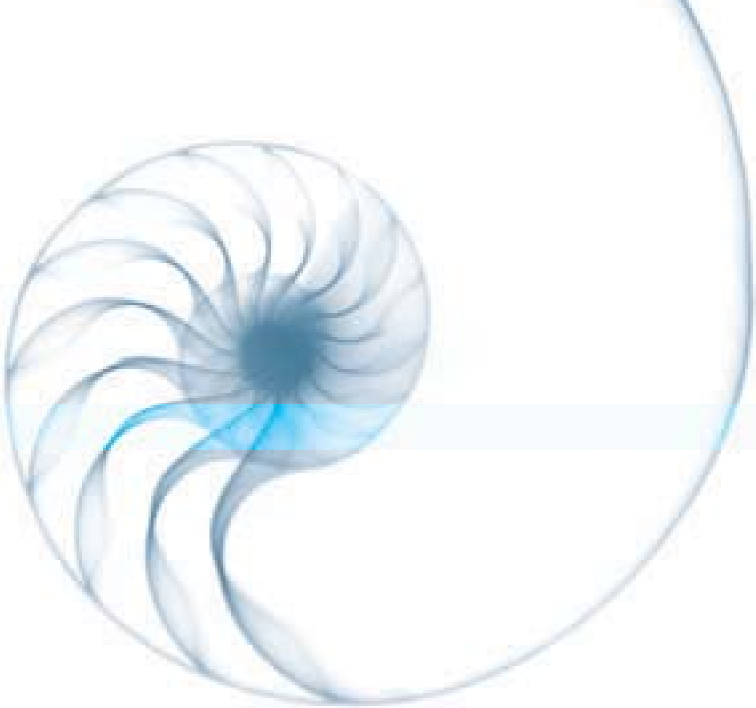
The steady growth in tonnage continues and at the renewal at 20th February 2002 entered tonnage reaches record levels.

INVESTMENT RETURNS

In an increasingly difficult financial climate, investments produced a disappointing negative return.

GARD SERVICES AS

The second year of operation has produced real benefits to the Association, principally from marketing synergies and reduced overheads.



Committees and Board

Membership

THE COMMITTEE

Leif Terje Løddesøl, *Chairman*
Wilh. Wilhelmsen ASA, Oslo

Stephen Pan, *Deputy Chairman*
World-Wide Shipping Agency (S) Pte. Ltd., Singapore

Alain Bernard
Olympic Shipping and Management S.A., Athens

Paul O'Brien**
Stolt Nielsen Transportation Group Ltd., Houston

Pawel Brzezicki
Polish Steamship Company, Szczecin

Robert Gerald Buchanan
Wallem Shipmanagement Ltd., Hong Kong

Mauro Orofino Campos
Petrolero Brasileiro S.A. – Petrobras, Rio de Janeiro

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

Christian Cigrang
Cobelfret, Antwerp

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

Axel C Eitzen**
Tschudi & Eitzen Sembawang Shipmanagement Pte Ltd., Singapore

Øystein Eskeland
Oslo

Hannu Haapanen
Fortum Oil and Gas OY, Espoo
Herbjørn Hansson
Ugland Nordic Shipping AS, Sandefjord
Bengt Hermelin
Saudi Maritime Holding Company (SAMCO), London
Atle Jebsen
Jebsens Management AS, Bergen
Hans Peter Jebsen
Kristian Gerhard Jebsen Skipsrederi AS, Bergen
Erik Lee Johnsen
Central Gulf Lines Inc., New Orleans
Tom Erik Klaveness
Torvald Klaveness & Co. A/S, Oslo
Øyvind O Larsen*
The J J Ugland Companies, Grimstad
Takeshi Matsui
The Sanko Steamship Co. Ltd., Tokyo
Nicolas Pateras
Pacific & Atlantic Corporation, Piraeus
Jamal A Al-Rammah
Saudi Arabian Oil Company, Dhahran
Ariel Recanati
OSG Ship Management Inc., New York
Heinrich Schulte
Bernhard Schulte, Hamburg
Jane Sy*
Stolt Nielsen Transportation Group Ltd, Houston
Lars T Ugland**
The J J Ugland Companies, Grimstad
Lynn White
Royal Caribbean Cruises Ltd., Miami
Shinichiro Yamashita
Tokyo

THE EXECUTIVE COMMITTEE

John Hatleskog, *Chairman*
Havinvest A/S, Oslo
Brynjulf Marcussen, *Deputy Chairman*
C H Sørensen & Sønner A/S, Arendal
Gunnar Brøvig
Brøvigs Rederi AS, Farsund
Axel C Eitzen*
Tschudi & Eitzen Sembawang Shipmanagement Pte Ltd., Singapore
Jane Hinkley
Navion AS, Stavanger
Hans Ditlef Martens
Bergesen d.y. ASA, Oslo
Dieter Ostendorf
Aug. Bolten Wm. Miller's Nachfolger, Hamburg
Claes Isacson, *Managing Director*
Arendal

THE SUPERVISORY COMMITTEE

Øystein Eskeland, *Chairman*
Oslo
Kaare E Borch, *Deputy Chairman*
Oslo
Skule Adolfsen
Höegh Fleet Services AS, Oslo
Anders Chr Stray Ryssdal
Oslo

THE ELECTION COMMITTEE

John Hatleskog, *Chairman*
Havinvest A/S, Oslo
Leif Terje Løddesøl, *Deputy Chairman*
Wilh. Wilhelmsen ASA, Oslo
Dieter Ostendorf
Aug. Bolten Wm. Miller's Nachfolger, Hamburg
Erik Lee Johnsen
Central Gulf Lines Inc., New Orleans

THE BOARD OF THE BERMUDA ASSOCIATION

Leif Terje Løddesøl, *Chairman*
John Hatleskog, *Deputy Chairman*
Øystein Eskeland
Sir David Gibbons
Stephen Pan
Claes Isacson, *President*
Warren Cabral, *Vice-President*

* Nominated for election at the forthcoming Annual General Meeting of the Association.

** Retired during the year or will be retiring at the forthcoming Annual General Meeting of the Association.

RETIREMENTS AND ELECTIONS

The Committee of the Association

The Committee of the Association is set out on page 2. At the Committee Meeting in Venice in October 2001, Mr Leif Terje Løddesøl of Wilh. Wilhelmsen ASA, Oslo, and Mr Stephen Pan of World-Wide Shipping Agency (S) Pte. Ltd., Singapore, were re-elected as Chairman and Deputy Chairman respectively of the Committee.

At the Annual General Meeting in August 2002, the following gentlemen will retire by rotation:

Mr Pawel Brzezicki
Mr Hannu Haapanen
Mr Bengt Hermelin
Mr Leif Terje Løddesøl
Mr Nicolas Pateras
Mr Heinrich Schulte

In addition, Mr Lars T Ugland has advised the Association that he wishes to retire from the Committee at the forthcoming Annual General Meeting, whilst Mr Paul O'Brien resigned from the Committee during the year. Mr Axel Eitzen will also retire from the Committee at the forthcoming Annual General Meeting. The gentlemen listed above, retiring by rotation, but, being eligible, offer themselves for re-election.

The following persons have been nominated for election to the Committee:

Mr Øyvind O Larsen, The J J Ugland Companies, Grimstad
Ms Jane Sy, Stolt Nielsen Transportation Group Ltd, Houston

The Executive Committee of the Association

The Executive Committee of the Association is set out on page 3. At the Executive Committee Meeting held in September 2001, Mr John Hatleskog and Mr Brynjulf Marcussen were re-elected as Chairman and Deputy Chairman respectively.

Mr Dieter Ostendorf will retire by rotation at the forthcoming Annual General Meeting, but, being eligible, offers himself for re-election. Mr Axel Eitzen, retiring from the Committee, has been nominated for election to the Executive Committee at the forthcoming Annual General Meeting.

The Supervisory Committee of the Association

The Supervisory Committee of the Association is set out on page 3. At the forthcoming Annual General Meeting, Mr Øystein Eskeland will retire by rotation, but, being eligible, offers himself for re-election.

The Election Committee of the Association

The Election Committee of the Association is set out on page 3. At the forthcoming Annual General Meeting, Mr Dieter Ostendorf will retire by rotation, but, being eligible, offers himself for re-election.

The Board of Gard P&I (Bermuda) Limited

The Board of Gard P&I (Bermuda) Limited is set out on page 3.

At the Annual General Meeting held in Bermuda on 30th April 2002, the officers of the Bermuda Association were re-elected. At the Board meeting that followed the Annual General Meeting, Messrs Løddesøl and Hatleskog were re-elected as Chairman and Deputy Chairman respectively.

MEETINGS

The Committee of the Association

The Committee met on two occasions during the year to 20th February 2002 to conduct the business of the Association.

At the Meetings held in Amsterdam in the spring and Venice in the autumn, reports were received and considered on, *inter alia,* tonnage entered and tonnage changes in the Association; claims falling on the Association and those reaching the Association through the Pool; the financial position of the Association and the management of the investment portfolio; the progress of all open policy years including the setting of release calls; the Association's reinsurances; major developments in maritime legislation; and, finally, the operation of Gard Services AS.

Gard Services AS is the management company jointly owned by the Association and If P&C Insurance Ltd (publ) (If) and is delegated with authority to manage the activities of the Association and the marine and energy activities of If, apart from fund management, accounting and statutory reporting functions.

With regard to finances and fund management, the Committee confirmed the current investment guidelines inasmuch as the Association should pursue a broadly neutral stance in relation to currency exposure and that the equity portfolio of the Association should not exceed 35 per cent of the total. The revised guidelines do, however, permit investments in futures, options and other derivatives but only for the purposes of risk management and improving the efficiency and liquidity of the portfolio.

Reports were also received on the implementation of changes to the fund management structure, initiated by the Committee last year. The new structure consists of specialist managers focusing on fixed income or equity investments, whereas in the past, the managers employed by the Association had balanced mandates covering both classes of assets.

At both Meetings, the Committee received reports on changes in maritime legislation which may affect the shipping industry in general and the operation of the Club in particular. As to "post-Erika" developments, the Committee decided at its Meeting in May to support, in principle, the proposal that shipowners agree to a voluntary increase in the minimum limits under the 1992 Civil Liability Convention (CLC), if such agreement would assist in obtaining support for a third tier of the 1992 Fund limit, to be financed by cargo receivers. The proposal, as outlined at the May Committee Meeting, has subsequently received widespread support and a draft Protocol to the 1992 Fund Convention has been submitted to the International Maritime Organization (IMO) with the request that a diplomatic conference be called for the purpose of adopting the Protocol.

At the Meeting held in May 2001, the Committee unanimously resolved to endorse the recommendation made by the Executive Committee to appoint Mr Claes Isacson Managing Director of the Club with effect from 1st July 2001. Mr Isacson was also appointed Chief Executive Officer of Gard Services AS as of that date.

At the May Meeting, the Committee received the report of the Supervisory Committee and was pleased to note that the Supervisory Committee remained satisfied with the Executive Committee's administration of the daily business of the Association. The Committee accordingly accepted the Executive Committee's recommendation that the Report and Accounts for the year to 20th February 2001, which were prepared on the basis of a 25 per cent supplementary call for the 2000 policy year, be approved. The Committee recommended the Accounts to the Annual General Meeting where they were subsequently adopted. The Committee also received and approved the report of the Election Committee and, based on said report, made its recommendations to the Annual General Meeting.

At the Committee Meeting held in Venice in October 2001, the Committee approved the recommended Rule changes and, on the basis of recommendations made by the Executive Committee, determined the premium policy for the 2002 policy year. The Committee also decided to close the 1998 policy year without levying any supplementary call.

The Executive Committee of the Association

The Executive Committee held seven formal meetings in the course of the year, though, as usual, it remained in more frequent touch with the Administration. Besides reviewing the daily business of the Association, including claims compensations and claims development, reinsurance contracts, tonnage entered, investment returns, the accounts and the financial situation of the Association, the Executive Committee made recommendations to the Committee on a wide range of matters including the adoption of the Accounts for the year to 20th February 2001, changes to the Rules, the closing of the 1998 policy year, supplementary calls and release calls for open policy years and the premium policy for the 2002 policy year.

The Executive Committee was also involved in the process of recruiting the successor to Mr John G Bernander, who resigned from his position as Managing Director of the Association and Chief Executive Officer of Gard Services AS, with effect from 30th June 2001. The Executive Committee unanimously recommended the Committee to appoint Mr Claes Isacson, head of business area P&I in Gard Services AS, Managing Director of the Club.

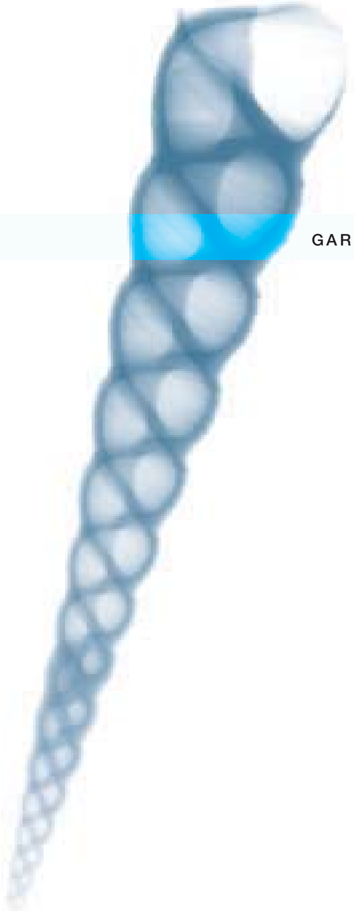
Finally, the Executive Committee was also involved in the review of investment guidelines and changes to the fund management structure which were implemented in the course of the policy year. The Executive Committee approved the appointment of new portfolio managers and the establishment of their respective investment mandates.

The Board of Gard P&I (Bermuda) Limited (Gard Bermuda)

The Board of Gard P&I (Bermuda) Limited approved the financial statements for the year to 20th February 2002 and their inclusion in this Report. The Board also reviewed the mandates and performance of the investment managers and resolved to implement the changes to the fund management structure that had been proposed.

The Bermuda Association's primary function is the reinsurance of 30 per cent of the Association's retained risk and the proper management of its own funds. At its meeting in November 2001, the International Group of P&I Clubs accepted Gard Bermuda as a "Paired Association" and, from 20th February 2002, Gard Bermuda has become a direct insurer for a small number of shipowners previously insured by the Association.

Gard Bermuda is reinsured for 70 per cent of their retention by the Association in respect of these direct entries.



Review of Operations

SUMMARY

Mr Claes Isacson succeeded Mr John G Bernander as Managing Director of the Association and Chief Executive Officer of Gard Services on 30th June 2001.

This change in leadership was followed by organisational changes within Gard Services. New Head of Product Area were appointed for all three product areas; P&I, Marine and Energy. A new Head of Claims is also in place. In conjunction with these organisational changes, a number of projects have been instigated, with the aim to further enhance the services provided to the Membership.

Whereas claims have seen some improvement compared to the preceding policy year, premiums are still too low to balance the year. Combined with a negative return on investments, the year is the second policy year in succession with a substantial deficit. There have been significant positive claims run-offs on earlier years. These run-offs have been set off against the deficit of that particular year and the balance has been covered by transferring funds from the free reserves. As a result, the reserves have been slightly depleted.

The financial position of the Association remains strong. Nevertheless, steps will have to be taken to bring premiums up to a level where balance can again be achieved. The premium increase of 25 per cent obtained at the last renewal was a step in the right direction. However, unless there is improvement in the global investment climate or claims show an unexpected reduction, premiums will have to be increased further in order to balance the books.

TONNAGE

At the commencement of the 2001 policy year owners' tonnage amounted to 62.1 million gt and the total tonnage was 93 million gt. At the start of the current year, these figures had risen to 65.8 million gt and 97.7 million gt respectively. See Table A. Both of these figures are records for the Association. The growth in owners' tonnage since 20th February 2001 was 3.7 million gt, of which 1 million gt were net gains during the course of the year with a further 2.7 million gt gained at renewal.

For the fourth consecutive year, the largest tonnage gains were seen in Germany. Over this period, German owners' tonnage has increased from 1.6 million gt to 5.1 million gt. Substantial gains were also made in Norway and the other Scandinavian and Baltic countries, whilst UK based owners currently account for 7.5 per cent of the Association's tonnage, making this its fourth largest market. Owners' tonnage from Italy was first entered in the Association on 20th February 2000, and last year's total increased by 60 per cent at this renewal.

New vessels have been entered both by existing and new Members. 11 new Members joined the Association at the renewal, whilst 26 Members with tonnage exceeding 1,000 gt joined during the year. We are proud to have them entered with the Association and look forward to a long and mutually rewarding relationship and at the same time, we are proud not to have lost one single member at renewal. At the start of the 2002 policy year the total number of ships entered was 5,595. This is also a record.

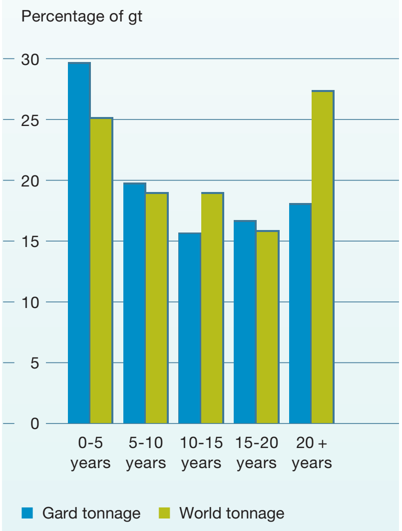
Table A

Entered tonnage as at 20th February 2001 and 2002

	gt (000) 2002	gt (000) 2001
Owners' entries		
Tankers	24,346	23,743
Bulk carriers	11,530	10,767
Obo/Ore/Oil carriers	1,812	1,772
Gas carriers	1,951	2,034
Dry cargo vessels	15,681	14,483
Miscellaneous vessels	4,866	4,598
	60,186	57,397
Owners' non-poolable		
Mobile offshore units	5,572	4,853
Reinsurance	0	0
Others	41	41
	5,613	4,894
Charterers' non-poolable		
Tankers	12,709	12,251
Dry cargo vessels	17,812	17,987
	30,521	30,238
Charterers' poolable		
Tankers	10	10
Dry cargo vessels	1,367	1,240
	1,377	1,250
Total	**97,697**	**93,779**

Table B

Age profile of entered vessels and world fleet as at 20th February 2002 (Vessels below 1,000 gt not included)



Newbuildings made up a substantial part of the tonnage entered during the 2001 policy year. The total newbuilding tonnage entered with the Association during the policy year was approximately 4 million gt. This is the third consecutive year when the proportion of newbuildings has significantly exceeded the Association's share of the world fleet. The influx of new tonnage has had a positive impact on the age profile of the fleet entered in the Association, as shown in Table B. Whilst the average age of the world fleet continues to increase, the average age of the Association's vessels has fallen to less than 14 years.

In respect of mobile offshore units, the shift in tonnage towards floating production vessels continues, but the Association has also experienced growth within the drilling segment during the course of the policy year. The Association is well positioned for future growth which it is envisaged will come from both existing and new Members. The Association's share of P&I insurance for the floating production segment is currently approximately 80 per cent, as measured by gross tonnes.

During the 2001 policy year, newbuildings entered have included a number of fifth generation drilling units and floating production units and the total number of units entered has risen from 134 to 147 units. Total tonnage has increased from 4.8 million to 5.6 million during the same period. In addition, the Association participates as co-insurer on 25 units entered with Assuranceforeningen Skuld. The total number of units insured jointly by the Association and Skuld under the insurance programme for Mobile offshore units was 172 as at 20th February 2002.

Product development

Members' need for additional liability covers for risks not covered under standard P&I remains an important part of the Association's business and strategy. The Association's aim is to continue to refine and develop insurance products that are needed in the industry. With effect from 20th February 2001, the Association is able to offer its additional P&I products to current Members for vessels entered in other clubs in the International Group of P&I Clubs. This change has been well received by the Membership as the Association's additional covers are designed to fit well with the underlying P&I cover. The P&I cover is effectively the same for all clubs participating in the common reinsurance arrangement through the International Group of P&I Clubs.

The Comprehensive Charterers Cover remains one of the largest facilities for those that require comprehensive terms and high limits. The maximum limit available was increased to USD 700 million from 20th February 2002.

Synergies within Gard Services

Now that Gard Services manages both Assuranceforeningen Gard's P&I portfolio and If P&C Insurance Ltd's Marine and Energy portfolio, insurance products from both capital providers – the widest product range in the industry – are available to Members and clients.

Gard Services is able to offer complementary tailor-made insurance protection covering physical damage, loss of earnings and liability risks.

PREMIUM AND CALLS – REVIEW OF DEVELOPMENT OF POLICY YEARS

The Association's record of estimated and actual supplementary calls for the 1982 to 2001 policy years is set out in Table C. In only two out of the last 20 years have the actual supplementary call levied exceeded the forecast. In the majority of these years, the call has been lower than the forecast, including all the years from 1992 to 1999.

For the second year in succession, Members are required to pay the supplementary call as forecast.

The 1998 policy year was closed in October 2001 with no supplementary call being levied, despite the fact that it is a year in deficit. The decision to forego the supplementary call was based on the Association's overall financial strength. The year currently has a deficit of USD 22 million, which is an improvement of USD 5 million upon the outcome estimated one year ago. In addition, previously closed policy years have also shown an improvement amounting to some USD 11 million.

The 1999 policy year claims are currently 18 per cent down on the claims of the 1998 policy year. The year has improved by USD 8 million during the last 12 months and the estimated surplus is now USD 13 million. A 15 per cent supplementary call was levied in May 2000 against a forecast of 25 per cent. It is expected that the year will be closed in October 2002 with no further call being made.

The 2000 policy year shows a marked deterioration compared with the 1999 policy year but a significant improvement over the estimates made last year. This poor result is due to a significant increase in claims combined with virtually no investment returns. Accordingly, the full forecast supplementary call of 25 per cent was levied, accompanied by the warning that should claims for the year deteriorate significantly, a further call might be required. However, since that time, claims for the year have improved by some USD 22 million. Despite this improvement, the 2000 policy year still shows a significant deficit of USD 51 million. It remains the most claims intensive year in the Association's history. The year is, nevertheless, expected to be closed in October 2002 without a further supplementary call being made.

The value of reported claims for the 2001 policy year is some 15 per cent lower than for the 2000 policy year 12 months from inception, but above the level for the years prior to 2000. The claims situation, combined with a negative investment return of some USD 12 million, results in a second year in significant deficit. Even with a full supplementary call of 25 per cent, the deficit amounts to USD 50 million. The poor result for the year must be seen in the context of significant improvements in claims for earlier years. With these improvements in mind, the Committee at its Meeting in May 2002 decided that no further call in excess of the full supplementary call of 25 per cent was required. However, given the substantial deficit of this policy year, Members were advised that, should any significant deterioration occur, a further supplementary call could be considered. This cautious approach is also reflected in the level of release calls set for the year.

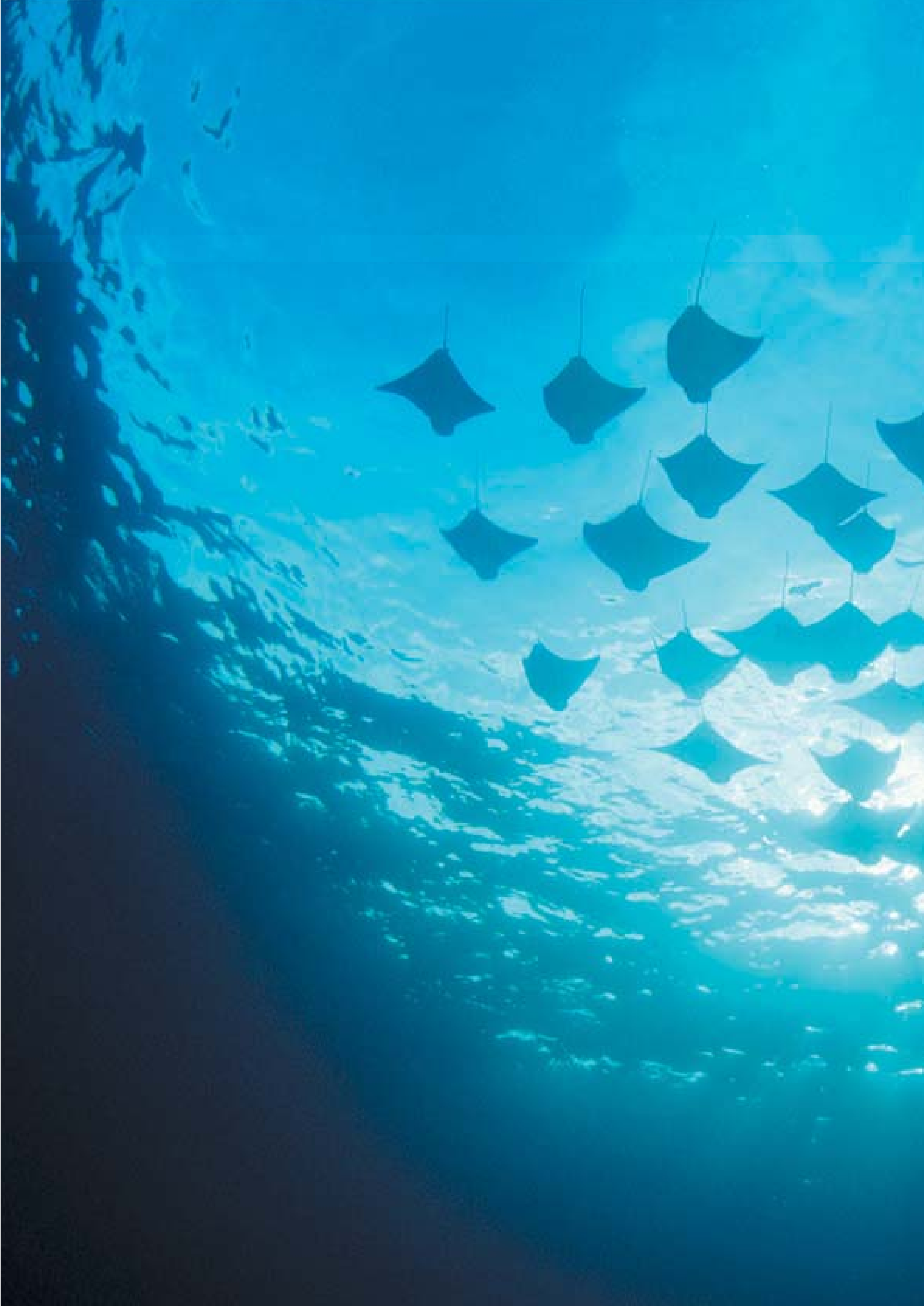
Table C

Record of estimated and actual supplementary calls

	Estimated at inception	Actual
1979	15%	10%
1980	15%	25%
1981	15%	15%
1982	15%	5%
1983	15%	5%
1984	15%	5%
1985	15%	0%
1986	20%	0%
1987	20%	0%
1988	20%	0%
1989	20%	20%
1990	20%	105%
1991	30%	60%
1992	30%	15%
1993	40%	30%
1994	40%	35%
1995	30%	15%
1996	30%	0%
1997	30%	0%
1998	30%	0%
1999	25%	15% *
2000	25%	25% *
2001	25%	25% *

* Year not closed: no further calls expected.

So far, the 2002 policy year has had no major claims reported and the overall claims figures look favourable. The financial markets also appear to be somewhat more stable than in the two preceding years. However, at the time of writing this report it is far too early to have any firm opinion on the developments for the remainder of the 2002 policy year. Members are advised to budget for the full 25 per cent supplementary call.



CONTINGENCY RESERVE

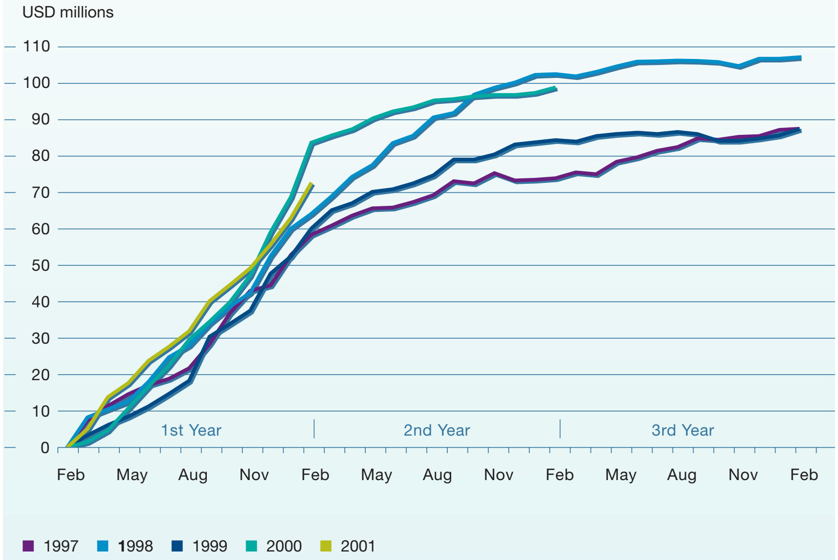
The Committee and the Executive Committee have established target levels for the contingency reserve to be held by the Association, expressed as both minimum and maximum percentages of the reserves set aside for claims.

In order to balance the year to 20th February 2001, funds had to be transferred from the contingency reserve. Thus, the reserve dropped below the lower threshold of the target level. The results for the year to 20th February 2002 have again made it necessary to transfer funds from the contingency reserve in order to achieve a balance of the accounts. Hence, the reserve has been reduced by a further USD 5 million to USD 195 million, which is USD 20 million below the lower threshold of the selfimposed "comfort zone". Nevertheless, the financial position of the Association remains solid, as the selfimposed "comfort zone" is set at a conservative level and is well above any statutory requirements for the level of the Association's free reserves.

This year's general premium increase and, if necessary, further such increases should in due course enable the Association to re-establish the contingency reserve within the "comfort zone", without having to make unforecast supplementary calls.

Table D

Reported claims for the 1997 to 2001 policy years. Owners' and charterers' entries. Figures in USD million and net of reinsurance (No adjustment for inflation)



CLAIMS

2000 policy year

Whilst the year showed a notably higher level of claims than any preceding year at 12 months from inception, it has since developed favourably. The final level of claims is expected to be similar to that for the 1998 policy year. See Table D.

2001 policy year

12 months from inception, the estimated net aggregate liability of reported claims was USD 72 million or 15 per cent lower than the comparative figure for the 2000 policy year. The development of reported claims is well within the budget for the year.

The highly volatile claims pattern that can be seen at some time periods in Table D, is caused principally by large claims and reflects the Association's decision to retain USD 5 million per claim. For example, the estimated net liability of three large claims on the 2000 policy year, all of which occurred

Table E

Value of net reported claims by range, at 12 months from inception of policy year. Owners' and charterers' entries

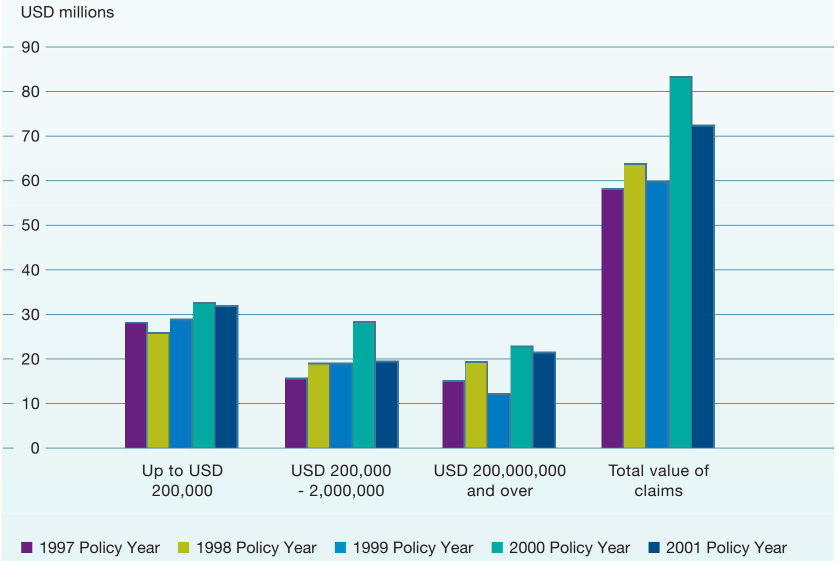


Table F

Number of reported P&I claims 12 months from inception. Policy years 1997 to 2001

Policy year	1997	1998	1999	2000	2001
Incidents showing nil estimates	2335	2256	2258	2216	2157
Claims up to USD 200,000	2046	2528	2653	3050	3445
Claims USD 200,000 – USD 2 million	27	42	39	47	41
Claims exceeding USD 2 million*	4	6	4	6	6
Total number of claims	**4412**	**4832**	**4954**	**5319**	**5649**
* of which are Pool Claims	2	1	0	3	1

in the second half of the policy year, accounted for 20 per cent of the total estimated net liability of reported claims at 24 months from inception. The Association has regularly reviewed the availability of reinsurance to reduce the volatility caused by retaining USD 5 million of any claim. It has concluded that it is – overall – to the Association's advantage to maintain such a retention.

As will be seen from Table E, the total value of claims in the range USD 200,000 to USD 2 million for 2001 policy year, was notably lower than for 2000, although, as is shown in Table F, there were 41 such claims reported in 2001 and only six more in 2000. There were six reported claims exceeding USD 2 million in both years.

Frequency of Membership claims

Table F shows that the number of reported claims has increased in line with the growth in tonnage and number of vessels at risk. A total of 5,649 claims on the 2001 policy year had been reported 12 months from inception. This was 6.2 per cent above the comparative figure for 2000. The tonnage growth in the same period was 5.1 per cent.

Table G

Number of P&I claims reported as at the time of reporting (in months from inception)

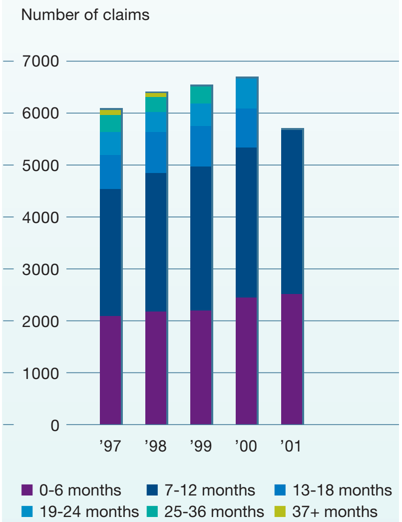
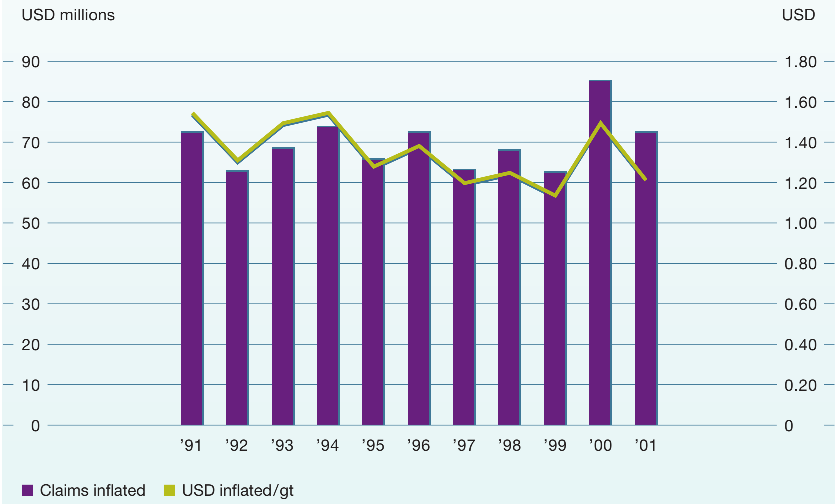


Table H

USD value of owner claims reported one year from inception of each policy year, and USD claims cost per owner gross ton entered, 1991 to 2001 policy years, adjusted at two per cent annual inflation



As can be derived from Table G, 77 per cent of the total number of claims for any policy year is, on average, reported within the first 12 months from inception of the policy year.

Table H provides a summary of the claims cost per entered gross ton, adjusted for inflation, for owners' entries in the Association over a period of 10 policy years, and measured at 12 months from inception of each policy year. An inflation rate of two per cent per annum has been applied. As will be noted, the 1999 policy year comes out most favourably in this comparison.

Liability to the Pool

The Association has reported one claim to the Pool for the 2001 policy year. It was a pollution claim arising out of a collision between a chemical tanker carrying heavy fuel oil cargo and a general cargo vessel. Both vessels were entered in the Association for P&I risks, although the general cargo vessel was not insured with the club for collision liability. The majority of the claim concerns liability for clean-up expenses and environmental damage. The Association has purchased market reinsurance protection that caps its net liability following multiple entry incidents such as the above.

Table I illustrates the development of the Pool as at 20th February 2002, for the policy years 1987 onwards. Claims reported to the Pool for the 2001 policy year were notably lower one year from inception compared with the 2000 policy year.

Table I

Development of the pool as at 20th February 2002. Estimated costs of notified Pool claims, as estimated at the following periods after the inception of the 1987 – 2001 policy year

USD millions

Policy year	One year	Two years	Three years	Four years	Five years	Six years	Seven years	Eight years	Nine years	Ten years	Eleven years	Twelve years	Thirteen years	Fourteen years	Fifteen years
1987	90	139	133	145	145	147	152	155	158	158	158	159	160	161	160
1988	74	114	138	151	159	161	167	171	162	164	167	166	165	168	
1989	129	214	219	218	217	218	228	223	224	227	226	231	231		
1990	169	246	253	253	258	257	269	275	270	270	278	280			
1991	113	173	191	215	220	224	221	221	221	221	220				
1992	76	98	108	106	123	112	109	116	114	115					
1993	98	155	172	167	178	181	185	192	193						
1994	107	150	150	153	163	150	151	158							
1995	89	96	125	133	133	130	123								
1996	101	127	158	158	155	158									
1997	61	144	161	164	156										
1998	25	103	110	118											
1999	21	50	90												
2000	101	136													
2001	36														

FUND MANAGEMENT

In difficult investment conditions the Association's net financial income, after deduction of investment management expenses, amounted to a negative USD 12.1 million, a return of –1.1 per cent compared with a benchmark return of +0.1 per cent. However, since the introduction of new investment managers on 1st July 2001, the fund performance has seen a gradual improvement. During the second half of the year the fund returned 1.0 per cent compared to a benchmark return of 0.8 per cent.

The period under review provided a testing environment for investment managers in most asset classes and geographical regions. The global economy was already besieged from a contagious slowdown, which was threatening to pull the three largest economies in the world, USA, Japan and Germany into a synchronous recession. Then disaster struck on 11th September. In the weeks before this tragic event, the first rays of hope had been emerging that the relentless optimism of the American consumer, supported by Federal Reserve Chairman Greenspan's rate cuts, President Bush's tax cuts and easing energy prices would be sufficient to carry the world economy to safety again.

The American monetary and fiscal activism was in stark contrast to the inaction in Europe and Japan. The European Central Bank was criticised for being in denial as it maintained its prediction that the European economy would withstand a US slowdown against mounting anecdotal and economic evidence to the contrary. There were also severe setbacks on the political front in implementing measures dealing with takeover regulations and financial services which would have been supportive for both economic activity and the financial markets. Only the economy in the United Kingdom managed to escape the descending gloom.

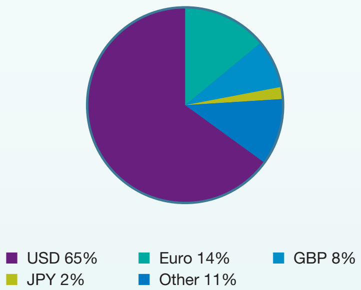
In Japan, there were hopes that the new Prime Minister, Junichiro Koizumi, could break the deadlock in tackling industrial reform and cleaning up bank balance sheets. However, there still appears to be some opposition which is preventing meaningful policy responses.

Many of the emerging economies proved remarkably resilient in this difficult environment. This was particularly true for some of the largest countries; China, Russia and India, but also for some of the more traditionally export dependent economies such as South Korea. Latin America was held back by the looming disaster in Argentina, as investors were trying to assess whether the inevitable collapse would set off a new wave of emerging market contagion.

Table J

Portfolio allocation

By currency



By instrument

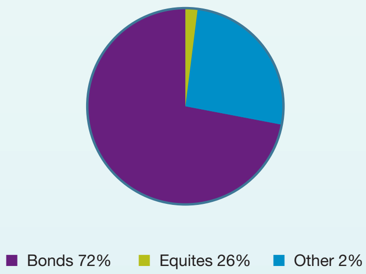


Table J sets out the portfolio allocation, by currency and instrument, at the end of the year.

In July 2001 the Association implemented a new investment management structure focusing on specialist bond and equity managers rather than balanced managers. Following this transition, the fund marginally outperformed its benchmark in the second half of the policy year.

ACCOUNTS

The Accounts and Notes that appear on the pages 33 to 47 have been prepared by combining the consolidated accounts of the Association with the accounts of the Bermuda Association. All transactions between the two Associations have been eliminated in accordance with normal consolidation principles. The combined consolidated accounts carry a report from the Associations' auditors.

Premiums and calls

Gross premiums, including a 25 per cent supplementary call, rose some nine per cent over the level of last year. The increase is the result of an effective general premium increase of 10 per cent for the 2001 policy year as well as new tonnage being entered during the policy year. The replacement of tonnage during the year, which contributed to the continuing positive development of the average age profile of the entered fleet, coupled with the acquisition of newbuildings, created pressures on the premiums due to the perceived higher operational quality of the acquired tonnage and tougher competition in the market.

Claims

Net claims incurred during the year, which had risen some 16 per cent over the preceding three years, reduced by a third or USD 45 million to USD 102 million. The two main factors behind the improvement are run-off savings on the two prior policy years and reduced claims in the 2001 policy year, which, at one year from inception, showed known claims 15 per cent below the level of the 2000 policy year one year from inception. In spite of this encouraging development with regard to known claims, the two most recent policy years each have a deficit in excess of USD 50 million, primarily due to the absence of investment income in 2000 and a negative return in 2001. In accordance with the warning issued in last year`s management report, the Committee, at their Meeting in October of last year, decided to impose a general premium increase of 25 per cent for the 2002 policy year to improve the technical result and to contribute to the rebuilding of the contingency reserve to within the parameters set by the Committee. The primary purpose of the contingency reserve is to protect the Membership from unbudgeted supplementary calls. The contingency reserve has been used to this effect during each of the last two years.

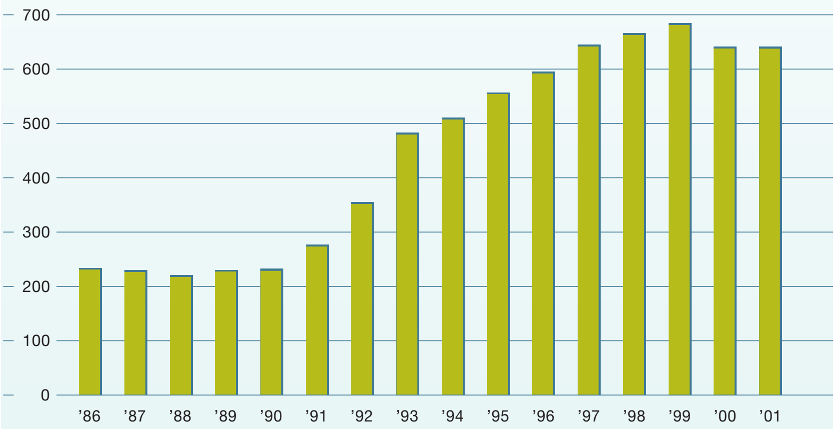
Operating expenses

Although net operating expenses are USD 2.7 million above last year's level, they are USD 2.3 million below the level of the year to 20th February 2000.

Table K

Funds available to meet outstanding and unreported claims at policy year ends

(Investments stated at valuation)
All amounts are stated in USD millions



Operating expenses in the accounts of last year were reduced by USD 4.2 million by the one-off profit made on sales of assets to Gard Services AS. The cost savings of USD 2.3 million are, to a large extent, a direct result of economies realised through the establishment of Gard Services.

Investment income

Net investment "income" turned negative for the first time since 1994. USD 6.9 million of the loss was attributed to the continued strengthening of the USD against most other currencies. As the Association aims to match the currency composition of its assets and liabilities, the fall in the value of non-US currency assets should be offset by a fall in the USD value of claims in those currencies. Such an allowance is, however, not reflected in the accounts as presented.

Funds

The Association's net funds amounted to USD 626 million compared with USD 650 million last year. Table K sets out the record of funds available to meet outstanding and unreported claims since 1986.

Reinsurance

Table L sets out the recent history of retention and reinsurance levels of the Association.

With effect from 20th February 2000, the International Group's excess of loss programme was placed for two years, with an option to renew the first two

Table L

Retentions and reinsurances

USD millions

	Club retention	Pool tranche	Excess reinsurance tranche	Overspill cover	Total
1982	0.9	7.1	630	–	638
1983	0.9	7.1	750	–	758
1984	1	7	750	250	1,008
1985	1.2	10.8	750	250	1,012
1986	1.2	10.8	750	250	1,012
1987	1.2	10.8	1,000	220	1,232
1988	1.2	10.8	1,250	–	1,262
1989	1.2	10.8	1,250	300	1,562
1990	1.6	10.4	1,250	300	1,562
1991	1.6	10.4	1,250	200	1,462
1992	2	13	1,050	300	1,365
1993	3	22	1,050	300	1,375
1994	4	26	1,150	350	1,530
1995	5	25	1,500	500	2,030
1996	5	25	1,500	500	2,030
1997	5	25	2,000	–	2,030
1998	5	25	2,000	–	2,030
1999	5	25	2,000	1,000	3,030
2000	5	25	2,000	1,000	3,030
2001	5	25	2,000	1,000	3,030
2002	5	25	2,000	425	2,455

levels of the contract for a third year within certain parameters. This option has been exercised and as a result the overall premium increase for the year commencing 20th February 2002 was contained below 30 per cent. During the 1990s a considerable credit balance had been built up with the excess of loss reinsurers and it is, therefore, disappointing to have to pay such a substantial premium increase. However, in a market which has been hit by huge losses from sectors other than marine, and which has therefore hardened significantly, the overall result of the renewal must be considered satisfactory. The decision taken at the end of 1999 to bind much of the contract for two years with an option for a third year has proved advantageous.

For several years, the Association has had in place an overspill cover, protecting the Membership against the consequences of a claim in excess of the Group's reinsurance level of USD 2,030 million. In the current reinsurance market, it has proved impossible to renew the cover taken out last year, which protected the Association and its Members against a claim for its share of USD 1 billion over and above the reinsurance level, on acceptable terms. For the year commencing 20th February 2002 a cover has been placed which protects the Members against the Association's liability for the first USD 50 million of its share of a claim in excess of USD 2.03 billion. The Membership is thus covered by way of market reinsurance against a claim of up to approximately USD 2,455 million.

The Association offers its Members a number of additional insurance products, all of which are reinsured above retentions of up to USD 1 million. The reinsurance contracts have been renewed at satisfactory terms, although at rates reflecting the general hardening of the reinsurance market.

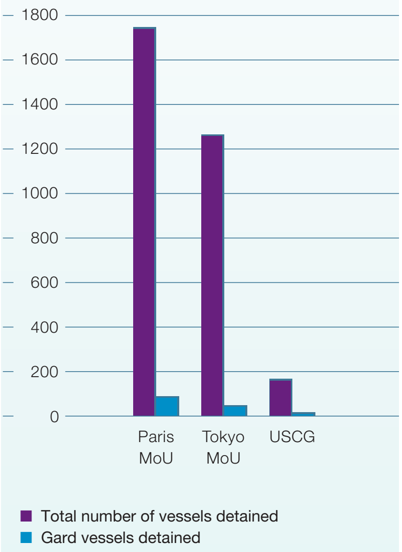
LOSS PREVENTION

In 2001, Gard Services expanded its loss prevention initiatives with a commitment to bringing a wider range of products and services to the Members. The activities have been maintained as regards vessel condition surveys, distribution of loss prevention circulars, reports from the International Maritime Organization (IMO), *Gard Guidance to Masters* and the *Gard Guidance on Bills of Lading* publications. 2001 also saw the release of the fourth version of the *Safety and Improvement Reporting System* (SAFIR) software. From the middle of June 2002 the 5th edition of the Gard Handbook on P&I Insurance is available.

In addition, Gard Services is committed to one of the most important and effective loss prevention activities – efficient claims handling, delivery of loss prevention competence and experience to individual Members. Gard Services loss prevention, technical and claims personnel have been delivering a variety of specific presentations and seminars to Members based on their particular requirements.

Table M

Port state control detentions



Condition surveys

The Club's survey activities focus on condition surveys of vessels of 15 years of age or older entering the Association's portfolio. The Association is convinced that condition surveys play a particularly important role in claims prevention. Compliance with recommendations arising out of such surveys may assist in the prevention of future losses.
150 condition surveys were performed on vessels entered with the Association during 2001.

Loss prevention circulars

Gard Services now issues loss prevention circulars focusing on both P&I and hull and machinery matters. The circulars issued during 2001 focused on issues associated with bills of lading, oily water separation and discharge, bunker claims prevention, turbocharger damage and prevention of cold weather damage. These circulars are available under Loss Prevention on the Gard Services website and are also published in *Gard News*.

Port state control and Qualship 21

The Association pays keen attention to port state detentions by the Paris and Tokyo MoU's as well as by the United States Coast Guard (USCG). In 2001, 129 of 3,099 detentions (4.2 per cent) were vessels entered with the Association compared with 131 of 2,892 total detentions (4.5 per cent) during 2000. See Table M. Gard Services has issued the *Gard P&I 2001 Port State Detention Report*. This provides summaries of the detentions. The Report is available to Members upon request.

In order to improve the quality and safety of ships trading within United States' waters, the USCG, in 2001, launched the Qualship 21 programme designed to reward high quality operators of vessels with fewer inspections and less port state control scrutiny. As of January 2002, 441 vessels had qualified for the Qualship 21 programme, of which 97 vessels (22 per cent) are insured with the Association. Given that the Association covers some 12 per cent of all ocean going commercial vessels, the port state control and Qualship 21 figures bear testimony to the quality of the fleets entered in the Association.

The Safety and Improvement Reporting System (SAFIR)

Gard Services, in co-operation with Barber Software Systems (BASS), released the fourth version of the SAFIR software in January 2002. SAFIR provides compliance with Section 9 of the International Safety Management Code in the reporting of accidents, near misses and non-conformities to safety and quality systems. It is available in both office and shipboard versions which are fully compatible and can provide updating of records across an entire fleet. SAFIR currently has 45 clients with over 1,200 ships using both the management and shipboard versions of the system. The relationship with BASS has led to improved servicing of SAFIR clients with BASS providing IT development and support for SAFIR whilst Gard Services and BASS jointly undertake training and marketing activities.

IMO Reports

New and amended international statutory requirements are constantly being introduced in the industry. Gard Services issued summary reports of the meetings of the 73rd and 74th sessions of the IMO's Maritime Safety Committee during 2001. These reports summarise key issues and provide updates on relevant topics such as safety of large passenger ships, updates on bulk carrier safety, amendments to the High Speed Craft Code, ballast water management, ship recycling and air pollution. Gard Services will ensure that its Members remain fully up-to-date on important issues from the IMO.

Individual presentations to and seminars for Members

Gard Services claims, legal, technical and loss prevention personnel have a long standing tradition of meeting the needs of the Membership through participation in officers' conferences and other seminars at the request of the Members. During 2001 much additional loss prevention seminar material was developed for Gard Services Members and clients. Examples of the work undertaken include the Gard Services pilotage seminar, SAFIR training, presentations on bills of lading, prevention of cargo claims and prevention and handling of claims associated with crew injuries. Gard Services is developing these activities further to assist in meeting each Member's strategic loss and claims prevention requirements.

OTHER MATTERS

Gard Services

The insurance activities of the Association are managed by Gard Services AS, the company jointly established with If P&C Insurance Ltd (publ). Mr Claes Isacson took over as the Managing Director of the Club and Chief Executive Officer of Gard Services on 1st July 2001. Following his succession, new Head of Business Area was appointed in all three business areas; P&I, Marine and Energy.

The first full year of operation of Gard Services has proved that there are considerable synergies to be gained from the co-operation between the three product areas, both in terms of cost savings and in cross sales. During the first 20 months of operation of Gard Services, the Association has gained a total of 3.7 million gross tons from customers of Gard Marine.

Balanced Scorecard

In order to ensure that the Association's strategy is efficiently implemented at the operational level, a Balanced Scorecard Design project was started during the policy year. The completed Balanced Scorecard is intended as a focal point of the company's intranet ensuring that company strategy is well communicated, appropriate actions taken at all levels of the company, and progress is monitored and reported on a frequent basis.

The Balanced Scorecard was developed through business area workshops within the management company, Gard Services AS. This has ensured a consistent implementation across the P&I, Marine and Energy & Special Risks operations. The process has highlighted the similarities in the critical success factors of each business area. The scope for further operational synergies is significant and these will continue to produce benefits for the Association's membership.

Quality Management System and ISO 9001:2000

Gard Services AS has, from its inception on 1st July 2000, been working on a joint Quality Management System (QMS) for all three business areas which would be available electronically through the company's intranet. The combined efforts were presented to DNV in early April 2002 for the purpose of obtaining a certification to the new ISO 9001:2000 standard.

DNV audited the company in mid-April 2002 and a certification of all business areas has been achieved. Gard Services AS is thus one of the first marine insurers to achieve this certification, which focuses on quality in customer service, product design and development, risk analysis, learning and knowledge management. It also supports Gard Services AS' vision to be among the leading operators in the marine insurance business. The Gard Services QMS is subject to continuous updates and improvements. The management review of risk assessment which takes place annually has received high marks from DNV during the certification process. This is also a proactive tool for risk control.

Customer Satisfaction Surveys (CSS)

As part of the requirements of the ISO 9001:2000 standard, a Customer Satisfaction Survey must be held at regular intervals. This survey, together with a continuous dialogue with Members, customers and service providers, is considered both as a measuring tool vis-à-vis the Members' satisfaction with the service provided by Gard Services and as a useful input in the product design process in all business areas. The last survey was undertaken in October 2001. Of the nearly 600 questionnaires issued to Members and their brokers, a satisfactory response ratio was achieved.

The scores provided generally demonstrated a high level of satisfaction with the services provided by Gard Services. The scores and comments provided also form the basis for further improvements in areas such as loss prevention.

Knowledge Management

This year has been both exciting and rewarding for the knowledge management initiative in Gard Services. Among its many activities has been an Employee Satisfaction Survey (ESS) conducted in May 2001. This survey identified four areas for increased attention: Information and Communication; Learning; Vision and Strategy; and Organisation and Human Resources. The Balanced Scorecard project will address all of these issues.

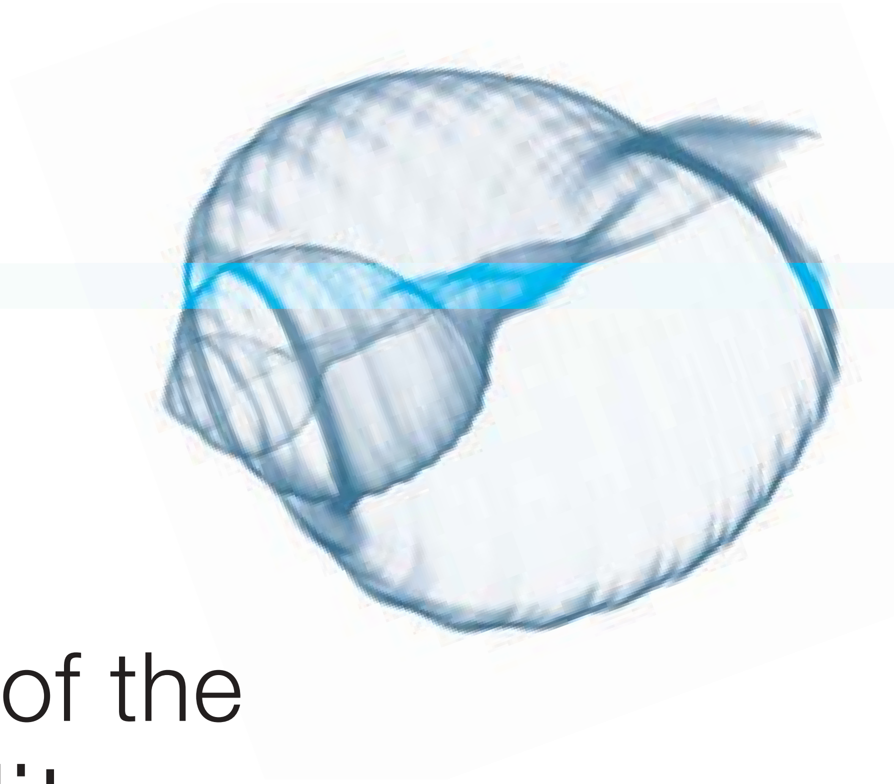
An extensive training programme for building ICT skills in the organisation has been carried out and a learning centre will be established. Known as the Gard Academy, it will cover internal training needs and support competence building. In due course, it is also the intention that the Gard Academy shall offer external training and education.

Gard Services' intranet has developed into the main distribution channel for information to staff. Together with the website, the intranet is currently undergoing further development using knowledge management technologies which will greatly enhance information and knowledge services both internally and externally.

Gard Services is committed to treating knowledge as its most valuable asset, to be nurtured and used like any other asset to ensure that the company achieves its full potential, generates new ideas and maintaines a competitive edge.

* * *

It is appropriate to take this opportunity to thank the Members and business associates and representatives of the Association and Gard Services for their support over the past year. Together with the dedication, loyalty and hard work of the staff, another year of progress for the Association has been made possible, for which we are most grateful.



Reports of the Auditors

Report on the Combined Consolidated Accounts

The combined consolidated accounts set out in this document have been prepared from the consolidated accounts of Assuranceforeningen Gard -gjensidig- and the accounts of Gard P&I (Bermuda) Limited. The Auditors' reports in relation to each of these sets of accounts are set out in full below.

We have examined the principles adopted in combining these two sets of accounts into the combined consolidated accounts. In our opinion, the combined consolidated accounts present fairly the combined financial position of the two Associations as at 20th February 2002 and the results of their combined operations for the year then ended.

Arendal, May 2002
ERNST & YOUNG AS
Jan Dønvik
State Authorised Public Accountant (Norway)

Report of the Auditors of Assuranceforeningen GARD

We have audited the annual financial statements of Assuranceforeningen Gard -gjensidig- as of 20 February 2002. We have also audited the information in the Board of Directors' report concerning the financial statements on the going concern assumption. The financial statements comprise the balance sheet, the income and cash flow statements, the accompanying notes and the Group accounts. These financial statements are the responsibility of the Association's Board of Directors and the Managing Director. Our responsibility is to express an opinion on the financial statements and on other information as required by the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing principles. These principles require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by Management, as well as evaluating the overall financial statement presentation. To the extent required by law and generally accepted auditing principles, an audit also comprises a review of the management of the Association's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

– the financial statements are prepared in accordance with Norwegian law and regulations and present fairly, in all material respects, the financial position of the Association and of the Group as of 20 February 2002, and the result of its operations and cash flows for the year then ended, in accordance with generally accepted accounting principles

– the Association's management fulfilled its duty to properly register and document the accounting information in accordance with Norwegian law and generally accepted accounting principles

– the information in the Board of Directors' report concerning the financial statements and the going concern assumption are consistent with the financial statements and comply with Norwegian law and regulations

Arendal, 18 April 2002
ERNST & YOUNG AS
Jan Dønvik
State Authorised Public Accountant
(Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

Report of the Auditors of Gard P&I (Bermuda) Ltd

INDEPENDENT AUDITORS' REPORT

To the Directors of
Gard P&I (Bermuda) Ltd.

We have audited the Balance Sheet of Gard P&I (Bermuda) Ltd. as at February 20, 2002 and the statements of income and expenditure and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of Gard P&I (Bermuda) Ltd. as at February 20, 2002 and the results of its operations and cash flows for the year then ended in accordance with the basis of accounting described in the notes to the financial statement applied on a basis consistent with that of the previous year.

April 8, 2002
Deloitte & Touche

All amounts are stated in USD 000's
For the years to 20th February

		Notes	2002	2001
Technical account – General business				
Income				
Gross premiums earned		2	138,556	126,362
Estimated supplementary call		2	24,500	22,750
Reinsurance premiums			(31,328)	(28,001)
Net premiums earned	A		**131,728**	121,111
Expenditure				
Net claims incurred		3	101,503	146,829
Net operating expenses		4	22,424	19,677
	B		**123,927**	166,506
Balance on general business technical account	A-B=C		**7,801**	(45,395)
Non-technical account				
Investment (loss)/income		5	(2,912)	22,211
Exchange loss			(6,902)	(18,282)
Investment management expenses		4	(2,270)	(2,765)
Taxation			(434)	(64)
Balance on non-technical account	D		**(12,518)**	1,100
Excess of expenditure over income	C+D=E		**(4,717)**	(44,295)
General contingency reserve at beginning of period	F	11	**199,939**	244,234
General contingency reserve at end of period	E+F		**195,222**	199,939

All amounts are stated in USD 000's As at 20th February	Notes	2002	2001
Assets			
Intangible assets		121	632
Investments	6	612,779	627,578
Due from Members		4,524	5,803
Due from reinsurers		1,523	2,476
Accrued supplementary call	7	24,500	22,750
Sundry debtors		1,218	1,624
Investments in associated companies		14,673	14,224
Real property and fixed assets	8	13,210	13,260
Bank balances		8,909	16,758
Accrued income		12,888	11,422
	9	**694,345**	716,527
Liabilities			
Provision for outstanding and unreported claims		430,797	445,989
General contingency reserve	11	195,222	199,939
Balance available for outstanding and unreported claims		**626,019**	645,928
Bank overdraft		7,956	0
Sundry creditors	10	60,370	70,599
		694,345	716,527

Reconciliation of excess of expenditure over income to net cash flow to operating activities

All amounts are stated in USD 000's For the years to 20th February	2002	2001
Excess of expenditure over income before taxation	(4,283)	(44,231)
Depreciation of tangible fixed assets	137	200
(Increase) in accrued supplementary call	(1,750)	(8,833)
Decrease in debtors	3,149	768
(Increase)/Decrease in accrued income	(1,466)	14
(Decrease)/Increase in technical provisions	(15,192)	89
(Decrease)/Increase in creditors	(10,229)	39,264
Net cash flow to operating activities	**(29,634)**	(12,729)
Cash flow statement		
Net cash flow to operating activities	(29,634)	(12,729)
Taxation paid	(434)	(64)
	(30,068)	(12,793)
Cash flows were released as follows		
(Decrease) in cash holding	(15,805)	(11,894)
(Decrease) in portfolio investment	(14,799)	(12,306)
Increase in investments in associated companies	449	14,224
Increase/(Decrease) in real property and fixed assets	87	(2,817)
	(30,068)	(12,793)

Notes to the Combined Consolidated Accounts

Note 1 – Accounting policies

(I) Basis of preparation of the Accounts
The accounts presented here combine the consolidated accounts of Assuranceforeningen Gard ("the Association"), prepared in US dollars, with the accounts of Gard P&I (Bermuda) Limited ("the Bermuda Association"). In combining the accounts the same conventions have been observed as would have been adopted in preparing consolidated accounts for the two entities were the two Associations under common ownership. These accounts have no formal legal standing, but they aim to provide an easily assimilated summary of the combined financial position of the Associations.

(II) Consolidated accounts
The Association's consolidated accounts incorporate the accounts of the wholly owned subsidiary A/S Assuransegården, owner of the Association's properties. The former subsidiary offices based in London, Gothenburg and Hong Kong have all been transferred to Gard Services AS with effect from 1st July 2000. The Bermuda Association has no subsidiaries.

(III) Closing of policy years
In determining the appropriate supplementary call with which to close an open policy year the Association takes into account the results for that year and all prior years.

It is not the Association's intention to carry forward to open policy years significant surpluses for individual years, although it is considered necessary to maintain a general contingency reserve to meet regulatory requirements and unanticipated demands on the Association's funds.

(IV) Currencies other than US dollars
Assets and liabilities, including derivatives denominated in currencies other than USD, are translated into USD at rates of exchange prevailing at the balance sheet date. Investments are stated at market value in the currency in which they are denominated and translated into USD at rates of exchange prevailing at the balance sheet date. Revenue transactions in currencies other than USD are recorded in NOK and translated into USD at daily standard exchange rates. For consolidation purposes revenue transactions with the Accounts of the Subsidiary company are translated into USD at the rate of exchange prevailing at the balance sheet date.

(V) Basis of accounting
All items of income and expenditure are accounted for on an accrual basis and reflect any adjustments relating to earlier years. Supplementary calls are brought into account when charged to Members

Exchange rates used for currencies in which the Associations held material positions are:

As at 20th February		2002 USD 1 equals	2001 USD 1 equals
AUD	Australian Dollar	1.9350	1.9141
CAD	Canadian Dollar	1.5902	1.5375
CHF	Swiss Franc	1.6980	1.6879
DKK	Danish Krone	8.5244	6.7020
EUR	Euro Currency Unit	1.1471	1.1004
GBP	Pound Sterling	0.7004	0.6922
JPY	Japanese Yen	133.8550	115.5300
NOK	Norwegian Krone	8.9085	9.0553
SEK	Swedish Krone	10.5463	9.8790

except that the supplementary call approved by the Committee at their meeting in May for the policy year just ended is brought into account in the financial year ending on the same date as the policy year.

(VI) Technical reserves

The Provision for outstanding and unreported claims comprises an estimate of the expected exposure which has been placed on (i) claims that have been reported to the Association and (ii) claims that have been incurred but not reported ("IBNRs"). The estimate of IBNR claims is calculated on a basis approved by the Association's consulting actuaries. Both sets of estimates include the Association's own claims and its share of claims under the International Group's Pooling arrangement. Provision has been included for future claims management costs.

The general contingency reserve is retained to meet; (i) losses which may fall outside the Association's reinsurance programme; for example failure of a "first class" bank or hull insurer to honour a collision guarantee; (ii) unforeseen fluctuations in the Association's claims exposure and; (iii) a possible catastrophe claim. The Association is liable for its proportionate share of an overspill claim regardless of whether the claim originates from an entered vessel or from a vessel insured on a mutual basis by any of the other Associations comprising the International Group of P&I Associations.

(VII) Related party disclosure

The management fee of USD 19.2 million payable to Gard Services AS is included in net operating expenses. Apart from this, no single transaction, or series of transactions, with related parties (including the Members of the Associations) is of such materiality and nature as to require disclosure.

(VIII) Financial derivatives

Financial derivatives are integrated components of the investment philosophies and processes of the fund management organisations employed by the Association. They are used for risk management, liquidity improvement and return enhancement through cost reductions.

(IX) Designated reserves

Given the level of Pool retentions and the participation of the International Group in the General excess loss reinsurance contract, all parties to the Pooling Agreement have entered into arrangements, under an agreement dated 20th February 1996, to provide security by way of letters of credit or security bonds to other Pooling members to cover a significant proportion of their potential liabilities under the Pooling Agreement. Such letters of credit or security bonds can only be drawn upon in the event that an Association fails to meet a call upon it in relation to its obligations under the Pooling Agreement. The Association currently has a contingent liability under a bank guarantee in the amount of USD 28 million relating to its participation in this arrangement. The bank guarantee does not constitute a formal charge on the assets of the Association as no counter security has been required.

(X) Change in basis of accounting

In previous years, fixed assets have been translated into USD at historical exchange rates. This basis of accounting has now been changed and fixed assets are now translated into USD at rates of exchange prevailing at the Balance Sheet date. The effect of the change in valuation as expressed in USD has been charged directly to the general contingency reserve as stated in Note 11. The figures for the comparative year ended on 20th February 2001 have been restated accordingly. The change is in line with Norwegian accounting regulations.

Note 2 – Premiums and calls

All amounts are stated in USD 000's For the years to 20th February		2002	2001
Mutual premiums			
Owners' entries			
Premiums		100,391	93,252
Additional calls		656	675
Estimated supplementary call		23,800	22,100
Defence entries			
Premiums		2,761	2,707
Additional calls		(13)	54
Estimated supplementary call		700	650
	A	**128,295**	119,438
Fixed premiums			
Mobile offshore unit entries		11,575	10,371
Charterers' entries		17,124	13,081
US oil pollution premiums		4,789	4,997
Defence entries		1,273	1,225
	B	**34,761**	29,674
Total	A+B	**163,056**	149,112

Note 3 – Net claims incurred

All amounts are stated in USD 000's For the years to 20th February		2002	2001
Gross claims paid			
Members' claims		120,197	154,729
Group Pooling arrangements		18,523	14,151
	A	**138,720**	168,880
Reinsurers' share			
Group Pooling arrangements		16,464	18,005
Market underwriters		4,945	2,086
Other P&I Associations		616	2,051
	B	**22,025**	22,142
Net claims paid	A-B=C	**116,695**	146,738
Change in provision for gross claims			
Provision carried forward		473,946	502,235
Provision brought forward		(502,235)	(499,847)
	D	**(28,289)**	2,388
Less movement in provision for reinsurers' share			
Provision carried forward		(59,718)	(73,399)
Provision brought forward		73,399	71,098
	E	**13,681**	(2,301)
Change in provision for future claims management costs	F	(584)	4
Net changes in claims provision	D+E+F=G	**(15,192)**	91
Claims incurred, net of reinsurance	C+G	**101,503**	146,829

Note 4 – Operating expenses

All amounts are stated in USD 000's For the years to 20th February		2002	2001
Administrative expenses		14,783	11,360
Acquisition costs		7,641	8,317
Net operating expenses	A	**22,424**	19,677
Investment management expenses	B	2,270	2,765
Total operating expenses	A+B	**24,694**	22,442
a) Operating expenses include			
Management fee		19,178	12,363
Wages and salaries		486	2,131
Social security costs		110	494
Remuneration of Committee and Executive Committee		276	291
Pension contributions		28	2,675
Auditors' fees – audit services		94	56
Auditors' fees – non audit services		20	20
Depreciation		137	200

The staff in Assuranceforeningen Gard -gjensidig- were transferred to a new management company (Gard Services AS) on 1st July 2000. From that date a major part of the operating expenses has been replaced by a management fee invoiced from Gard Services AS to the Association on a monthly basis. Valuations of assets transferred to the new company to make it fully operational, resulted in an immediate profit of USD 4.2 million credited to operating expenses in the comparative Accounts. This fact should be taken into consideration when comparing the item operating expenses for the current year with the prior year.

Average Expense Ratio (AER)

In accordance with Schedule 3 of the International Group Agreement 1999 the Association is required to disclose the AER for the Associations' P&I business for the five years ended 20th February 2002. The Ratio of 8.4 per cent (7.8 last year) has been calculated in accordance with the schedule and the guidelines issued by the International Group and is consistent with the relevant financial statements.

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

Note 5 – Investment income

All amounts are stated in USD 000's For the years to 20th February	2002	2001
Interest earned	22,519	22,973
Dividends	2,114	2,047
Profits less losses on realisation of investments	11,597	13,264
Change in difference between cost and market value of investments	(39,142)	(16,073)
Total	**(2,912)**	22,211

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

Note 6 – Investments

All amounts are stated in USD 000's As at 20th February		2002	2001
Quoted investments			
Equities at cost		153,594	165,184
Bonds at cost		460,591	425,891
Difference between cost and market value of investments		(9,493)	29,649
	A	**604,692**	620,724
Unquoted investments			
Property mortgages		4,898	3,564
Miscellaneous investments		3,189	3,290
	B	**8,087**	6,854
Total	A+B	**612,779**	627,578

Investments at valuation

The market value of unquoted investments does not, in the opinion of the Executive Committee, differ significantly from cost.

Note 7 – Accrued supplementary call

The Committee has decided to levy a 25 per cent supplementary call in respect of the 2001 policy year in 2002, in accordance with the original estimate for the year.

Note 8 – Real property and fixed assets

All amounts are stated in USD 000's		Real property and fixed assets
Cost		
As at 20th February 2001		20,828
Currency valuation of opening balance		(4,746)
Purchases in the year		245
Sales in the year		(311)
As at 20th February 2002	A	**16,016**
Depreciation		
As at 20th February 2001		3,630
Currency valuation of opening balance		(808)
Depreciation on sold assets		0
Charge for the year		137
As at 20th February 2002	B	**2,959**
Net book value		
As at 20th February 2001		13,260
As at 20th February 2002	A-B=C	**13,057**
Currency valuation at year end of adjusted opening balance	D	153
As at 20th February 2002	C+D	**13,210**

See note 1(X)

Note 9 – Currency exposure

All amounts are stated in USD 000's

As at 20th February 2002 Currency amount		USD	Per cent
Assets in			
USD	492,470	492,470	70.9
EUR	95,511	83,399	12.0
GBP	29,662	42,374	6.1
NOK	345,449	39,012	5.6
JPY	2,026,830	15,270	2.2
SEK	46,969	4,477	0.6
AUD	6,169	3,188	0.5
Other		14,155	2.0
Total		**694,345**	100.0

As at 20th February 2001 Currency amount		USD	Per cent
Assets in			
USD	470,548	470,548	65.7
EUR	136,934	124,451	17.4
GBP	26,479	38,253	5.3
NOK	237,202	26,481	3.7
JPY	2,345,530	20,322	2.8
CAD	14,198	9,234	1.3
CHF	11,404	6,756	0.9
Other		20,482	2.9
Total		716,527	100.0

Note 10 – Sundry creditors

All amounts are stated in USD 000's

As at 20th February	2002	2001
Creditors: direct insurance	511	1,009
Creditors: reinsurance operations	546	643
Investment transactions in progress	42,294	52,828
Accrued taxes	60	694
Pension liabilities	3,860	3,976
Sundry creditors	5,638	2,299
Deferred income	2,664	3,372
Accrued expenses	4,797	5,778
Total	**60,370**	70,599

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

Note 11 – Reconciliation of General contingency reserve

All amounts are stated in USD 000's

General contingency reserve as at 20th February 2001	203,877
* Revaluation of historical value on fixed assets	(3,938)
Adjusted General contingency reserve as at 20th February 2001	199,939
Excess of expenditure over income	(4,717)
General contingency reserve as at 20th February 2002	**195,222**

* Change in basis of accounting (See note 1 (X))

In previous years, fixed assets in subsidiaries have been translated into USD at historical exchange rates. This basis of accounting has now been changed and fixed assets in subsidiaries are now translated into USD at rates of exchange prevailing at the Balance Sheet date. The effect of the change has been charged directly to the General contingency reserve.

Appendix: Policy Year Accounts

A. Development of open policy years

All amounts are stated in USD 000's

Policy year		2001	2000	1999	Total
Premiums and calls					
Invoiced in prior years		0	126,993	126,004	
Invoiced in current year		138,067	(179)	25	
		138,067	126,814	126,029	
Additional calls debited		382	23,549	14,254	
Estimated supplementary call		24,500	0	0	
Total premiums and supplementary calls		162,949	150,363	140,283	
Reinsurance premiums		(30,541)	(29,905)	(28,143)	
	A	132,408	120,458	112,140	
Incurred claims net					
Claims paid		19,390	69,443	65,321	
Estimates on outstanding claims		62,713	50,796	33,700	
IBNRs		60,700	26,300	12,900	
Future claims management costs		4,937	3,084	1,864	
		147,740	149,623	113,785	
Operating expenses		22,858	19,741	24,971	
	B	170,598	169,364	138,756	
Investment income	C	(12,084)	(2,773)	40,247	
(Deficit)/surplus on open policy years	A-B+C=D	(50,274)	(51,679)	13,631	**(88,321)**
Closed policy years					
Surplus in respect of 1997 and prior years as at 20th February 2001					294,497
Transfer on closure of 1998 policy year					(22,641)
Changes to policy years prior to 1998					11,687
General contingency reserve as at 20th February 2002					**195,222**

B. Analysis of balances available for outstanding and unreported claims for open and closed policy years

All amounts are stated in USD 000's

Policy year	2001	2000	1999	Closed years	Total
Gross estimated outstanding and unreported claims					
Own claims	119,797	85,233	41,508	156,800	403,338
Pool claims	15,410	13,406	5,259	36,533	70,608
Estimated reinsurance recoveries due from					
The Pool	10,479	15,719	0	14,859	41,057
The Group excess loss reinsurance contract	0	0	0	6,368	6,368
Others	1,315	5,827	168	4,983	12,293
Net estimated outstanding and unreported claims	123,413	77,093	46,599	167,123	**414,228**
Future claims management costs	4,937	3,084	1,864	6,685	16,569
Provision for outstanding and unreported claims	128,350	80,177	48,463	173,808	**430,797**
General contingency reserve	(50,274)	(51,679)	13,631	283,543	**195,222**
Balance available for outstanding and unreported claims as at 20 February 2002	78,076	28,498	62,094	457,351	**626,019**

Notes to the policy year accounts

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

2. The annual accounts include the 25 per cent supplementary call levied for the 2001 policy year.

3. The approximate yield of a 10 per cent supplementary call on the open policy years would be:
   1999 policy year USD 9.0 million
   2000 policy year USD 8.8 million
   2001 policy year USD 9.5 million

4. "Incurred claims net" comprises claims paid (net of reinsurance recoveries), together with contributions to other P&I Associations under the Group Pooling arrangement and net estimates for outstanding and unreported claims.
   Estimates on outstanding claims refer to those incidents which have been notified to the Association and on which estimates of the expected exposure have been placed. Incurred but not reported claims ("IBNRs") have been calculated on a basis approved by the Association's consulting actuaries.
   Due to the characteristics of P&I claims, both sets of estimates, in particular in respect of the more recent years, may change substantially.

5. Provision for outstanding and unreported claims for closed years, USD 173.8 million, consists of estimated outstanding claims in the amount of USD 123.1 million, estimates for IBNR claims of USD 44.0 million and provision for future claims management costs of USD 6.7 million.

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This Report has been prepared by Gard Services AS, managers of Assuranceforeningen Gard ("the Association"), from data and accounts provided by the Association and by its "sister" company, Gard P&I (Bermuda) Limited ("the Bermuda Association"). The Report combines the activities of the two Associations in accordance with standard principles of consolidation. It has no formal legal significance, but is provided with the aim of giving Members an easily assimilated summary of the overall financial position of their P&I insurer. The Report and Accounts of the Association prepared in the Norwegian language have been filed with the relevant Authorities, as required by Norwegian law. Those Accounts, which are available to Members on request, will be submitted for approval to the Association's Annual General Meeting in Arendal on 16th August 2002. The accounts of the Bermuda Association have already been approved in General Meeting.

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