FINANCIAL CONDITION REPORT

• Gard Marine & Energy Limited •

|

20 February 2018

2018

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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. The ultimate administrative body that has the responsibility for these matters is the Board of Directors, with the help of various governance and control functions that are put in place to monitor and manage the business.

In the tables values are stated in USD million. Values below USD 500 thousand are displayed as "0". Empty cell means that there is no value to state. Rounding differences +/– one unit can occur.

Key figures

USD million, as of 20.02	2018	2017
Assets	535	499
Technical provisions	211	212
Other liabilities	76	74
Total statutory economic capital and surplus	248	213
Eligible capital		
Tier 1 capital	246	209
Tier 2 capital	1	4
Tier 3 capital		
Eligible capital	247	213
Required Capital		
BSCR	89	89
Minimum Margin of Solvency	22	23
Bermuda Solvency Capital Requirement Ratio		
Eligible capital to meet BSCR Ratio	278 %	240 %
Eligible capital to meet Minimum Margin of Solvency Ratio	1,111 %	934 %

Gard fulfils the minimum and solvency capital requirements (hereafter referred to as Minimum Margin of Solvency or MMS) and Bermuda Solvency Capital Requirement Ratio or BSCR stipulated by the supervisory authorities as of the reporting date of 20 February 2018.

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 M&E.

Gard is a marine and energy insurance group which 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 allows the company to achieve an efficient risk diversification.

The financial year ending 20 February 2018 delivered a good result for Gard M&E Ltd. Gross earned premium was USD 214 million, a decrease of USD 22 million (9 per cent) from last year. This was primarily due to a continued softening market. A softer market has resulted in falling rate levels. The number of claims within retention have been higher than expected, but the company has only been hit by one large claim.

Gard M&E seeks to add returns through a diversified investment portfolio. The return of the financial year ending 20 February 2018 exceeded expectations. The equity market in particular had a strong development during the year and was the main contributor to the return. Details on business and performance can be found in section A.

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 context of its business operations Gard M&E enters into 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. We describe how we deal with these risks in section C.

The overall capital requirement of USD 89 million was unchanged from last year.

Gard M&E's risk profile has changed somewhat over the last 12 months to 20 February 2018.The BSCR for premium risk increased by 14 per cent due to an increase in net premium. BSCR for reserve risk decreased by 12 per cent due to a reduction in net loss and loss expense provisions.

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 39 million as of 20 February 2018. Equity investment risk has decreased from USD 19 million to USD 12 million last year due to a reduced equity portfolio, while Fixed income investment risk and Interest rate/liquidity risk show an increase from USD 2 million to USD 8 million and from USD 4 million to USD 6 million respectively due to an increase in the bonds portfolio. Currency risk has increased from USD 7 million to USD 11 million, mainly due to increased currency mismatch for Euro between assets and liabilities.

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, 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, discounted value of net best estimate loss and loss expense provisions and risk margin. For BSCR purposes the risk margin calculation and discounting effects calculation for the technical provisions have been prepared based on risk-free spot rates distributed by the Bermuda Monetary Authority (BMA). Valuation methods are elaborated in section D.

E. Capital Management

The section describes the capital management of the Gard group, and the capital requirement and eligible capital of Gard M&E.

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 Gard group would have to raise additional capital from its mutual members by way of unbudgeted supplementary calls should be low.

Gard group aims to manage its capital such that all its regulated entities meet local regulatory capital requirements at all times. This was the case throughout the financial year up to 20 February 2018.

Gard M&E has a simple capital structure consisting of Tier 1 capital through equity capital, which is fully paid in and available, Tier 2 capital consisting of excess of encumbered assets less capital requirement applicable to the encumbered assets, and no Tier 3 capital. 99.6 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 at 20 February 2018."

Rolf Thore Roppestad

Chief Executive Officer

Steinar Bye

Chief Financial Officer

Date 20 June 2018

A BUSINESS AND PERFORMANCE

A 1 Business

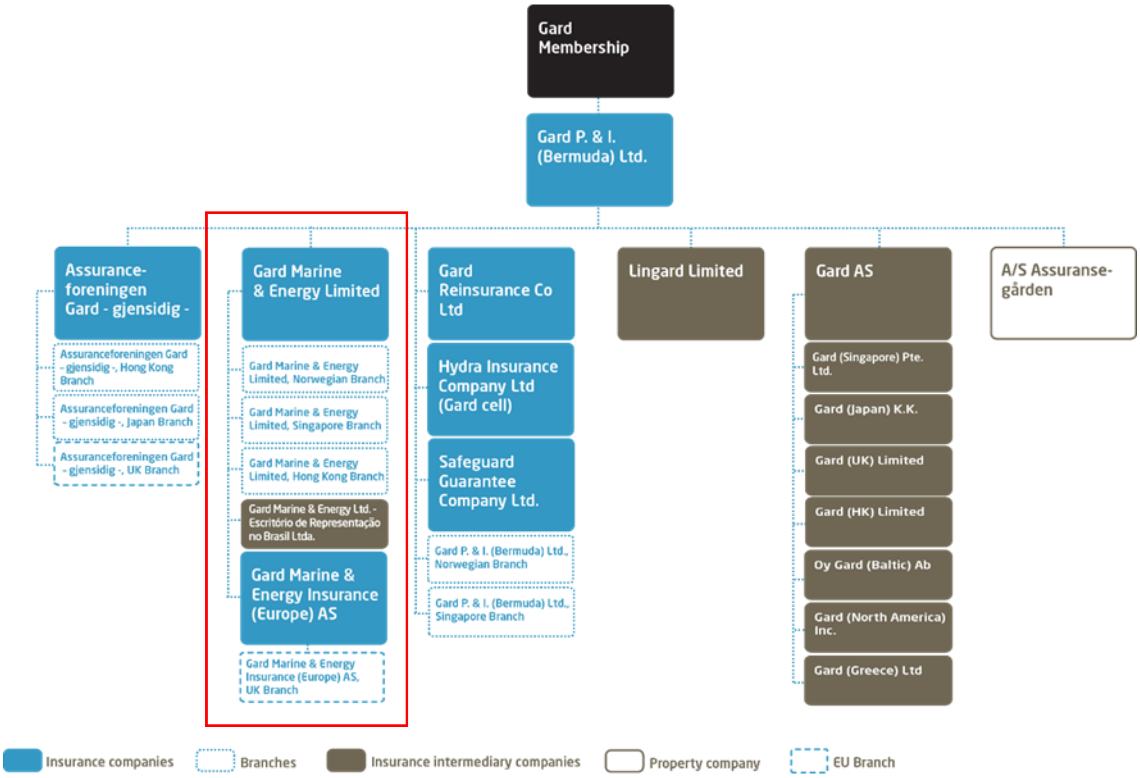
The section discusses the group structure and all legal entities included in the group.

A 1.1 Group structure

The parent company of the Gard group ('Gard' or 'the group') is Gard P. & I. (Bermuda) Ltd. (Gard Bermuda). Gard Bermuda is a mutual insurance association registered and domiciled in Bermuda. As a mutual association, Gard Bermuda is owned by its members, who are shipowners, charterers and operators in the marine industries.

Gard Bermuda and its subsidiaries comprise of five 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 branches in different jurisdictions.

Corporate structure



All entities are ultimately owned 100 per cent by Gard Bermuda except for Assuranceforeningen Gard – gjensidig – (Gard Norway), in which Gard Bermuda controls the voting rights. Gard Marine & Energy Insurance (Europe) AS (Gard M&E Europe) and Gard M&E– Escritorio de Representacão no Brasil Ltda. are owned 100 per cent by Gard Marine & Energy Limited (Gard M&E), and the subsidiaries of Gard AS are owned 100 per cent by Gard AS.

The insurance intermediary companies, Lingard Limited (Lingard) and Gard AS, provide intermediary and related insurance services to the insurance entities. All the main corporate functions of the insurance entities are carried out by their own employees. Lingard Limited is the Manager for all the

Bermuda domiciled insurance companies and Gard AS is the agent for Gard Norway and Gard M&E Europe, as well as the Norwegian branches of Gard Bermuda and Gard M&E. Certain operational functions are delegated from Lingard Limited to Gard AS.

A 1.2 Legal entities

A 1.2.1 Gard group

The Gard group is under group supervision by the Norwegian Financial Supervisory Authority (Finanstilsynet).

A 1.2.2 Gard Bermuda

Gard Bermuda is the parent company in the Gard group. The company is a mutual insurance association domiciled in Bermuda and registered by the Bermuda Monetary Authority as a Class 2 company. 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 in 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.*[1] However, all 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

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 ship-owners, operators and charterers with ships entered in 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 consolidation of the two companies' accounts.[2]

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 Bermuda and Gard Norway are recorded as "Paired Associations" under the International Group of P&I Clubs' Pooling Agreement.

Gard Norway is regulated by the Norwegian FSA.

A 1.2.4 Gard M&E

Gard M&E is a joint stock company and a wholly owned subsidiary of Gard Bermuda. The company is domiciled in Bermuda as a Class 3B company. 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.

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[1] See Article 2.6 of the Bye-Laws 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.

[2] Reference is made to the International Accounting Standard 27 Consolidated and Separate Financial Statements (IAS 27).

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.

Gard M&E is regulated by the BMA.

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.[3]

Gard M&E Europe is used as a vehicle for writing business in certain countries where an EU/EEA based insurer is required or preferred to comply with local regulations. Gard AS acts as 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 as a class 3A company. The manager of Gard Re 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 Re and Gard Norway.

Gard Re is regulated by the BMA.

A 1.2.7 Hydra (Gard cell)

Hydra Insurance Company Ltd 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 from the company's general account.

Hydra Insurance Company Ltd was established by the parties to the International Group of P&I Clubs' Pooling Agreement as a captive insurance company for the purpose of reinsuring 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 Gard Cell is regulated by the BMA.

A 1.2.8 Safeguard

Safeguard Guarantee Company Ltd. (Safeguard) is a joint stock company domiciled in Bermuda and is a wholly owned subsidiary of Gard Bermuda. The company is domiciled in Bermuda and is registered by the Bermuda Monetary Authority as a Class 3A company. The company is managed by Lingard Limited.

Safeguard is a special purpose vehicle whose sole purpose is to offer the financial security required under the International Convention on Civil Liability for Bunker Oil Pollution Damage, 2001 to mobile offshore units and other 'specialist craft' insured outside of the reinsurance structure established by the International Group of P&I Clubs. Due to changes in the group's reinsurance arrangements, Safeguard ceased to write new business with effect from 20 February 2015, however, the range of insurance products which can be offered by Safeguard can be extended to include special risks incurred under other liability regimes which may enter into force in the future.

Safeguard is regulated by the BMA.

A 1.2.9 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 Gard Bermuda, Gard Re, Safeguard and Gard M&E whereby it has been 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 insurance intermediary.

Lingard is regulated by the BMA.

[3] Classes 6, 8, 9, 12 and 13 in the Norwegian regulations of 18 September 1995 on insurance classes.

A 1.2.10 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 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 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 cover.

Gard AS has also established a service network of wholly owned subsidiaries in;

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.

A 1.2.11 Details of supervisory authorities and external auditors

Name	Function	Entity
Norwegian Financial Supervisory Authority (Finanstilsynet) Revierstredet 3 0151 Oslo Norway Phone: +47 22 93 98 00 Main contact: Geir David Johannesen	Regulator	Gard group Gard Norway Gard M&E Europe Gard AS
Bermuda Monetary Authority BMA House 43 Victoria Street Hamilton Bermuda Phone: +441 295 5278	Regulator	Gard Bermuda Gard M&E Gard RE Hydra Gard Insurance Company Ltd. Safeguard Lingard
PricewaterhouseCoopers AS Kystveien 14 4841 Arendal Norway Phone: +47 95 26 00 00	External auditor	Gard group Gard Norway Gard M&E Europe Gard AS
PricewaterhouseCoopers Ltd. Dorchester House 7 Church Street West Hamilton HM 11 Bermuda Phone: +441 295 2000	External auditor	Gard Bermuda Gard M&E Gard Re Hydra Safeguard Lingard

A 1.3 Material lines of business and geographical areas

Gard is a marine and energy insurance group which is active in two lines of insurance business:

- Protection and Indemnity (P&I) which is liability insurance for owners, charterers and operators of ships and mobile offshore units.
- Marine and Energy which within Marine includes products such as Hull & Machinery and Loss of Hire to ship-owners as well as Builder's Risk insurance to 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.

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 the value proposition of Gard are strong financial security and excellent service. This is combined with effective and efficient claim handling, strong risk selection and good pricing skills.

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

Gard group is one of the world's leading marine and energy insurers. 21 per cent of all ocean-going vessels above 1,000 GT and 45 per cent on gross tonnage basis have one or more covers from Gard. It also insures about 25 per cent of all Mobile Offshore Units (MOUs). 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 P&I clubs share claims above a certain level and collectively purchase reinsurance programmes. Gard is the largest club in the International Group and insures approximately 17 per cent of the tonnage and 15 per cent of the premium in the International Group. Gard has a market share of 4 per cent in the global marine market and is a medium–sized capacity provider in energy.

A 1.4 Significant events in reporting period

Gard M&E Hong Kong branch obtained license to write Marine business from Hong Kong on March 1, 2017.

Due to the UK leaving the EU Gard is currently in the process of establishing UK regulated branches of Gard M&E Europe and Gard Norway, which will replace the current EU branches. The UK regulated branches will be operative from 2019.

A 2 Underwriting performance

The financial year ending 20 February 2018 delivered a good result for Gard M&E consolidated.

The total result was USD 39 million with a combined ratio net (CRN) of 88 per cent against a total result of USD 14 million with a CRN of 113 per cent last year.

Gross written premium was USD 229 million, an increase of USD 26 million (12.8 per cent) from last year. This is due to change in the renewal cycle of policies running for a period of more than 12 months and change in premium on previous policy years.

Gross earned premium was USD 214 million, a decrease of USD 22 million (9.4 per cent) from last year. This was primarily due to a continued softening market. A softer market has resulted in falling rate levels. Net earned premium was USD 103 million against USD 105 million last year.

Gross incurred claims during the period amounts to USD 140 million against USD 216 million last year. Claims incurred for own account was USD 68 million against last year's claims of USD 95 million. The number of claims within retention have been higher than expected, but the company has only been hit by one large claim.

Operating expenses (sum of acquisition costs and other insurance related expenses) have decreased from last year due to a decrease in business volume.

The technical result was a profit of USD 12 million and a CRN of 88 per cent. Last year there was a loss of USD 13 million on the technical accounts with a combined ratio net of 113 per cent.

The non-technical result was a positive USD 29 million. Last year the non-technical result was positive USD 28 million.

The total equity was USD 254 million against total equity of USD 216 million at the end of last year.

Marine

Gross written premium was USD 170 million, an increase of USD 16 million (10.6 per cent) from last year. This is due to change in the renewal cycle of policies running for a period of more than 12 months and change in premium on previous policy years.

Gross earned premium was USD 162 million, a decrease of USD 15 million (8.5 per cent) from last year. The decrease in gross earned premium was due to a softening marked and falling rate levels.

The Marine area produced a technical result as expected. Only one large claim over the period was offset by an unexpected increase in the number of claims within retention.

Energy

Gross written premium was USD 59 million, an increase of USD 10 million (19.9 per cent) from last year. This is due to change the cycle of policies running for a period of more than 12 months.

Gross earned premium was USD 52 million, a decrease of USD 7 million (11.9 per cent) from last year. The decrease in gross earned premium was due to a softening marked, falling rate levels and a reduction in number of units insured in a difficult market.

Claims incurred for own account was USD 8 million against USD 47 million last year. The Energy area has only faced a few claims and no large claims this financial year.

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Underwriting performance by line of business, Gard M&E

USD million	Marine	20.02.2018 Energy	Total
Technical result			
Gross written premium	170	59	229
Gross earned premium	162	52	214
Ceded reinsurance	-81	-30	-111
Earned premium for own account	**80**	**22**	**103**
Other insurance related income	**0**	**0**	**0**
Claims incurred, gross			
Incurred this year	110	22	131
Incurred previous years	7	2	9
Total claims incurred, gross	**116**	**24**	**140**
Reinsurers' share of gross incurred claims	-57	-15	-72
Claims incurred for own account	**60**	**8**	**68**
Insurance related expenses for own account	**15**	**6**	**21**
Other insurance related expenses	**1**	**1**	**2**
Technical result	**5**	**7**	**12**

USD million	Marine	20.02.2017 Energy	Total
Technical result			
Gross written premium	154	49	203
Gross earned premium	177	59	236
Ceded reinsurance	-94	-36	-131
Earned premium for own account	**82**	**23**	**105**
Other insurance related income	**0**	**0**	**0**
Claims incurred, gross			
Incurred this year	53	40	93
Incurred previous years	41	82	123
Total claims incurred, gross	**94**	**122**	**216**
Reinsurers' share of gross incurred claims	-47	-75	-121
Claims incurred for own account	**48**	**47**	**95**
Insurance related expenses for own account	**13**	**6**	**19**
Other insurance related expenses	**4**	**1**	**4**
Technical result	**18**	**-31**	**-13**

Gross written premium by geographical area is shown in the table below.

Gross written premium by geographical area, based on location of member/client

USD million	20.02.2018	20.02.2017
EEA	116	108
Norway	41	36
Other areas	72	60
Total gross written premium	**229**	**203**

A 3 Investment performance

The return on the investment portfolio and other non-technical items was a positive USD 29 million compared to USD 28 million last year. The financial markets continued its impressive performance from last year.

Gard seeks to add returns through a diversified investment portfolio. In the current environment, we expect to be compensated above risk free rate, given our investment risk profile. The return of the year of 6.95 per cent exceeds this expectation also this year.

Income generated from equities (dividends) and from bonds (interest payments) has remained on the same level in both periods.

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

Total gain from equities was USD 41 million this year, which has improved from last year's gain in equities of USD 30 million. However, Gard experienced a loss of USD 20 million on the equity overlay program for the financial year up to 20 February 2018.

There were no changes to the portfolio's strategic asset allocation between periods.

Investment performance by asset class, Gard M&E

20.02.2018 Amounts in USD million	**Equities and investment funds**	**Bonds**	**Financial derivatives**	**Other financial investments**	**Total**
Income	0	3	8	0	11
Expenses	-	-	-	0	0
Realised gain & loss	25	2	-27	3	3
Change in unrealised gain & loss	16	5	-5	0	16
Total					**29**

20.02.2017 Amounts in USD million	**Equities and investment funds**	**Bonds**	**Financial derivatives**	**Other financial investments**	**Total**
Income	2	2	1	0	5
Expenses	-	-	-	1	1
Realised gain & loss	3	0	-16	1	-12
Change in unrealised gain & loss	25	3	6	-	34
Total					**28**

A 4 Performance of other activities

Other comprehensive income/loss consists of exchange differences on subsidiaries when converting from reporting currency to USD in the consolidation process or changes in pension valuation, with only minor effect for the current and previous year

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 in 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 board of directors of each individual subsidiary gives 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 board of the individual subsidiary shall comply with directions from the Board of Directors 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 Board 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 Board of Directors (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 group level through the group Risk Policy as well as the Investment Guidelines. The Board 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.

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

The Audit Committee is responsible for overseeing the integrity of the financial reporting, compliance monitoring, performance of the external and internal auditors, internal control and treatment of complaint 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 particular focus on reviewing the group's risk strategy, risk appetite, risk tolerance, 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 Board as the case may be. The Remuneration Committee shall also review Gard's remuneration policy in general, including 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 Board.

The board of directors of the subsidiary insurance companies (i.e., Gard M&E, Gard M&E Europe, Gard Norway, Gard Re and Safeguard) is responsible for considering and approving the financial plan and new business for underwriting and ensure compliance with local regulations. They review and endorse the Group risk appetite statement and the limits approved by Board and the Executive Committee. The risk management function, the compliance function and the internal audit function report to the board of directors in matters relating to risk management and compliance.

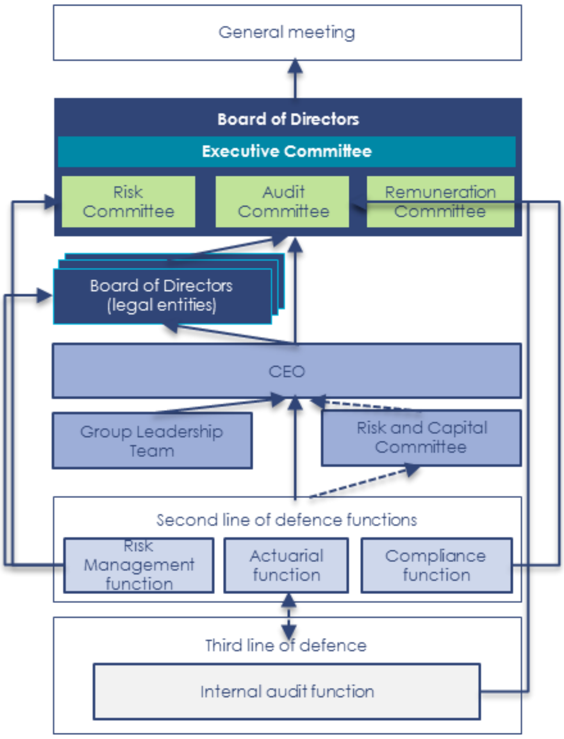
The President holds the office of Chief Executive Officer (CEO) of Gard Bermuda, Gard M&E, Gard AS and Gard Norway and is an *ex officio* member of the Executive Committee. The CEO is responsible for implementing the Risk Management System and for ensuring that risk taking is aligned with the risk appetite.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

The Senior Vice Presidents (SVP) in the Group Leadership Team (GLT) lead the risk-taking operations. They 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, Head of Risk Management, Chief Financial Officer (CFO), Chief Investment Officer (CIO), Chief Underwriting Officer (CUO), Chief Legal Counsel and others. Relevant reports to the Executive Committee, Risk Committee, Audit Committee and/or board of directors, shall be reviewed by the Risk and Capital Committee before submission.

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.

Illustration of governance structure



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

B 1.2 Material changes to the system of governance over the reporting period

There have been no material changes to the system of governance over the reporting period.

B 1.3 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 risk exceeding the risk appetite as defined in the Group Risk Policy approved by the Board of Directors 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 proportional to their respective duties.

The compensation structure is based on the philosophy that success of Gard is the result of the joint efforts of the whole organization. The collective bonus scheme reflects this as it applies to employees of the group regardless of position and working place. It underpins the value of teamwork and collective performance across the 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 Board of Directors 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 s staff is employed by Gard AS in Norway. Their terms of employment with respect to remuneration is 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 risk outside of the risk appetite.

For members of the Group Leadership Team (GLT) and Key Employees (as defined in the Solvency II directive) there is a special bonus scheme. The maximum bonus payable to members of GLT and other Key Employees shall be reduced to 80 per cent of the bonus payable to employees in general under the collective scheme.

The payment of a proportion of the bonus triggered by the collective scheme, shall be deferred for a period of 39 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 target for the three years period.

In addition, 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 individual 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.

The Group Leadership Team and certain key personnel have a pension scheme that gives them 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 pledge deposit on a bank account owned by Gard AS.

B 1.4 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 Board of Directors, 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 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 Committee.

B 3 Risk management system including the own risk and solvency assessment

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 constraining 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 to 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; and
- 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 that Gard can meet its liabilities, protect the capital base, and minimize long-term premium cost 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 which 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 Board, 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 all 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 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 whether they are aligned 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 2nd line to the CEO and the board of directors of the legal entities, as well as to the Executive Committee, the Audit Committee, the Risk Committee and the Board of Directors of Gard Bermuda

Internal Risk Capital Model

An internal risk capital model is used to calculate the capital requirements of the group and all insurance entities. For more information see section B 3.5.

Contingency procedures

There are contingency procedures in place that describe how to respond to a breach in risk tolerance or limits, ensuring that appropriate and proportionate remedial actions are taken.

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 Management is carried out in the business functions (1st line), risk oversight is primarily carried out by the Risk management, Compliance and Actuarial functions (2nd line), and independent assurance is provided by Internal Audit (3rd line).

1st 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 on a regular basis and assessing these against the risk appetite.

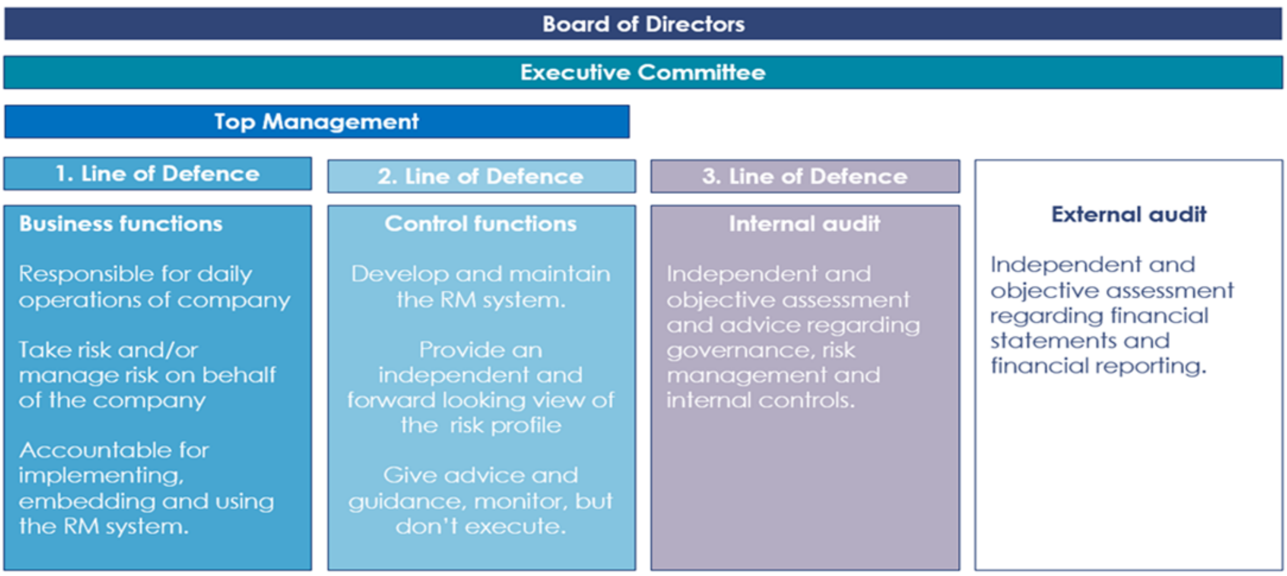
2nd line of defence functions: Operate efficiently and effectively and be independent from the 1st line of defence. The 2nd line of defence functions shall be responsible for their respective tasks across the group, including all subsidiaries and associated companies. They have direct access to the CEO and report regularly to the Risk Committee, the Audit Committee and Board of Directors. They also have direct access to the Executive Committee and the Board of Directors in matters relating to the Risk Management System. The Risk Management and Compliance functions are responsible for developing and maintaining the Risk Management System for the 1st line to use in its day-to-day business and for providing an independent and forward-looking view of the risk profile to the Board and the Executive Committee, hereunder:

- Support the 1st line of defence in assessing material risks.
- Provide value-adding challenge and support to help ensure that risk has been adequately considered in all significant business decisions.
- Provide assurance to the Executive Committee and Board of Directors that the Risk Management System is being operated effectively by the 1st line. Make remedial recommendations in respect of limit breaches and improvements to the Risk Management System.

3rd line of defence function: Responsible for providing wholly independent assurance to the Audit Committee, the Executive Committee, the Risk Committee and the Board of Directors on the adequacy and effectiveness of the Risk Management System. The internal audit function is appointed by, and reports to the Audit Committee.

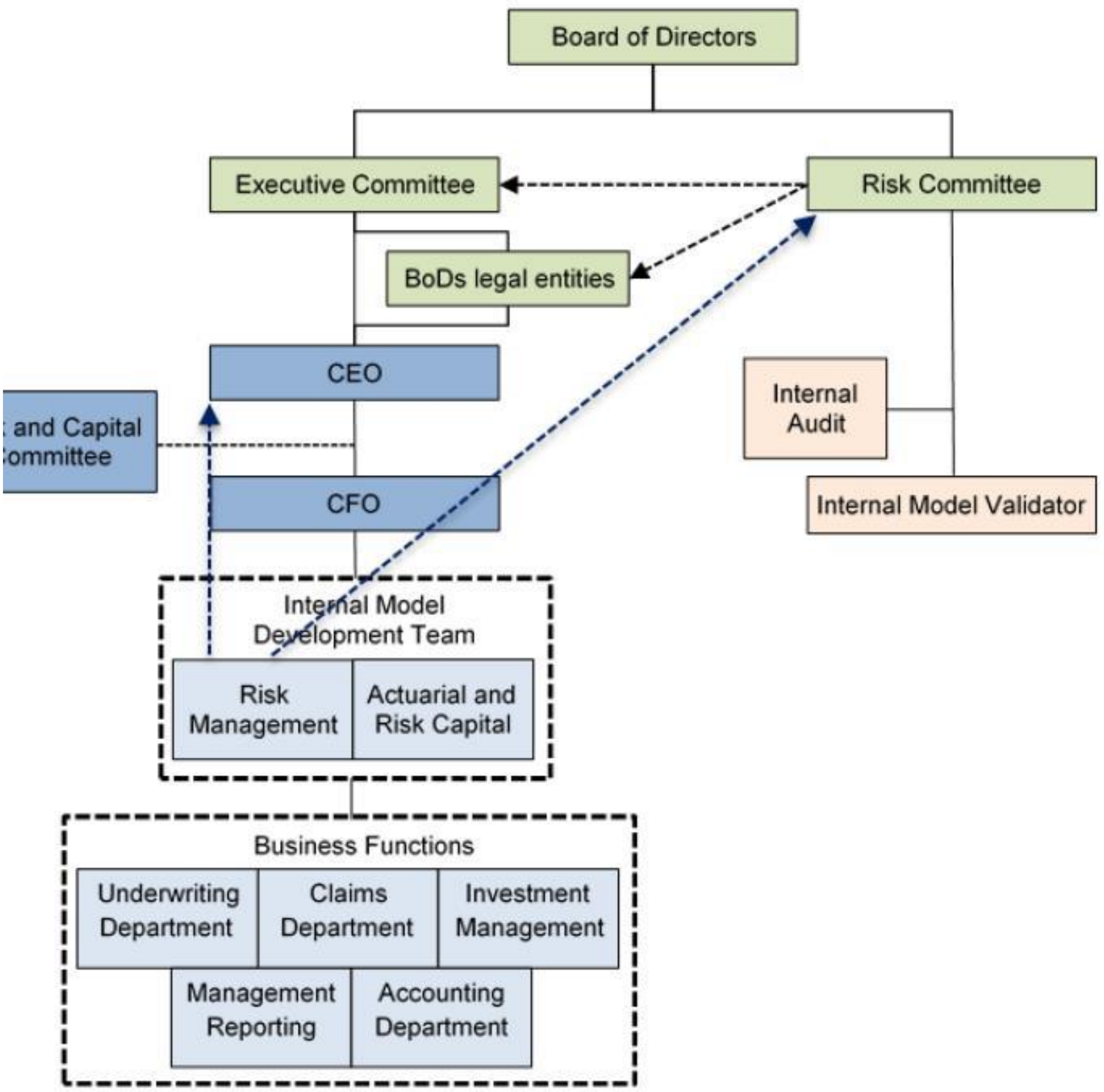
The three lines of defence-model is illustrated in the figure below.

3 lines of defence



The figure below illustrates how the risk management function is integrated into the organisational structure of Gard.

Integration of risk management function



Risk management and internal control systems and reporting procedures are managed by Gard AS on behalf of Gard group and its subsidiaries and associated companies and implemented consistently across the group.

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 determining capital requirements.

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

The risk and solvency assessment process will normally be concluded in January following the financial planning process and finalized before the end of the financial year. 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 is used in the financial planning process and any decisions on group contributions, capital contributions within the group and deferred call reductions.

The ORSA report is approved by the Executive Committee[4] 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

Gard uses the Solvency II standard formula for calculating regulatory capital requirements for the group and its Norwegian regulated insurance entities. To determine the economic capital requirements given Gard's risk profile, Gard uses an internal risk capital model. The economic capital calculated in the internal risk capital model is a better representation of the actual capital requirement of the group and its legal entities than any known factor-based model.

The first internal risk capital 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 risk capital 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 our best estimate of risk and ensures that we have a consistent understanding of our risk exposures and solvency requirements across all legal entities. Results from the Risk Capital Model are communicated quarterly to the Executive Committee/Board of Directors, the Risk Committee, 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.

Gard's capital management activities are closely integrated with the risk management system as described in chapter B 3.2.

Gard has made use of the option provided for in the third subparagraph of Article 246(4) of Directive 2009/138/EC and undertaken the own risk and solvency assessment at the level of the group and at the level of any subsidiary in the group at the same time, and produced a document covering all the assessments.

B 3.6 Material intra-group outsourcing arrangements

See section A 1.2.9 Lingard and A 1.2.10 Gard AS for management and agency agreements within the Gard group.

[4] Board of Directors in Gard Bermuda has delegated the authority to approve the ORSA report to the Executive Committee.

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 business functions (1st line), risk oversight, detective controls and monitoring shall be carried out by, respectively, the Risk Management, Actuary, Compliance and Quality Management functions (2nd line), and independent assurance concerning the adequacy and effectiveness of the internal control system shall be provided by internal audit (3rd line).

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 at an early stage of irregular business conduct, deviations from agreed standards for process execution or data errors which 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 design and implement internal controls, the following key principles apply:

- Internal controls shall be embedded in the business to continually improve the quality of our operations and foster a positive risk culture.
- Both preventive and detective controls shall be proportionated 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 Board of Directors is ultimately responsible for the internal control framework. The Audit Committee is responsible for assessing the adequacy of the 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

Compliance risk management is executed in the three lines of defence structure, as previously described. Gard has established a Group Compliance function (Head of Compliance) and Regional Compliance functions (Regional Compliance Officer) (together referred to as the Compliance Function). The Regional Compliance Officers are appointed in all Gard offices outside of Norway. The Head of Compliance has a direct reporting line to the CEO and the Audit Committee of Gard Bermuda and to the Board of Directors and Managing Directors of each legal entity in the group. The Head of Compliance is fully independent and has no operational responsibilities in the 1st line of defence.

The Head of Compliance is responsible for ensuring that the Gard organization operates within a clearly defined compliance framework. The Head of Compliance supports the Regional Compliance Officers and business functions in identifying, assessing, monitoring and reporting risks. In addition, provide advice and challenge the Regional Compliance Officers and business functions, contributing to adequate management of compliance risk.

The Regional Compliance Officers are led by the Head of Compliance and are responsible for ensuring that the regional branches and offices operate within a clearly defined compliance framework. The Regional Compliance Officer supports the Head of Compliance in identifying, assessing, monitoring and reporting risks. The role of the Regional Compliance Officers is to secure that the entities registered in the specific jurisdiction remain in compliance with governing laws, regulations and administrative provisions. They are also the local contact point towards local FSAs. The Regional Compliance Officers report to the Group Compliance Officer.

The Head of Compliance has the following roles and responsibilities:

- monitor the group's compliance with relevant laws and regulations;

- provide semi-annualy reports to the CEO, the Audit Committee of Gard Bermuda. and to the Boards of the key subsidiaries with respect to compliance with applicable laws, regulations and administrative provisions;
- assess the appropriateness of Gard's compliance procedures and guidelines, follow up identified deficiencies promptly and make suggestions for improvements as required;
- promptly report any major cases of non-compliance to the CEO, the Audit Committee and/or the Board(s) of the relevant legal entity as required;
- appointed Data Protection Officer (DPO) and act as a contact point towards relevant supervisory authorities and external parties on issues relating to processing of personal data including the monitoring of compliance with the General Data Protection Regulation (GDPR).

The Regional Compliance Officers are responsible for the local compliance work and have the following roles and responsibilities:

- monitor the branch and regional office's compliance with applicable laws and regulations which govern Gard's operational and business activities;
- provide yearly reports to the Head of Compliance with respect to local compliance with applicable laws, regulations and administrative provisions;
- promptly report any major cases of non-compliance to the Head of Compliance

The compliance function is independent and separate from other business activities. The compliance function should normally not have operational responsibility or authority for any of the activities or operations it reviews. Given that the number of employees in the regional offices are limited and the nature of Gard's business is complex, the Regional Managing Directors may act as Regional Compliance Officers.

Gard has implemented separate internal risk and compliance policies.

B 5 Implementation of internal audit function

The internal audit function forms part of the 3rd line of defence – providing assurance to Gard's management and 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. By doing so the internal audit function helps improving the control culture of Gard.

The scope of work of the internal audit function is to determine whether Gard's system of risk management, internal control, and governance processes, as designed and represented by the management, is adequate and functioning in an effective manner to ensure that:

a) Material risks are appropriately identified and managed.

b) Established policies, procedures and processes are adequate and appropriate 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 are in compliance 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.

The internal audit function in Gard has been outsourced to EY. To provide for independence, the Internal Audit function principally reports to the Audit Committee of Gard Bermuda, as well as to other governing bodies in the Gard group that the Audit Committee may determine.

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 Board of Directors. 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 organization'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 summarized in internal audit reports, which are presented to the Board of Directors. The group assess whether the suggested recommendations are appropriate and should be implemented.

The principal point of contact and administrative reporting line is to the Head of Compliance 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 its 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 organization
- 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.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Report any material solvency challenges or other fraudulently activity directly to the Supervisory. Under normal considerations this will only take place after discussion and written consent from the Audit Committee leader.

Internal Audit is not authorised to:

- Perform any operational duties for the organisation.
- Initiate or approve accounting transactions.
- Direct the activities of any organisation employee not employed by the internal audit department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

B 6 Implementation of actuarial function

The actuarial function is organized in the Actuary and Risk Capital team. The team is led by the Actuarial Function Holder. We have separated the responsibilities for the Actuarial Function Holder and the actuary responsible for the calculation of technical provisions. The Actuarial function holder has unrestricted access to the CEO, the Executive Committee and the Board. With this organization, we believe that the requirements for independent controls are met.

An extract of the Actuarial Function Holder's responsibilities is seen below:

- Coordinate the calculation of technical provisions, this includes engagement of external actuary or reserving expert, for calculation of technical provisions when this is appropriate
- Ensure that the methodologies, models and assumptions made in the calculation of technical provisions are appropriate
- Assess the sufficiency and quality of the data used in the calculation of technical provisions

The Head of Technical Provisions is responsible for:

- Quarterly calculation of technical provisions based on actuarial methods. Ensure that homogeneous risk groups are identified for an appropriate assessment of the underlying risks.
- Assess the quality of the data and ensure that the calculations of technical provisions are sufficiently supported by appropriate IT systems and software.
- Assess uncertainty in the calculations.
- Compare best estimates with historical data and assess if the previous calculations have been sufficient. Use this insight to improve the quality of estimates.

The actuarial function contributes to the risk management function in the following ways:

- Designs, develops and maintains the risk capital model.
- Provides quantitative and qualitative input into the own risk and solvency assessment process.
- Completes reconciliation review on the Data between the actuarial department, the data warehouse, and the accounting system.
- Provides analysis into the business results and profitability by reviewing the model results to historical and expected loss experience.

The actuarial function completed this assessment and provided further detail in the 20.02.2018 Actuarial Function Holder report.

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. We assess service providers thoroughly, ensuring that we only enter contractual relationships with providers that support our values and ethical standards. We take a long-term perspective when entering into agreements with external service providers.

An important element of Gard's value proposition to its Members and customers is a cost-efficient operation. To achieve this, our first option should be to use the group's internal resources to deliver insurance products and services to our Members and customers. By not outsourcing this to an external third-party provider, we keep the competence in house and we do not have to compensate any third party's need for profit or compensate a third party for the risks it has assumed in entering an agreement with Gard. The internal outsourcing arrangement is established in line with the business strategy and is managed on a long-term perspective.

Gard's code of ethics and business conduct applies to all Gard employees at all times. All negotiations and dealings with service providers shall be conducted in a transparent, honest and professional manner.

Once a decision to outsource is made, Gard shall identify service providers, evaluate their capabilities and select the most suitable option.

Once a provider has been selected, whether internal or external, an appropriately detailed legal agreement capturing the key services established shall be put in place. Gard's legal department shall be consulted in all cases, with additional external legal advice sought where appropriate.

Outsourcing contracts must comply with all the relevant regulatory requirements.

Internal Control

To ensure that the outsourcing of any critical or essential functions or activities does not lead to a material impairment of the quality of Gard's governance system, the service provider must have in place an adequate risk management and internal control system, and Gard must maintain the contractual right to issue instructions concerning the outsourced function or activity.

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 of time 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. Monitoring of significant outsourcing contracts should take place as part of the annual legal entity review.

Monitoring should include (but should not be limited to) the following:

- A review of performance (exact intervals must be determined per type of service provider). If applicable this may include a site visit and/or meeting with management and key personnel of the service provider when applicable.
- A review of the service provider's continuing suitability in line with the selection criteria outlined in this policy. This should be conducted in light of any significant change to the service provider's business that pertains to the outsourced functions.

If the service provider does not carry out the functions or activities effectively and in compliance with the terms of the outsourcing agreement, appropriate actions must be taken.

Reporting
Gard shall notify the relevant supervisory authorities prior to the outsourcing of critical or important functions or activities as required, and of any subsequent material developments with respect to 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 (MD). The Executive Committee shall be informed prior to the entry 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 area of responsibility, however, the CEO shall be informed of any significant engagements prior to 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.

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 Philippines 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

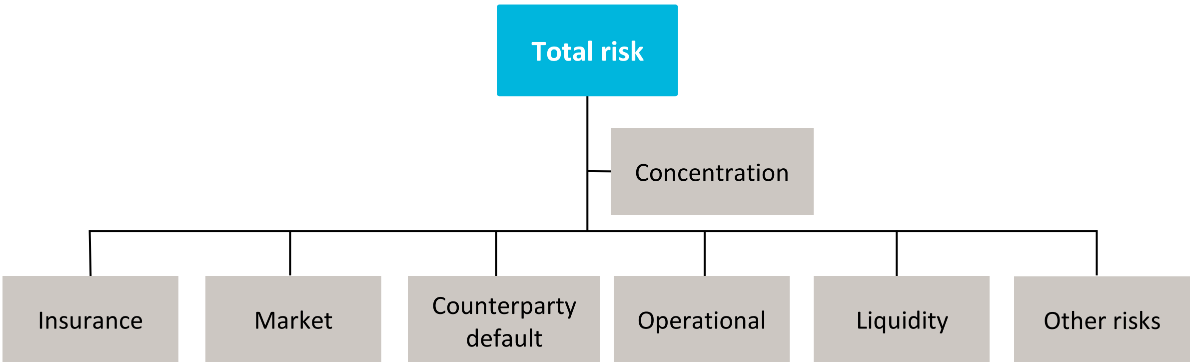
In the context of its operations Gard enters into a broad variety of risks. Gard aims to a have a comprehensive understanding of its risk profile by identifying, assessing and measuring its risk through multiple approaches.

The material risks which Gard group 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 the 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. In addition, 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, a number of 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 takes into account the industry, the type of members and clients and the global nature of the organization and covers existing and emerging risks.

Gard's risk landscape



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

C 1 Material risks

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

BSCR risk type	2018	2017
Market risk		
Fixed Income Investment Risk	8	2
Equity Investment Risk	12	19
Interest Rate / Liquidity Risk	8	4
Currency Risk	11	7
Concentration Risk	2	2
Underwriting risk		
Premium Risk	48	42
Reserve Risk	44	50
Credit Risk	15	14
Catastrophe Risk	46	45
Diversification	-107	-98
BSCR (after diversification)	87	87
Operational Risk	3	2
BSCR	**89**	**89**

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, AS Assuransegården and Gard AS with an attached overdraft facility of USD 40 million.

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.

The overall capital requirement of USD 89 million was unchanged from last year.

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 39 million as of 20 February 2018. Equity investment risk has decreased from USD 19 million to USD 12 million last year due to a reduced equity portfolio, while fixed income investment risk and interest rate/liquidity risk showed an increase from USD 2 million to USD 8 million and from USD 4 million to USD 6 million respectively due to an increase in the bonds portfolio. Currency risk has increased from USD 7 million to USD 11 million mainly due to increased currency mismatch for Euro between assets and liabilities.

Underwriting risk arises from existing claims (reserve risk) and 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 geographical diversified net premium written and geographical diversified net loss & loss expense provisions. The basis for catastrophe risk is net probable maximum loss for natural catastrophes (after reinsurance) plus 10 per cent credit risk charge on reinsurance share of maximum probable catastrophe loss less total catastrophe premium.

The BSCR for premium risk increased by 14 per cent due to an increase in net premium. BSCR for reserve risk decreased by 12 per cent due to a reduction in net loss and loss expense provisions.

Credit risk is calculated as a factor-based charge on receivables and reinsurance receivables depending on credit rating and has been somewhat increased for the company due to an increase in the accounts and premium receivables balances.

Operational risk is the risk of losses occurring because of the inadequacy or failure of internal processes or as a result 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.

Operational risk is reviewed annually through an internal self-assessment and reported to the Audit Committee. Within this operational risk review we consider, in particular, business process risks (including data quality), compliance risks, fraud risks and information security risks. This process enables us, among other things, to prioritise risks.

Policies and procedures are documented in the quality management system. The process for following up on measures planned and implemented to mitigate operational risk has been strengthened through an improved system for monitoring and control.

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 where the operational risk capital charge is derived.

The operational risk capital requirement was up by USD 1 million from last year due to reduced score in the "Commercial Insurer Risk Assessment".

C 2 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.

Compliance risks

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the group may suffer as a result of its non-compliance with laws and regulations that govern our 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 that of Norway, Bermuda, Hong Kong, Singapore and Japan. Unexpected changes in legal and 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 we operate in, as well as periodic regulatory reviews with participants from all jurisdictions where Gard conduct business. Tools that are implemented to reduce compliance risk is supplemented by compliance training programmes.

Reputational risks

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

Gard incurs its key reputational risk in claims handling in that the reputation of the association may take damage because of poor claims handling, in addition to the risk of being associated with a major public claim such as an oil spill or a catastrophe involving loss of life or damage to public property.

Gard does not calculate BSCR for reputational risk but holds capital against many of the risk events that could damage the reputation of the company.

C 3 Risk mitigation

Gard uses reinsurance to manage its risk profile.

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.

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 provide protection in respect of high severity, low frequency claims.

Gard has different reinsurance programs for different classes of business and 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 maintained 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.

The collectability of reinsurance retrocessions is largely a function of the solvency of reinsurers. Gard only accepts reinsurers with an A- (Stable) or higher rating.

Risk mitigation techniques are embedded in Gard's management of market risks. A "neutral" or matched portfolio is generally considered as the starting point for investment portfolios in insurance companies. To match the interest rate duration and currency exposures on the asset and liability side, or to stay within allowed ranges and limits, risk mitigation techniques are applied.

To efficiently adjust market exposures, Gard has an equity futures overlay program in place. Through this program, part of the equity allocation is sold out using equity futures to bring the net equity exposure down to the strategic asset allocation weighting. This is a portable alpha program for which the active equity fund manager's ability to outperform the market is benefited and the systematic market risk is reduced by selling equity futures.

C 4 Risk concentration

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

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

C 5 Prudent person principle

The Board of Directors of Gard Bermuda approves the overall investment policy. The investment policy contains the objectives, principals, risk appetite and constraints governing the investment related decisions.

The Board of Directors has ultimate overall responsibility for decision-making on investment matters. The Board of Directors has delegated responsibility for implementing the investment strategy to the Executive Committee. The Executive Committee is responsible for determining the investment strategy and sets the Strategic Asset

Allocation and benchmark. The composite benchmark is defined to make a representation of the asset allocation and liability structure of the group. The allocation should be reviewed at least annually. In addition, the Executive Committee 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 Board of Directors when it is necessary to operate outside of the target ranges. The Executive Committee takes a total market risk view when implementing strategies within the overall policy.
The management is responsible for implementing the asset management strategy as determined by the Board of Directors and the Executive Committee. The asset management is outsourced to independent fund managers and is mainly coordinated through the Gard Common Contractual Fund (Gard CCF) for insurers within the group. Gard is not doing any active internal asset management.

Gard's objective for its investment portfolio is to maximise 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 Policy and in 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 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 does not rely only on one source of information to base its investments decisions on. 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.

C 6 Risk sensitivity

Gard performs a various set 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, the internal reinsurance is applied. The scenarios have been selected to test the reinsurance protection and to illustrate extreme combinations of losses. The highest insurance loss for Gard M&E's own account from the identified extreme events corresponds to approximately 10 per cent of equity. 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. 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 has been carried out to identify scenarios that would be the likely 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 association and, where relevant, existing counterparties may seek to terminate their contracts.

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

The reverse stress tests are based on one insurance scenario and one market scenario. We have chosen not to do a combination of these two scenarios. Historically, insurance and market losses have been uncorrelated for the type of insurance risk Gard is exposed to.

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

The reverse stress test conducted for Gard M&E, showed that an additional 7 claims in excess of USD 40 million will bring the solvency ratio down to 75 per cent.

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.

Market risk stress and drawdown risk tests

A set of stress tests and market scenarios for various asset classes have been identified and the possible loss to Gard has been estimated.

Drawdown for various asset classes over different historical time periods has been observed. Especially drawdown risk happening at the same time for multiple asset classes constitute an adverse tail event and reduce diversification benefits.

C 6 Any other information regarding the risk profile

There is no other material information to be disclosed.

D VALUATION FOR ECONOMIC BALANCE SHEET PURPOSES

This section specifies and describes the valuation of assets and liabilities for Economic Balance Sheet (EBS) purposes, 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 bases, methods, and assumptions are similar for all legal entities:

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

Economic balance sheet, Gard M&E

USD million	Economic Balance Sheet	Statutory Financial Statement	Difference
Assets			
Cash and cash equivalents	33	33	0
Total bonds and debentures	285	228	57
Total equity investments	65	122	-57
Advances to affiliates	7	7	0
Total accounts and premiums receivable	125	125	0
Total reinsurance balances receivable	5	5	0
Total sundry assets	14	28	-14
Total assets	**535**	**549**	**-14**

USD million	Economic Balance Sheet	Statutory Financial Statement	Difference
Liabilities			
Net premium provisions	65		65
Net unearned premium reserves		54	-54
Net loss and loss expense provisions	140	142	-2
Risk margin	6		6
Technical provisions – non-life	**211**	**204**	**7**
Insurance and reinsurance balances payable	62	62	0
Tax liabilities	4	4	0
Amounts due to affiliates	0	0	0
Accounts payable and accrued liabilities	1	15	-14
Total sundry liabilities	8	8	0
Total other liabilities	**76**	**90**	**-14**
Total statutory economic capital and surplus	248	255	-7
Total liabilities	**535**	**549**	**-14**

The classification of Statutory Financial Statement values in the balance sheet is classified according to Bermuda rules and is 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 M&E, only the line of business "Energy Offshore / Marine'" is applicable.

For most of the balance sheet items there are no differences in the valuation for solvency purposes and those used for the valuation in statutory accounts. The subsequent chapters describe assets and liabilities where the valuation differs.

D 1 Valuation of assets

Gard group has mainly investments in the following asset classes; bonds and debentures, common stocks, preferred stocks and mutual funds. 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). Overall, there are no significant differences between the valuation of statutory accounts and Economic Balance Sheet. However, between categories there are differences that will be described in the following.

D 1.1 Total bonds and debentures

The main difference between the statutory accounts and Economic Balance Sheet is related to the derivative overlay program, where equity exposure is hedged out and interest rate exposure is gained through interest rate futures. The valuation of the assets is the same, but the effect of the overlay program is reflected in the ESB value where exposure is moved from equity investments to bonds and debentures.

USD million	EBS value	Statutory accounts value
Total bonds and debentures	285	228

D 1.2 Total equity investments

The main difference between the statutory accounts and Economic Balance Sheet is related to the derivative overlay program as described above. The EBS value is shown net of the overlay program.

USD million	EBS value	Statutory accounts value
Total equity investments	65	122

D 1.3 Total sundry assets

The difference between EBS value and statutory accounts value is mainly the presentation of balances receivable on sale of investments.

USD million	EBS value	Statutory accounts value
Total sundry assets	14	28

D 2 Valuation of technical provisions

This section specifies and describes the valuation of technical provisions and reinsurance recoverables for Solvency purposes, the differences between the bases, methods and main assumptions used for the valuation of technical provisions for solvency purposes compared to those used in the statutory accounts.

The technical provisions under Solvency II are determined as the sum of best estimate liabilities and the risk margin. Determining the technical provisions, we use a risk-free yield curve in line with Solvency II requirements. For Solvency II purposes, all policies are evaluated to ultimate.

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. For Gard, only the line of business "Marine, aviation and transport" is applicable.

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

Bases
In the calculation of the best estimate liabilities under Solvency II the business of the Gard group is split in homogenous risk groups, such that the nature, scale, complexity of the business is taken into account.

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

Methods
The evaluation of the best estimate liabilities is based on the estimation of future cash flows, including all expected (future) cash inflows and outflows. The best estimate liabilities are calculated separately with respect to the best estimate premium provisions and the best estimate claims provisions.

The best estimate premium provisions relate to claim event occurring after the valuation date. All future cash flows from premium, losses and costs relating to unearned incepted and bond but not incepted 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.

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) we use 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 drastically distort any paid development factors.
- For the analysis of IBNR, we use accident and development quarters to calculate the ultimate incurred claims
- We use three main criteria for the definition of risk categories:
    - A fit with our 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 financial plan provides a loss figure that is used as an alternative to a standard initial expected ultimate loss ratio on the gross and/or net premium.
- The current reinsurance programs.

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 claims or incident. Binary events are the provisions held for potential claims that we do not have events for in the data. The IBNR, binary event and ULAE reserves are calculated and reported by the actuarial department.

The only differences between the Solvency II and the statutory account figures for claims provisions is that the Solvency II figures includes the discounting effect.

IBNR
The development of losses for the Gard group are typically analysed using standard actuarial methods such as the Chain ladder, Bornhuetter Ferguson and Benktander methods. The method selection is based on the quarter and the significance of large losses that may have occurred. 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, we divide the claim provisions (case reserves and IBNR) between reports claim provision and unreported claim provision.

The unreported claim provision is multiplied with a ratio of payment related to unallocated expenses divided by the claims payment during the year, π and the reported future claim reserves is multiplied with π and (1-r) where r is the proportion of claims handling cost due to claim registration.

Binary events
Gard includes provisions for binary events or 'events not in data'. The events that are not in the data are a measure of the potential volatility that we envisage but have not experienced to date and follow the definition so that the technical provisions "provide a best estimate for "all possible outcomes". To bring the best estimate to include 'all possible outcomes', we turn to our internal model reserve risk where we select the difference between confidence intervals. We also monitor the reserve with other industry benchmark methods to make sure that the amount is reasonable.

Best estimate premium provisions
The calculation of best estimate premium provisions is the best estimate of all future cash flows (claim payments, expenses and future premiums due) relating to future exposure arising from unearned incepted and bond but not incepted business. The future expected cash flow calculation is based on the expected combined ratio for the relevant business. This estimation is done on gross bases and for the reinsurer's share of the business.

The difference in method for calculating premium provision under Solvency II and the statutory accounts is that the Solvency II method calculate the effect of all expected future cash flows, while the statutory accounts is depositing the unearned premium in full.

Main assumptions
The calculation of the BEL, development pattern and estimated ultimates are applied on the segments used for N-GAAP reserving. The pattern and ultimates are determined on run-off triangles using state of the art 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 provision needed. There are a number of specific sources which contribute to increasing this uncertainty.

- Claims environment: One of the key assumptions for the claim liabilities is that historical claim developments are an indicator for future developments. Uncertainty surrounds how changes in the claims environment may affect the final settlement of claims. Unanticipated changes in the legislative and judicial environments, for example, could lead to a significant increase of the uncertainty within the reserves. We have completed a sensitivity test on the loss development factors selected and found that with a 10 per cent point increase in the incremental development factor, the gross IBNR increases by 5.8 per cent. Conversely, with a 10 per cent decrease the gross IBNR reduces by 6.0 per cent.
- Financial Plan: Another assumption for the claim liabilities is that our financial plan indication of the pure loss (Apriori) can be used to help assess the amount of liabilities for less mature development periods. This means that any uncertainty in the financial plan also applies in the best estimates. We have reviewed the sensitivity on the IBNR if the Apriori estimate

were increased by 10 per cent (gross IBNR increased by 5.7 per cent) and if the Apriori estimate were decreased by 10 per cent (gross IBNR decreased by 5.7 per cent).

- Currency: Even though we report our reserves 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.
- Long-tailed claims: Uncertainty remains surrounding the ultimate outcome for long-tailed casualty claims. The early years are not necessarily fully developed and the incurred values on these years help inform our estimates for the more recent years. We will continue to monitor these claims but would note that these increase the volatility of the association's liabilities.

D 2.3 Best estimate liabilities

The difference in technical provisions is due to discounting effects and BBNI (bound but not incepted) gross, which are reducing the value of technical provisions for Solvency II values compared to the statutory account values. 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.

USD million	EBS value	Statutory accounts value
Technical provisions – non-life	205	204
Risk margin	6	
Technical provisions	**211**	**204**

D 2.4 Risk margin

Technical provisions include a provision for risk margin. The risk margin is an estimated cost of capital due to the unpaid claim provisions held. We calculate the cost of capital by using a capital to provision percentage (6 per cent), payment pattern, and expected yield of capital.

D 2.5 Reinsurance recoverables

The difference in valuation in reinsurance recoverables is due to discounting effects, reinsurers' share of bound but not incepted (BBNI) net and losses occurring during (LOD) net, which are all reducing the value of reinsurance recoverables for EBS values compared to statutory account values. Additionally, reinsurance commission provisions are deducted from reinsurance recoverables in the EBS values and are included in any other liabilities, not elsewhere shown in the statutory account values.

USD million	EBS value	Statutory accounts value
Technical provisions – total recoverable from reinsurance		206
Best estimate – total recoverable from reinsurance	184	
Technical provisions	**184**	**206**

D 2.6 Total other liabilities

The difference in valuation is for Accounts payable and accrued liabilities which is mainly related to the presentation of balances receivable on sale of investments. See comment under D 1.3.

USD million	EBS value	Statutory accounts value
Accounts payable and accrued liabilities	1	15

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 from 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 EBS and statutory balance sheet.

D 4 Any other material information

Gard has no material provisions other than technical provisions.

E CAPITAL MANAGEMENT

Gard group has a policy in place that sets out the principles and guidelines for capital management. The policy describes the main activities and governance structure that supports capital management and is part of the risk management framework.

The Group Risk Policy states the following:

“Gard should 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.”

In which “extreme loss event” means an annual loss with a probability of occurring once every 100 years.

The probability that Gard would have to raise additional capital from its mutual members by way of unbudgeted supplementary calls should be low.

In addition to the statement given about capital adequacy in the Group Risk Policy, Gard bases its capital management on following three general principles:

Simple capital structure: Gard aims to have a simple capital structure and seeks to fund expected growth in required capital through internal capital generation.

Efficient use of capital: Capital is scarce and has a cost. The approach to capital management shall balance the needs and requirements of all stakeholders, including mutual members, policyholders, regulators and rating agencies.

Pooling and upstreaming capital: Available capital and liquidity, as well as risks, shall be pooled centrally as much as possible to minimize the risk of limited capital transferability. This also allows the group to consider the benefits that arise from such pooling in those jurisdictions where these benefits are recognized under the capital adequacy regime.

The group shall maintain sufficient capital and liquidity to be able to respond to potential capital and cash calls from its legal entities without jeopardizing regulatory requirements and the minimum financial strength rating.

There is established procedures for when a breach of limits has occurred to ensure that appropriate and proportionate remedial actions are duly taken, including reporting requirements. The procedures include increased frequency of monitoring, escalation of reporting, and procedures for proposing and approving mitigating actions.

E 1 Eligible capital

E 1.1 Eligible capital

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

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

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

E 1.2 Available capital

Gard M&E has a simple capital structure consisting of Tier 1 capital through equity capital, which is fully paid in and available, Tier 2 capital consisting of excess of encumbered assets less capital requirement applicable to the encumbered assets, and no Tier 3 capital.

The Gard group aims to manage its capital such that all its regulated entities meet local regulatory capital requirements at all times. In each country in which the group operates, the local regulator specifies the minimum amount and type of capital that each of the regulated entities must hold, i.e., Gard is subject to different capital requirements depending on the country in which it operates, and the type of business conducted. If an entity should fall below the target capital level, the management action will be to increase capitalisation or de-risk to bring the solvency ratio back to an acceptable level.

The total statutory capital and surplus was USD 256 million for Gard M&E per 20 February 2018.

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 248 million for Gard as per 20 February 2018

M&E (see table Economic balance sheet, in chapter D Valuation for solvency purposes

The first table below explain the difference between total assets, total liabilities and total statutory economic capital and surplus between EBS and statutory accounts as per 20 February 2018.

The second table below shows eligible capital classified in tiers.

Difference between statutory accounts and EBS:

USD million, as of 20.02	2018
Capital and surplus statutory account	256
Capital and surplus EBS	248
Difference between statutory accounts and EBS	**8**
Specification of difference:	
Gross Loss and Loss Expense Provision	-7
Gross Premium Provisions	-13
Reinsurance Recoverables	21
Risk Margin	7
Deferred Acquisition Costs	14
Reinsurance Commission Provisions	-14
Total	**8**

Total eligible capital as under EBS:

USD million, as of 20.02	2018	2017
Tier 1	246	209
Tier 2	1	4
Tier 3		
Total	**247**	**213**

E 2 Capital requirements

E 1.3 Bermuda Capital Requirement (BSCR) and Minimum Margin of Solvency (MMS) Requirement

BSCR under EBS was USD 89 million as per 20.02.2018. Total eligible capital to meet the BSCR was USD 247 million. The BSCR ratio was 278 per cent.

MMS under EBS standard formula was USD 22 million. Eligible capital to meet MMS was USD 247 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 is mainly due to:

- Increased investment exposure
- Reduction in best estimate loss and loss expense provisions

E 3 Internal model

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

Gard does not use the internal risk capital for calculation of solvency capital requirements for regulatory purposes.

E 4 Compliance with MMS/BSCR

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

E 5 Any other information

There is no other material information to be disclosed.

E SIGNIFICANT EVENTS

There has been no significant event which has impacted or will impact, any information provided in the most recent financial condition 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")
• Hydra Gard Cell ("Hydra")
• Safeguard Guarantee Company Ltd. ("Safeguard")

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")
• 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")

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 Assuransegården ("Assuransegården")

All above companies and branches
• Jointly referred to as Gard group ("Gard" or "group")

Appendix 2 Other abbreviations

ALAE: ALLOCATED LOSS ADJUSTMENT EXPENSES

BBNI: BOUND BUT NOT INCEPTED

BEL: BEST ESTIMATE LIABILITY

BOF: BASIC OWN FUNDS

BSCR: BERMUDA SOLVENCY CAPITAL REQUIREMENT

CEO: CHIEF EXECUTIVE OFFICER

CFO: CHIEF FINANCIAL OFFICER

CIO: CHIEF INVESTMENT OFFICER

EBS: ECONOMIC BALANCE SHEET

ETC: ESTIMATED TOTAL CALL

FSA: FINANCIAL SERVICES AUTHORITY

GLT: GROUP LEADERSHIP TEAM

IBNR: INCURRED BUT NOT REPORTED

IFRS: INTERNATIONAL FINANCIAL REPORTING STANDARDS

IG: INTERNATIONAL GROUP

LOD: LOSSES OCCURRING DURING

MCR: MINIMUM CAPITAL REQUIREMENT

MMS: MINIMUM MARGIN OF SOLVENCY

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