FINANCIAL CONDITION REPORT 2020

• Gard Marine & Energy Limited •

|

20 February 2020

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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.

The full extent of impacts and consequences of COVID-19 had not yet been seen at the date of reporting. Possible effects of the coronavirus are included and discussed in an own chapter at the end of the report. See E Significant Events, Impact and consequences of COVID19.

In the tables, values are stated in USD million. Values below USD 500,000 are displayed as "0". An empty cell means that there is no value to state. Rounding differences +/– one unit can occur.

Key figures, Gard M&E

USD million, as of 20.02	2020	2019
Solvency II balance sheet		
Assets	512	485
Technical provisions	240	221
Other liabilities	79	73
Total statutory economic capital and surplus	193	191
Eligible capital		
Tier 1 capital	193	183
Tier 2 capital	0	8
Tier 3 capital		
Eligible capital	193	191
Required Capital		
BSCR	95	91
Minimum Margin of Solvency	24	23
Bermuda Solvency Capital Requirement Ratio		
Eligible capital to meet BSCR Ratio	202 %	211 %
Eligible capital to meet Minimum Margin of Solvency Ratio	808 %	841 %
Tier 1 share of total eligible own funds	100 %	96 %

Gard M&E 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 2020.

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 state 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 allow the company to achieve an efficient risk diversification.

The financial year ended on 20 February 2020 delivered a strong result for Gard M&E. Gross written premiums were USD 354 million, an increase of USD 76 million (27 per cent) from last year. The increase in premiums comes from an increase in volume, some 19 months' policies from fronting agreements and from a hardening market. Claims incurred for own account is USD 110 million, an increase of 4 million (4 per cent) from last year. The year is overall good and there is one large claim above USD 5 million and the number of frequency claims and claims above USD 1 million are increasing, basically due to a higher number of vessels.

Gard M&E seeks to add returns through a diversified investment portfolio. The non-technical result is a positive USD 15 million with gains across all major asset classes for the financial year ending 20 February 2020, compared to a negative USD 1.7 million last year. 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 the context of its business operations, Gard M&E enters a broad variety of risks, where the main risks are underwriting risk and market risk. Gard M&E is also exposed to counterparty default risk, operational risk, liquidity risk, business risk, compliance risk and reputational risk. We describe how we deal with these risks in section C.

The overall capital requirement of USD 95 million represents an increase of USD 4 million.

A revised methodology for the calculation of BSCR has been implemented for the financial year beginning on or after 1 January 2019. As the revised methodology, in general, imposes higher BSCR, transitional factors are provided. For Gard M&E this means that 33 per cent of the increase in the BSCR for the new methodology compared to the old methodology is to be used for the year ended on 20 February 2020, 66 per cent for the year ending on 20 February 2021 and 100 per cent for the year ending on 20 February 2022. The increase in BSCR from USD 91 million to USD 95 million during the last year is largely due to the introduction of the revised methodology. The premium risk decreased by 7 per cent from USD 52 million to USD 48 million due to a decrease in geographically diversified premium despite an overall increase in gross premiums written and net premium written. The reserve risk and catastrophe risk increased from USD 46 million to USD 48 million and from USD 44 million to USD 47 million respectively, mainly due to the revised methodology. The increase in credit risk by 38 per cent is mainly due to a change in classification for accounts and premiums receivable, which gives a lower capital factor.

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 28 million as of 20 February 2020. Equity investment risk has increased from USD 9 million to USD 12 million last year due to an increased equity portfolio as well as the introduced revised methodology. Fixed-income investment risk remains unchanged at USD 6 million. Interest rate/liquidity risk has increased from USD 5 million to USD 7 million mainly due to the revised methodology. Currency risk has decreased from USD 4 million to USD 3 million, due to a decrease in 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, the discounted value of net best estimate loss and loss expense provisions and risk margin. For BSCR purposes the discounting effects calculation for the technical provisions have been prepared based on risk-free spot rates distributed by the Bermuda Monetary Authority (BMA). The risk margin calculation has been prepared by using the Solvency II standard method. Valuation methods are elaborated in section D.

Capital Management

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

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

The Gard group aims to manage its capital such that all its regulated entities always meet local regulatory capital requirements. This was the case throughout the financial year up to 20 February 2020.

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. 100 per cent of all available capital is assigned to the highest quality level (Tier 1). Capital management is described in section E.

Declaration

"We the undersigned attest that, to the best of our knowledge and belief, this financial condition report fairly represents the financial condition of the Company in all material respects as of 20 February 2020."

Rolf Thore Roppestad

Rolf Thore Roppestad

Chief Executive Officer

Torunn Biller White

Torunn Biller White

Chief Risk Officer

Date 20 June 2020

A BUSINESS AND PERFORMANCE

A 1 Business

A 1.1 Group structure

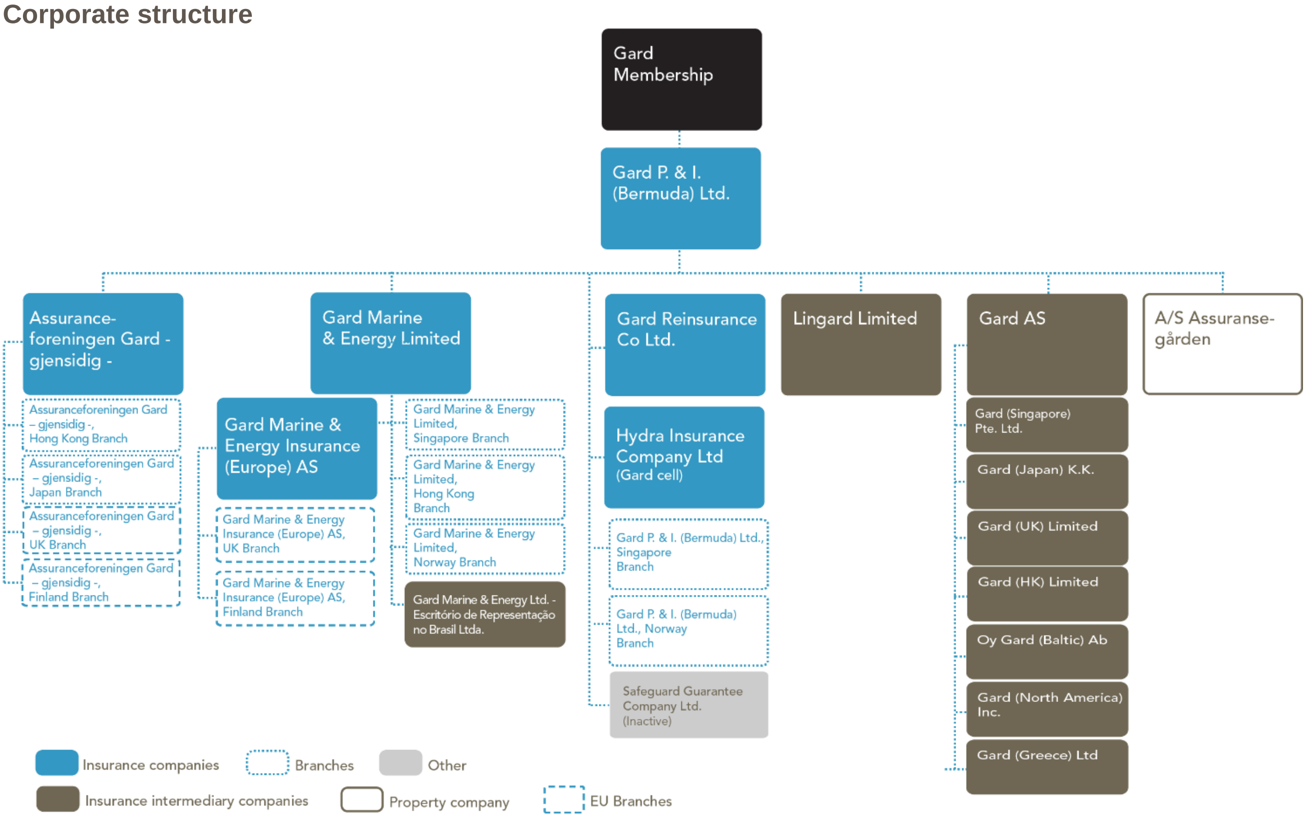
The parent company of the group, Gard Bermuda, is a mutual insurance association. The other companies in the group are joint-stock companies fully owned and controlled by Gard Bermuda, except for Gard Norway, which is a mutual insurance association controlled by Gard Bermuda through an agreement on the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

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

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

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

Corporate structure



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

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

Gard Norway and Gard M&E Europe are entitled to carry out insurance business on a cross border basis pursuant to the Solvency II Directive (2009/138/EU) (Freedom to provide Services) in Finland. OY Gard (Baltic) AB provides marketing and claims handling services for Gard Norway based on an Insurance Agency Agreement.

However, to provide the marketing personnel with full underwriting authority and conduct all marketing and underwriting operations through OY Gard (Baltic) AB, Gard notified the Financial Supervision Authority of Norway, in August 2019, in accordance with the Solvency II Directive (2009/138/EU) to obtain a branch of Gard Norway and Gard M&E Europe in Finland.

The branches were approved in February 2020 and will begin writing business from the financial year starting 20 February 2020.

A 1.2 Legal entities

A 1.2.1 *Gard group*

The Gard group is under group supervision by the Norwegian Financial Supervisory Authority (FSA) (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 (BMA). The manager of Gard Bermuda is Lingard Limited.

Gard Bermuda provides Protection & Indemnity (P&I) and related insurance products to its Members, who are shipowners, operators and charterers with ships entered 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 of the Members of the two associations exercise membership rights through the parent company in accordance with the group structure. Gard Bermuda has been given the right to exercise membership rights on behalf of the entire membership in Gard Norway. Thus, Gard Norway is treated as a subsidiary of Gard Bermuda in the same way as the other wholly-owned subsidiaries, such as Gard M&E, Gard Re, Lingard, and Gard AS.

Gard Bermuda and Gard Norway are members of the International Group of P&I Clubs and both are parties to the International Group of P&I Clubs’ Pooling Agreement. The Pooling Agreement is the contractual basis for the sharing of claims among the P&I Clubs and the collective purchase of market reinsurance. The two associations are recorded as “Paired Associations” in the Pooling Agreement, with Gard Bermuda as the principal.

Gard Bermuda is regulated by the BMA.

A 1.2.3 *Gard Norway*

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

Gard Norway provides P&I and related insurance products to its Members, who are shipowners, operators and charterers with ships entered 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.

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

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

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. The manager of Gard M&E is Lingard Limited.

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

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

Gard M&E is regulated by the BMA.

A 1.2.5 *Gard M&E Europe*

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 an intermediary for Gard M&E Europe.

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

A 1.2.6 *Gard Re*

Gard Reinsurance Co Ltd (Gard Re) is a joint-stock company and is a wholly-owned subsidiary of Gard Bermuda. The company is domiciled in Bermuda and is registered by the BMA. The manager of Gard 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 Insurance Company Ltd*

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

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

Hydra Gard Cell is regulated by the BMA.

A 1.2.8 *Lingard Limited*

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

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

Lingard is regulated by the BMA.

A 1.2.9 *Gard AS*

Gard AS is a Norwegian joint-stock company domiciled in Arendal, Norway, and a wholly-owned

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

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

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: Linn Therese Soltvedt	Regulator	Gard group Gard Norway Gard M&E Europe Gard AS Gard Bermuda NUF Gard M&E NUF
Bermuda Monetary Authority BMA House 43 Victoria Street Hamilton Bermuda Phone: +441 295 5278	Regulator	Gard Bermuda Gard M&E Gard RE Hydra Gard Cell 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 Gard Bermuda NUF Gard M&E NUF
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 Gard Cell Lingard

A 1.3 Lines of business and geographical areas

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

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

- **Marine and Energy** which includes products such as Hull & Machinery and Loss of Hire insurance for shipowners, 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

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

Gard operates in global markets, offering insurance solutions to 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 is one of the world's leading Marine and Energy insurers. Fifteen per cent of all ocean-going vessels with IMO number, and 56 per cent on a gross tonnage basis, have one or more covers from Gard. Gard is also involved in a large part 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 13 P&I clubs in the IG share claims above a certain level and collectively purchase reinsurance programs. Gard is the largest club in the IG and insures approximately 17 per cent of the tonnage and 16 per cent of the premium in the IG. Gard has a market share of 6 per cent in the global Marine Hull market and is a medium-sized capacity provider in Energy.

A 1.4 Significant events in the reporting period

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. Due to the volume of work placed upon the UK regulators and the need for additional time, the UK Government has enacted legislation known as the Temporary Permissions Regime (TPR) to allow EEA regulated firms to continue passporting into the UK for up to three years from exit day. The effect of the TPR is that the UK Gard branches can continue to operate in the UK under the passport until the UK regulator has completed the authorisation process.

A 1.5 Operations and transactions within the group

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

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

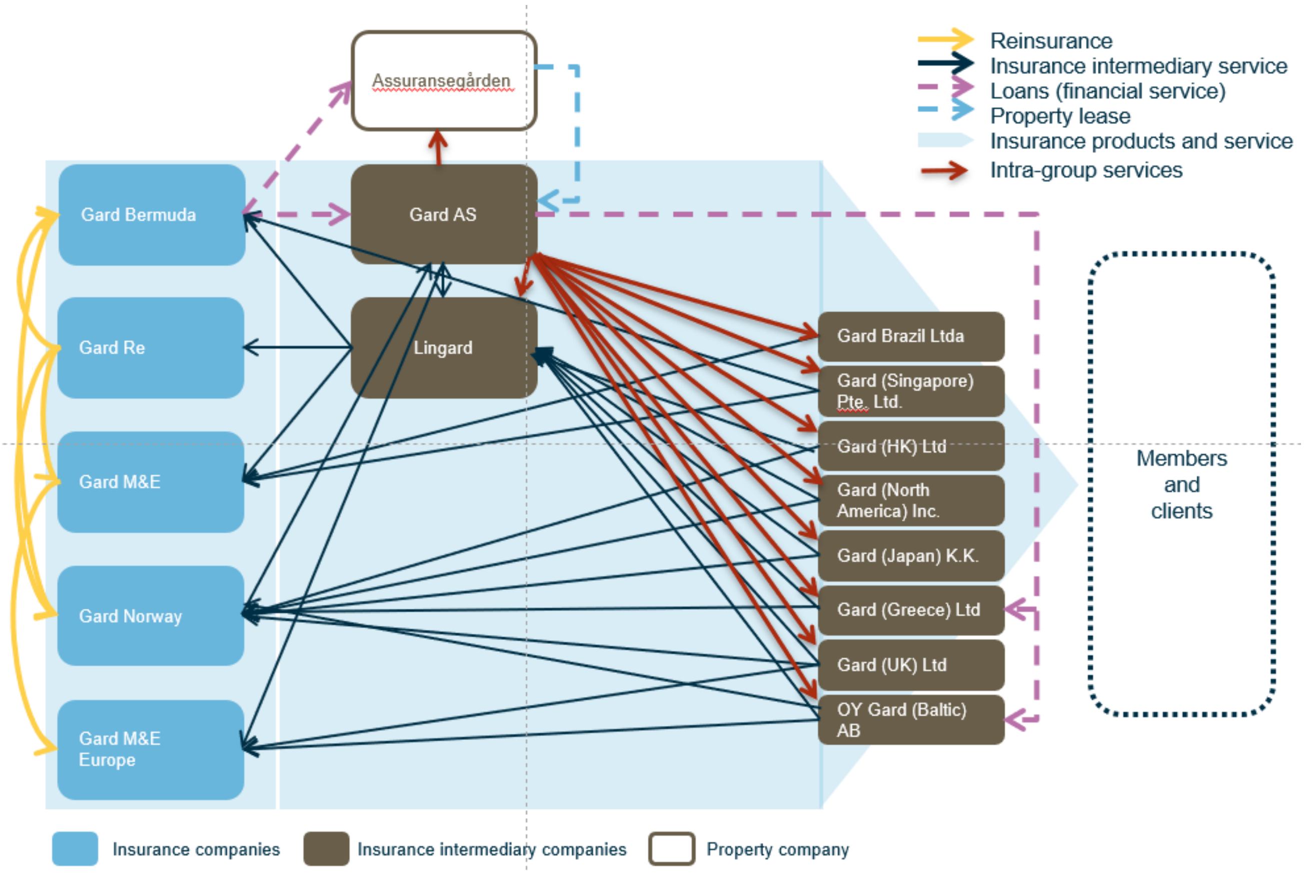
Other intercompany transactions that exist between entities in the group are not listed as any such transactions are deemed non-material. Gard AS and its subsidiaries act as intermediary agents and Lingard acts as Manager for the insurance entities in the Gard group. Some functions are sub-delegated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

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

A 1.6 Holders of qualifying holdings in the undertaking

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

Intra-group transactions



A 1.7 Consolidation of group data

The consolidated financial statements comprise of Gard P. & I. (Bermuda) Ltd. and the companies over which the Company has a controlling interest. A controlling interest is normally obtained when ownership is more than 50 per cent of the shares in the company and can exercise control over the company. In as much as the Company has the right to exercise membership rights in Gard Norway, the Company controls all voting rights in Gard Norway, being the legal basis for consolidating the two associations' accounts pursuant to the International Accounting Standard 27 Consolidated and Separate Financial Statements. Transactions between consolidated companies have been eliminated in the consolidated financial statements. The consolidated financial statements have been prepared following the same accounting principles for both parent and subsidiaries. The acquisition method is applied when accounting for business combinations.

A 2 Underwriting performance

The financial year ending 20 February 2020 delivered a strong result for Gard M&E.

Gross written premiums were USD 354 million, an increase of USD 76 million (27 per cent) from last year. The increase in premiums comes from an increase in volume, some 19 months policies from fronting agreements and from a hardening market.

Claims incurred for own account is USD 110 million, an increase of 4 million (4 per cent) from last year. The year is overall good and there is one large claim above USD 5 million and the number of frequency claims and claims above USD 1 million are increasing, basically due to a higher number of vessels.

The technical result is a profit of USD 17 million and a combined ratio net (CRN) of 94 per cent. Last year there was a loss of USD 14 million on the technical accounts with a CRN of 112 per cent.

Gard M&E seeks to add returns through a diversified investment portfolio. The non-technical result is a positive USD 15 million with gains across all major asset classes for the financial year ending 20 February 2020, compared to a negative non-technical result of USD 2 million last year. Performance can be found in section A.

Marine

Gross written premium is USD 297 million, an increase of USD 63 million or 27 per cent from last year. The increase is explained by an increase in volume and hardening market.

Claims incurred for own account is USD 98 million against USD 110 million last year. The business area faced only one large claim exceeding USD 5 million this year.

The Marine area produced a technical result somewhat below expected. Marine saw a hardening of rates towards the end of 2019. This is expected to continue as the rate levels in general needs to improve further as the current pricing levels are vulnerable to the volatility of claims or an unforeseen adverse change in frequency.

Energy

Gross written premium is USD 57 million, an increase of USD 12 million or 27 per cent from last year. The energy market has seen a slight increase in rates, although premiums are still considered too low in a market segment prone to large claims. There has also been a pick-up in activity with more vessels and rigs being employed.

Claims incurred for own account is USD 12 million us USD 16 million from last year. No large claims hit the energy business area and the area gave a good contribution to the overall result.

Underwriting performance by line of business, Gard M&E

USD million, as of 20.02	2020 Marine	2020 Energy	2020 Total
Technical result			
Gross written premium	297	57	354
Gross earned premium	259	54	313
Ceded reinsurance	(154)	(28)	(181)
Earned premium for own account	**106**	**26**	**131**
Other insurance related income	**0**	**0**	**0**
Claims incurred, gross:			
Incurred this year	192	18	209
Incurred previous years	(11)	(8)	(18)
Total claims incurred, gross	181	10	191
Reinsurers' share of gross incurred claims	(83)	1	(81)
Claims incurred for own account	**98**	**12**	**110**
Insurance related expenses for own account	12	(9)	3
Other insurance related expenses	1	1	2
Technical result	**(5)**	**22**	**17**

USD million, as of 20.02	2019 Marine	2019 Energy	2019 Total
Technical result			
Gross written premium	234	45	279
Gross earned premium	206	48	254
Ceded reinsurance	(118)	(24)	(142)
Earned premium for own account	**88**	**24**	**112**
Other insurance related income	**0**	**-**	**0**
Claims incurred, gross:			
Incurred this year	221	29	250
Incurred previous years	5	(48)	(43)
Total claims incurred, gross	226	(19)	207
Reinsurers' share of gross incurred claims	(116)	15	(101)
Claims incurred for own account	**110**	**(4)**	**106**
Insurance related expenses for own account	12	6	18
Other insurance related expenses	1	1	2
Technical result	**(35)**	**21**	**(14)**

Gross written premium by geographical area, before a reduction in the deferred call, Gard group, based on the location of the client

USD million, as of 20.02	2020	2019
EEA	221	169
Norway	44	38
Other areas	89	72
Total gross written premium	**354**	**279**

A 3 Investment performance

The return on the investment portfolio was positive USD 15 million for the year, compared to a loss of USD 1 million last year. In contrast to the previous year, all major asset classes delivered strong returns, led by equity and credit markets.

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

Total gain from equities and investment funds was positive USD 5 million, compared to near-zero last year due to strong global equity markets. The allocation to equity was slightly increased during the year. Gard M&E Ltd had at year's end an allocation to equities of 19.8 per cent, slightly above its soft limit of 19 per cent.

The return from bonds (sovereign and corporate) was also up from last year following a fall in interest rates and narrowing of credit spreads.

There were no major changes to the portfolio's strategic asset allocation in the period.

Investment performance by asset class, Gard M&E

20.02.2020 Amounts in USD million	**Equities and investment funds**	**Bonds**	**Financial derivatives**	**Other financial investments**	**Total**
Income	-	1	-	1	2
Expenses	-	-	-	-	-
Realised gain & loss	-	3	-	-	3
Change in unrealised gain & loss	5	5	-	-	10
Total	**5**	**9**	**-**	**1**	**15**

20.02.2019 Amounts in USD million	**Equities and investment funds**	**Bonds**	**Financial derivatives**	**Other financial investments**	**Total**
Income	-	0	0	-	0
Expenses	-	-	-	(0)	(0)
Realised gain & loss	46	(4)	0	(5)	37
Change in unrealised gain & loss	(45)	1	6	(0)	(38)
Total	**0**	**(3)**	**7**	**(5)**	**(1)**

A 4 Performance of other activities

Other comprehensive income/losses consist 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

Possible effects of the coronavirus are included and discussed in an own chapter at the end of the report. See E Significant Events, Impact and consequences of COVID19.

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 Boards of Directors (BoD) of each subsidiary give due consideration to applicable laws and the constitutional documents of the relevant company. To the extent appropriate and consistent with such laws and regulations, the BoD of the individual subsidiary shall comply with directions from the BoD of Gard Bermuda as the ultimate shareholder of the relevant subsidiary.

Composition of Boards and Committees

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

Roles and responsibilities for governing bodies

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

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

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

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

The Risk Committee shall have oversight of the group's risks with 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 BoD as the case may be. The Remuneration Committee shall also review Gard's remuneration policy in general, including the operation of any employee incentive scheme from time to time. The Remuneration Committee shall ensure that the compensation structure is in line with the group risk appetite statement approved by the BoD.

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

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

To reinforce the current practice, the BoD of Gard Bermuda, in May 2019, amended the Article 6.6 of the Bye-Laws of Gard Bermuda, which now limits the Board's ability to delegate its powers regarding the day-to-day management of the company. Besides, BoD of Gard Bermuda issued terms of reference for the CEO, which documents the role and authority of the CEO and Manager in line with current practices.

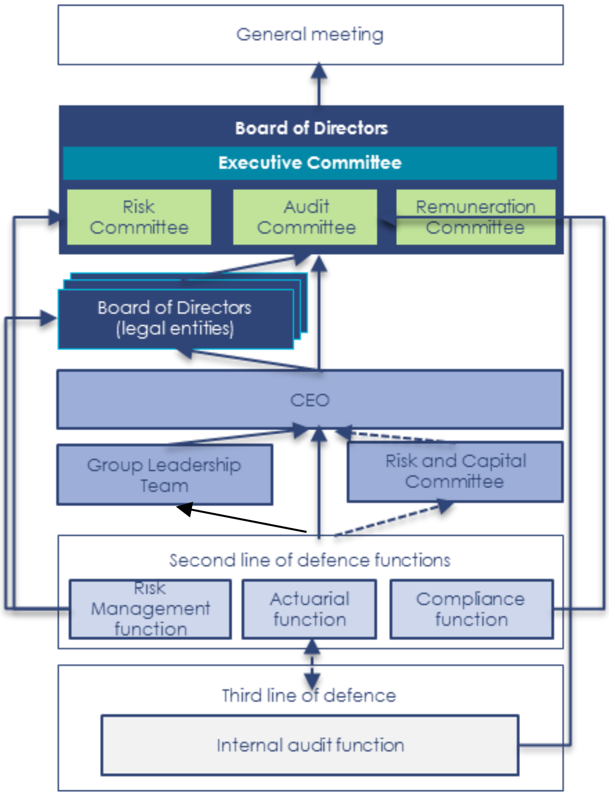
The Senior Vice Presidents (SVP) in the Group Leadership Team (GLT) report to the CEO.

The Risk and Capital Committee is an advisory forum to the CEO on matters relating to risk and capital management. It comprises the CEO, Chief Risk Officer (CRO), Chief Financial Officer (CFO), Chief Investment Officer (CIO), Chief Legal Counsel and others where required. Relevant reports to the Executive Committee, Risk Committee, Audit Committee and/or the BoD, shall be reviewed by the Risk and Capital Committee before submission.

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

The following figure illustrates the roles and responsibilities of the governing bodies, key decision-makers, and the second and third line of defence functions. The figure also illustrates how the risk management function is integrated into the decision-making process of Gard. For more information regarding the Three Lines of Defence model and how the risk management function is integrated into the organisational structure of Gard see chapter B 3.3.

Illustration of governance structure



B 1.2 Remuneration policy

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

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

The compensation structure is based on the philosophy that the success of Gard is the result of the joint efforts of the whole organisation. It underpins the value of teamwork and collective performance across 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 BoD of that legal entity. The remuneration of staff below the CEO level is determined by the CEO or those being delegated authority by the CEO to determine such matters.

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

Remuneration structure

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

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

The majority of Gard's staff is employed by Gard AS in Norway. Their terms of employment concerning 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 risks outside of Gard's risk appetite.

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

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

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

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

Pension scheme

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

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

B 1.3 Assessment of the adequacy of the system of governance

The system of governance is assessed as adequate considering the size, nature and complexity of the Gard group's operations, and sufficient to ensure that all the risks the entities in the group are exposed to are appropriately dealt with and that the applicable requirements in respect of the governance system are being met.

B 2 Fit and proper requirements

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

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

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

B 3 Risk management system including 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
- 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 minimise 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 BoD, and shall report any issues of concern in a timely manner
- **Risk culture**: We are open and transparent about losses and failures. We take corrective action and learn from mistakes

B 3.2 Key elements of Gard's risk management system

The risk management system consists of the following components:

Risk appetite and limits

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

Risk policies

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

Risk management cycle

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

- **Identify** – Material risks are defined and described in the risk landscape (see chapter C)
- **Assess** – Material risks and emerging risks are assessed regularly and at least annually. The Own Risk and Solvency Assessment process is the main process for assessing the overall risk and solvency position at a group, legal entity level and branches
- **Manage** – Risk is managed proactively, on an individual and aggregated level, in line with the risk appetite and risk tolerance
- **Monitor** – There is regular monitoring of the risk exposures and the alignment with the risk appetite. The purpose of the monitoring is to ensure that adequate remedial actions can be taken swiftly if necessary
- **Report** – There is regular reporting of risk exposures from the 2nd line to the CEO and the BoD of the legal entities, as well as to the Executive Committee, the Audit Committee, the Risk Committee and the BoD of Gard Bermuda

Internal model

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

Contingency procedures

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

Disclosure

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

B 3.3 Implementation and integration of the risk management system

Risk governance is based on the three lines of defence model, with clearly defined roles and responsibilities. Risk execution is carried out in the business functions (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 regularly and assessing these against the risk appetite

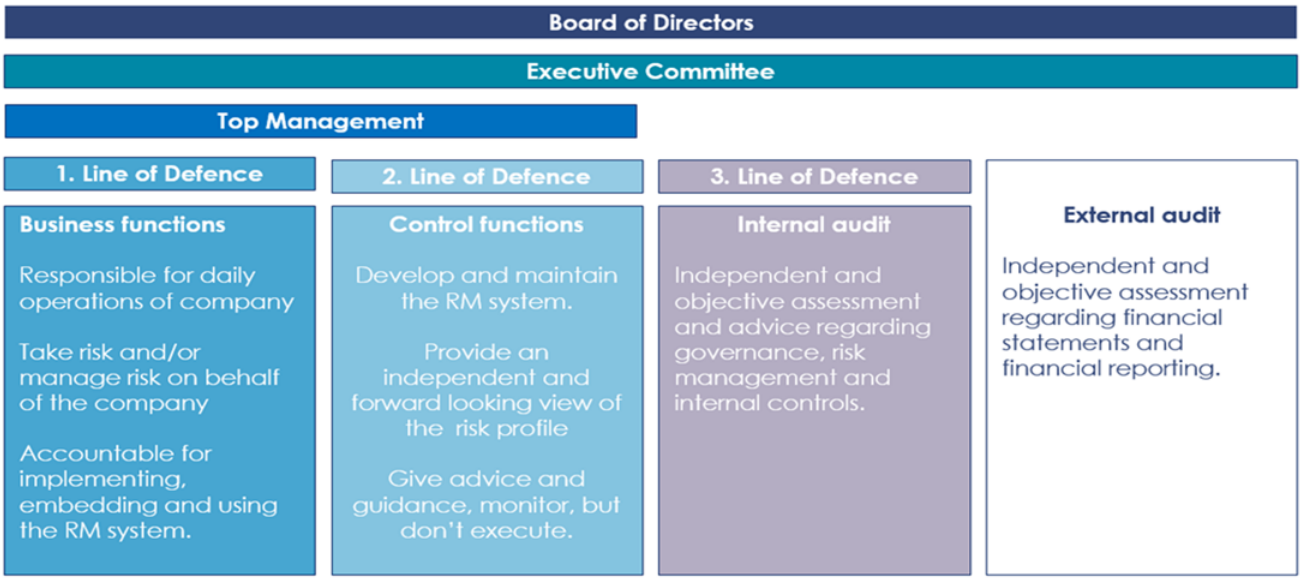
2nd line of defence functions: Operate efficiently and effectively and be independent of the 1st line of defence. The 2nd line of defence functions shall be responsible for their respective tasks across the group, including all subsidiaries and associated companies. The Risk Management and Compliance 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 BoD 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
- Assure the Executive Committee and BoD 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 independent assurance on the adequacy and effectiveness of the Risk Management System to the Audit Committee, the Executive Committee, and the BoD. The internal audit function is appointed by and reports to the Audit Committee.

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

3 lines of defence



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 consistently 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 ORSA 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

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

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

The model provides 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 internal model are communicated quarterly to the Executive Committee/BoD, 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.

B 3.6 Risk management system for internal model

B.3.6.1 Roles and responsibilities

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

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

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

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

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

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

B.3.6.2 Internal model validation process

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

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

B 3.7 Material intra-group outsourcing arrangements

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

[4] The 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 1st line of defence, risk oversight, detective controls and monitoring shall be carried out by the 2nd line of defence, and independent assurance concerning the adequacy and effectiveness of the internal control system shall be provided by the 3rd line of defence.

The internal controls shall contribute to the prevention of financial losses or other adverse outcomes such as loss of reputation through timely and proactive control of relevant risks. Effective prevention averts or mitigates risks before any loss occurs. The internal control system shall also contribute to the detection of irregular business conduct at an early stage, deviations from agreed standards for process execution or data errors 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 proportionate to the nature, scale and complexity of the operations and risks involved
- Periodic reviews of the adequacy and effectiveness of internal controls shall be carried out

The BoD is ultimately responsible for the internal control framework. The Audit Committee is responsible for assessing the adequacy of the internal control system. The Audit Committee receives an annual report from the management concerning internal control, as well as independent reports from the internal auditors on the adequacy and effectiveness of the internal control system.

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

B 4.2 Compliance function

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

The Head of Compliance is responsible for ensuring that the Gard organisation 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. Besides, the Head of Compliance provides advice and challenges the Regional Compliance Officers and business functions, contributing to adequate management of compliance risk.

The regional compliance function shall provide advice to and challenge the local business functions and contribute to adequate management of compliance risk. The Regional Compliance Officers 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 on compliance matters.

Members of the compliance function should normally not have operational responsibility or authority over any of the activities or operations it reviews. Given that the number of employees in the regional offices is limited and the nature of Gard's business is complex, the Regional Managing Directors may act as Regional Compliance Officers. The Regional Managing Directors have a wide perspective of the regional office as well as detailed knowledge about the Gard group and are also the local contact points for local regulatory bodies and authorities.

B 5 Implementation of the internal audit function

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

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

a) Material risks are appropriately identified and managed

b) Established policies, procedures and processes are adequate, appropriate and implemented to manage risks within defined risk appetite, and are effective to meet regulatory and legal requirements

c) Significant financial, managerial, and operating information is accurate, reliable, and timely

d) Employees' actions comply with policies, standards, procedures, and applicable laws and regulations

e) Significant legislative or regulatory issues impacting the organisation are recognised and addressed properly

f) Opportunities for improving management control, profitability, business processes and Gard's reputation may be identified during audits. They will be communicated to the appropriate level of management

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 BoD. The internal audit function evaluates the appropriateness and effectiveness of the group's management and control processes. The function also provides targeted and structured feedback on the organisation's compliance with guidelines and relevant legal requirements. The internal audit function shall contribute to continuous improvement in management and control. All critical and less critical suggestions for improvements in internal control, established routines and control plans are summarised in internal audit reports, which are presented to the BoD. The group assesses 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 organisation
- Obtain the necessary assistance of personnel in the organisation, as well as other specialised services from within or outside the organisation
- Have full and free access to management and the Audit Committee
- 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 fraudulent activities directly to the Supervisory Authority. 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 organised in the Actuary and Risk Capital team. The team is led by the actuarial function holder. The actuarial function holder reports to the CRO but has unrestricted access to the CEO, the Executive Committee and the BoD. The Actuarial function is independent of the actuary in the Actuarial Reserving team.

B 7 Outsourcing

Gard's core purpose is delivered through three pillars of excellence; knowledge and expertise, financial strength and long-term relationships. This also governs our approach to external service providers. 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.

Outsourcing is a way of getting access to sufficient scale and adequate competence which could not effectively be achieved by providing the service in-house. Where the benefit/risk profile of an activity or function would be more favourable if it was outsourced than if it was performed by a Gard department, consideration may be given to outsourcing that activity or function, either externally or internally, as a means of enhancing the performance of that function.

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 of the relevant regulatory requirements.

Internal Control

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

Business continuity and exit strategy

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

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

Monitoring and oversight

The governing body or role that has entered into an outsourcing contract is responsible for monitoring that the contractual terms are being adhered to and that all parties honour their obligations under the contract. The 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 before the outsourcing of critical or important functions or activities as required, and of any subsequent material developments for those functions or activities. This may include material changes in the outsourcing arrangements, a change of service provider or major problems with the performance of the service provider.

Roles and responsibilities

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

Major contracts which may significantly impact the way a Gard entity operates shall be signed by that entity's CEO or Managing Director. The Executive Committee shall be informed before 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 before their execution. Contracts entered into in the ordinary course of business, for example, a contract with a local loss adjustor can be signed by personnel with the relevant level of authority.

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

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

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

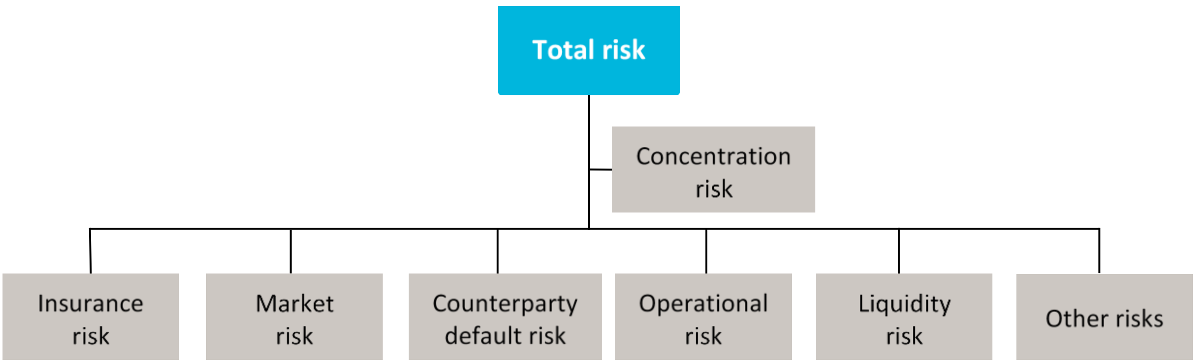
In the context of its operations, Gard enters into a broad variety of risks. Gard aims to have a comprehensive understanding of its risk profile by identifying, assessing and measuring its risk through multiple approaches.

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

Gard uses the BSCR for calculating regulatory capital requirements for 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. Besides, Gard uses various exposure measures and stress tests to quantify its risk profile. All material risks are assessed at least annually through the ORSA process and quarterly through the model updates. Significant internal or external events may require additional assessments. To test Gard's ability to withstand severe conditions, several stress tests are conducted regularly.

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

Gard's risk landscape



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

C 1 Material risks

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

Material risks, Gard M&E

BSCR risk type	2020	2019
Market risk		
Fixed Income Investment Risk	6	6
Equity Investment Risk	13	9
Interest Rate / Liquidity Risk	7	5
Currency Risk	3	4
Concentration Risk	-	0
Underwriting risk		
Premium Risk	48	52
Reserve Risk	48	46
Credit Risk	11	18
Catastrophe Risk	47	44
Diversification	(89)	(96)
BSCR (after diversification)	**93**	**89**
Operational Risk	2	2
BSCR	**95**	**91**

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.

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 95 million represents an increase of USD 4 million.

A revised methodology for the calculation of BSCR has been implemented for the financial year beginning on or after 1 January 2019. As the revised methodology, in general, imposes higher BSCR, transitional factors are provided. For Gard M&E this means that 33 per cent of the increase in the BSCR for the new methodology compared to the old methodology is to be used for the year ended on 20 February 2020, 66 per cent for the year ending on 20 February 2021 and 100 per cent for the year ending on 20 February 2022. The increase in BSCR from USD 91 million to USD 95 million during the last year is mainly due to the introduction of the revised methodology.

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 28 million as of 20 February 2020. Equity investment risk has increased from USD 9 million to USD 12 million last year due to an increased equity portfolio as well as the introduced revised methodology. Fixed-income investment risk remains unchanged at USD 6 million. Interest rate/liquidity risk has increased from USD 5 million to USD 7 million mainly due to the revised methodology. Currency risk has decreased from USD 4 million to USD 3 million, due to a decrease in currency mismatch for Euro between assets and liabilities.

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

The premium and reserve risk capital requirement calculation has a factor-based approach, based on 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 premium risk decreased by 7 per cent from USD 52 million to USD 48 million due to a decrease in geographically diversified premium despite an overall increase in gross premiums written and net premium written. The reserve risk and catastrophe risk increased from USD 46 million to USD 48 million and from USD 44 million to USD 47 million respectively, mainly due to the revised methodology.

Credit risk is calculated as a factor-based charge on receivables and reinsurance receivables depending on credit rating. The increase in Credit risk by 38 per cent is mainly due to a change in classification for accounts and premiums receivable, which gives a lower capital factor.

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 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 remains stable at USD 2 million.

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. Gard group has companies and branches in several jurisdictions. Unexpected changes initiated by e.g. the regulators in one part of the group may have consequences for other parts of the group.

Compliance risks

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

Gard group comprises of companies and branches in several jurisdictions, as well as captive reinsurance companies, insurance intermediary companies, subsidiaries, and a property company. As a natural consequence of the group structure Gard is subject to several regulatory regimes such as those of Norway, 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 conducts business. Tools that are implemented to reduce compliance risk are supplemented by compliance training programmes.

Reputational risks

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

The foremost reputational risk for Gard is considered to be related to claims handling. The reputation of the Gard may take damage due to poor claims handling, in addition to the risk of being associated with a major public claim as a result of beaching, oil spill, or a catastrophe involving loss of life or damage to public property.

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

Climate-related risks

The insurance sector is exposed to climate-related risks and both sides of the balance sheet could potentially be affected. When approaching climate-related risks, Gard has used the risk categorisation proposed by the framework of the Task Force on Climate-related Financial Disclosures (TCFD).

Physical risks: Gard is mainly exposed to acute physical climate risks through increasing extreme weather. Assets in the Gulf of Mexico could be considered especially exposed, but after the 2005 hurricane season, Gard decided to reduce exposure in the region. It could be expected that Gard's portfolio is less exposed to acute physical climate-related risks than insurers focusing on other segments and industries. The most relevant effect for Gard related to chronic climate change could be an increase in Arctic shipping. An incident that took place in December 2018 north of Svalbard, and the following salvage operations, indicated some of the challenges associated with operations in the Arctic.

Transition risks: It is expected that policies will be increasingly stringent in the upcoming years, and this will again affect legal and reporting requirements. IMO has proposed emission reduction targets for 2050 and it is expected that policies, and uptake of alternative technologies, will cause the fuel configurations of the world fleet to be more fragmented in the future. This could affect claims related to machinery failure and necessitate further competence in the organisation. Gard could also be facing reputational risks related to increasing climate concerns.

Other climate-related risks: It is also possible that the investment portfolio could be facing climate-related financial risks as repricing of certain assets could cause considerable shifts in the financial markets. However, considering that the majority of the investment portfolio consists of government bonds, and there is an increasing focus on environmental, social and governance (ESG) factors in the equity strategies of the company, these risks could be considered fairly limited for Gard. Significant declines in equity markets are already reflected in the market risk calculations.

Climate-related risks related to reinsurance and third-party liabilities have also been considered. Reinsurers could, for example, be vulnerable if their portfolios are exposed to property or infrastructure in regions exposed to the impacts of acute physical climate risks. Potential liability risks associated with climate change are currently considered negligible for Gard.

C 3 Risk mitigation

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

Reinsurance is used to ensure continuity after an extreme loss event; providing flexibility to help Members and clients manage new risks and pursue business opportunities. The reinsurance program is established to protect against high severity, low-frequency claims.

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

Gard follows the customary insurance practice of reinsuring with other insurance and reinsurance companies a portion of the risks under the policies it writes. These reinsurance arrangements are meant to protect Gard against the severity of losses on individual claims and unusually serious occurrences in which a number of claims produce an aggregate extraordinary loss.
Gard has different reinsurance programs for different classes of business.

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

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.

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

C 5 Prudent person principle

The BoD 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 BoD has ultimate overall responsibility for decision-making on investment matters. The BoD 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. Besides, 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 BoD 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 BoD and the Executive Committee. The asset management is outsourced to independent fund managers and is mainly coordinated through the Gard Unit Trust Fund (Gard UTF) for insurers within the group. Gard is not doing any active internal asset management.

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 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 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 12 per cent of the 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. The Gard group may experience multiple extreme events in a single year.

Reverse stress tests

Complementary to insurance risk stress tests and market risk stress tests, reverse stress testing 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 the Gard group to "cease being a going concern". The results of the reverse stress test answer the question of which scenarios 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 6 claims above 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

Several stress tests using a range of scenarios for short-term market shocks as well as for longer, multi-year periods have been performed to estimate the potential impact on Gard's portfolio and capital situation.

Market shocks are assumed to be one-off instantaneous changes in asset prices and portfolio allocations. Combined scenarios, in which several factors experience simultaneous shifts in prices, have been designed in line with EIOPA's Insurance Stress Test specifications, published in May 2018.

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

C 6 Any other information regarding the risk profile

Possible effects of the coronavirus are included and discussed in an own chapter at the end of the report. See E Significant Events, Impact and consequences of COVID19.

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, as of 20.02.2020	Economic Balance Sheet	Statutory Financial Statement	Difference
Assets			
Cash and cash equivalents	13	13	-
Total bonds and debentures	235	235	-
Total equity investments	51	51	-
Advances to affiliates	11	11	-
Total accounts and premiums receivable	174	174	-
Total reinsurance balances receivable	13	13	-
Total sundry assets	14	32	(18)
Total assets	**512**	**529**	**(18)**

USD million, as of 20.02.2020	Economic Balance Sheet	Statutory Financial Statement	Difference
Liabilities			
Net premium provisions	81	-	81
Net unearned premium reserves	-	79	(79)
Net loss and loss expense provisions	150	151	(1)
Risk margin	9	-	9
Technical provisions – non-life	**240**	**230**	**9**
Insurance and reinsurance balances payable	65	65	-
Tax liabilities	12	12	-
Amounts due to affiliates	0	0	-
Accounts payable and accrued liabilities	1	20	(19)
Total sundry liabilities	0	-	0
Total other liabilities	79	97	(19)
Total statutory economic capital and surplus	193	202	(8)
Total liabilities	**512**	**529**	**(18)**

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

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

The 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 financial assets classified as financial investments at fair value through profit or loss and the fair value of interest-bearing securities included is determined by reference to published price quotations in an active market (mark-to-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).

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

There are no significant differences between the valuation of statutory accounts and Economic Balance Sheet.

D 1.1 Total sundry assets

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

Total sundry assets, Gard M&E

USD million, as of 20.02.2019	EBS value	Statutory accounts value
Total sundry assets	14	32

D 2 Valuation of technical provisions

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

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

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

Best estimate liabilities

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

Risk margin

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

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

Basis

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

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 for 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 bound but not incepted (BBNI) business is calculated.

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

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

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

Claim provisions

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

- For the calculation of the incurred but not reported claims (IBNR) 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 distort any paid development factors
- For the analysis of IBNR, we use accident and development quarters to calculate the ultimate incurred claims
- For the definition of risk categories, we use three main criteria:
  - 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 current reinsurance program is on the same basis as last year’s reinsurance program and is taken into account on a large claim's basis.

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

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

IBNR

The development of losses for the Gard group is typically analysed using standard actuarial methods such as the Chain ladder, Bornhuetter Ferguson and Benktander methods. The method selection is based on the 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 reported claim provision and unreported claim provision.

The unreported claim provision is multiplied with a ratio of unallocated expenses paid to total claims paid, π. The reported future claim reserves are multiplied with π and $(1-r)$, where r is the proportion of claims handling cost due to claim registration.

Binary events

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

Best estimate premium provisions

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

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

Main assumptions

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

D 2.2 Uncertainty associated with the value of technical provisions

As with all insurance businesses, there is a degree of uncertainty over the exact amount that will be needed to settle claim liabilities, and there are several potential sources which contribute to 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 remains surrounding the ultimate outcome of long-tailed casualty claims. The early years are not necessarily fully developed and incurred values on these years help in forming our estimates for the more recent years. A sensitivity test on the loss development factors showed that with a 10 per cent point increase in the incremental development factor, the gross IBNR increases by 9.64 per cent. A 10 per cent decrease reduces the gross IBNR by 9.96 per cent

- **Financial Plan**: Another assumption for the claim liabilities is that our financial plan indication of the pure loss (Apriori) can be used in helping to assess the amount of liabilities for less mature development periods. This means that any uncertainty in the financial plan also applies to the best estimates. Sensitivity tests show that an increase of the Apriori estimate by 10 per cent increases gross IBNR by 8.08 per cent. A decrease of Apriori by 10 per cent decreases gross IBNR by 8.08 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.

D 2.3 Best estimate liabilities

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

Best estimate liabilities, Gard M&E

USD million, as of 20.02.2020	EBS value	Statutory accounts value
Technical provisions – non-life	441	475
Risk margin	9	0
Technical provisions	**450**	**475**

D 2.4 Risk margin

The risk margin is an estimated cost of capital due to the unpaid claim provisions held. The cost of capital is calculated by using capital to provision percentage of 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 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.

Reinsurance recoverables, Gard M&E

USD million, as of 20.02.2020	EBS value	Statutory accounts value
Technical provisions – total recoverable from reinsurance	0	245
Best estimate – total recoverable from reinsurance	210	0
Reinsurance recoverables	**210**	**245**

D 2.6 Total other liabilities

The difference in valuation for Accounts payable and accrued liabilities is related to reinsurance commission provision that is included for statutory accounts value.

Other liabilities, Gard M&E

USD million	EBS value	Statutory accounts value
Accounts payable and accrued liabilities	1	20

D 3 Alternative methods for valuations

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

Gard's assets are mainly valued using quoted market prices in active markets for the same or similar assets. Listed shares are valued on an item-by-item basis and bonds are valued based on realised quoted prices in active markets. Alternative valuation methods can occur for real estate funds, where there are no active markets, or the relevant markets are deemed to be inactive.

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

D 4 Any other material information

Gard M&E has no material provisions other than technical provisions.

D 5 Any other material information

Possible effects of the coronavirus are included and discussed in an own chapter at the end of the report.

See E Significant Events, Impact and consequences of COVID19.

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E CAPITAL MANAGEMENT

Gard 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 minimise 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 recognised under the capital adequacy regime.

The group shall maintain sufficient capital from its legal entities without jeopardising regulatory requirements and the minimum financial strength rating.

Procedures are established 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. The 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 always meet local regulatory capital requirements. 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 different management actions will vary with the company and the type of business it writes.

Means to strengthen the capitalization may be:

- No reductions in the last instalment
- Make an unbudgeted supplementary call on members
- Dividend payment from subsidiaries
- Sale of assets of participations
- Issue subordinated debt
- Parent company guarantee
- Capital injection – group contribution from parent company
- De-risk assets (e.g. reduce equities exposure)
- De-risk liabilities (e.g. changes to reinsurance – reduce retention for own share)

The total statutory capital and surplus was USD 193 million for Gard M&E per 20 February 2020.

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 193 million for Gard M&E as per 20 February 2020 (see table Economic balance sheet, in chapter D Valuation for solvency purposes.

The first table below explains the difference between total assets, total liabilities and total statutory economic capital and surplus between EBS and statutory accounts as per 20 February 2020.

The second table below shows eligible capital classified in tiers.

Difference between statutory accounts and EBS, Gard M&E

USD million, as of 20.02	2020	2019
Capital and surplus statutory account	202	191
Capital and surplus EBS	193	191
Difference between statutory accounts and EBS	**8**	**(0)**
Specification of difference:		
Gross Loss and Loss Expense Provision	(4)	(9)
Gross Premium Provisions	(31)	(31)
Reinsurance Recoverables	36	32
Risk Margin	8	8
Deferred Acquisition Costs	18	16
Reinsurance Commission Provisions	(19)	(16)
Total	**8**	**(0)**

Total eligible capital as under EBS, Gard M&E

USD million, as of 20.02	2020	2019
Tier 1	193	183
Tier 2	0	8
Tier 3		
Total	**193**	**191**

E 2 Capital requirements

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

BSCR under EBS was USD 95 million as per 20 February 2020. Total eligible capital to meet the BSCR was USD 193 million. The BSCR ratio was 202 per cent.

MMS under EBS standard formula was USD 24 million. Eligible capital to meet MMS was USD 193 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:

- Revised methodology

E 3 Internal model

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

E 4 Compliance with MMS/BSCR

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

E 5 Any other information

Possible effects of the coronavirus are included and discussed in an own chapter at the end of the report. See E Significant Events, Impact and consequences of COVID19.

There is no other material information to be disclosed.

E SIGNIFICANT EVENTS

IMPACT AND CONSEQUENCES OF COVID-19

Introduction

This section discusses the impact and consequences of COVID-19 on Gard's operations and financial and solvency position after 20 February 2020.

After the COVID-19 virus was first reported in the Wuhan region of China back in early January, Gard quickly decided to establish a company-wide task force. The task force with its various sub-groups has been hands-on in handling the impact of the rapidly developing COVID-19 situation for Gard's business and operations. The main priorities during the coronavirus situation have been securing Gard's employees, members and clients and financial position.

The COVID-19 is to a certain extent an insurance event, but the effect of a global slowdown could be more significant than the direct losses. Some expect a deep recession, while others expect the drop in economic activity to be sharp but fairly short. The financial impact will take time to play-out and the path to recovery remains uncertain.

A. Business and performance

Consequences for Gard's investment portfolio

Going into the COVID-19 crisis, Gard's portfolio was relatively defensively positioned. Gard's largest allocation was to US Government bonds, whilst both the equity and corporate bond allocations reflected a cautious portfolio positioning, focused on company quality and shorter duration bonds. Despite this, the volatility of financial assets during March had a significant impact on the portfolio.

In the equity portfolio, losses were experienced across countries and sectors, with the largest impact from holdings in listed US firms involved in food preparation, lodging, banks and corporate services. Gard's option portfolio behaved as expected with a loss far smaller than the overall market and should benefit from a higher level of volatility in the market going forward. Gard's holdings in EM equities generally did better than the broader market.

In the corporate credit portfolio, spreads widened significantly in markets in March as a result of indiscriminate selling by passive and daily-liquidity investors and had an immediate impact throughout the portfolio. Mark-to-market losses in asset-backed securities and corporate loans were higher than in corporate bonds, reflecting exposure to BB-B rated loans and CLO liabilities as well as market structure and relatively lower market depth. Gard's portfolio was largely invested in corporations that have so far seen limited impact by the coronavirus and exposure to Leisure and Travel was further reduced in February in favour of Media and Healthcare. Furthermore, Gard's managers have not yet seen an increase in defaults in the portfolio and we remain confident that the portfolio offers significant value in the medium term. Gard's Emerging Market sovereign debt portfolio has held up well in the volatility and has further seen some benefit from active risk management by the managers.

In the fixed income portfolio, Gard's significant holding of US treasuries as well as G7 sovereign bonds helped protect a portion of the portfolio as interest rates fell due to Central Bank responses and a broad flight to quality. We saw more volatility in Gard's US MBS portfolio as US mortgage markets reacted to dropping interest rates and a worsening domestic credit situation, though very active risk management by Gard's manager helped alleviate some of the moves.

For the alternatives portfolio, the largest losses were seen in Gard's hedgefund allocation whilst real estate and private debt have so far seen less deterioration. Whilst we expect this to change, Gard's exposure means that the impact on the overall portfolio should be limited.

At the time of writing, we have decided not to re-balance the portfolio, or to make any significant changes to its composition as a result of the corona crisis. We remain less convinced of the resilience of recent sharp recovery in parts of US markets and are comfortable with Gard's current risk levels. However, as USD investors with significant government bond exposure, the drop in US interest rates present a challenge and we have started to explore changes to our asset allocation over the medium term.

Consequences for Gard's insurance business

The commercial effects of the pandemic are seen differently in each segment but there are a few common themes. The first is increasing use of lay-up by companies with the excess supply of vessels or simply their trade coming to a complete halt. This has an impact on premium income since lay-ups pose fewer risks and therefore, we will see some top-line impact. The second is that almost every segment – except for tankers and partly gas, has seen a severe drop in demand with a consequent reduction in income.

The passenger and cruise sectors are probably where the impact is most dramatic, followed by the car carriers and container vessels. COVID-19 has essentially put a full stop on cruises, whose owners now need to empty ships and find proper lay-ups as well as worry about possible litigation from passengers. Passenger ferries have been similarly hit, although the issues are less complicated. Some routes are being kept open as part of essential infrastructure. Car carriers and containers have also seen a steep dive in demand, and the collapsing demand for oil – and the drop in price has created significant uncertainty for the offshore industry. The only major exception, for now, is tankers where the overflow of oil has meant a sharp rise in demand for vessels to be used for storage.

Gard experiences an increase in COVID-19 related customer queries and claims. There is still much uncertainty around both the level of costs incurred and the coverability of corona related claims. Actual claims so far have been moderate, but there is a time-lag in the notification and registering of claims. On the other hand, with a global reduction in seaborne trade, we anticipate reduced claims costs in some of the other segments that Gard insures.

B. System of governance

COVID-19 does not lead to any material changes in the valuation of system of governance.

C. Risk profile

Consequences for Gard's insurance risk

A foreseen increase in COVID-19 related claims may be neutralized by an estimated reduction in expected claims due to a slowdown in activity and a decreased demand for marine transport. The total insurance risk is estimated to be stable.

Consequences for Gard's market risk

Losses in the investment portfolio lead to a reduction in investable assets, implicating the market risk to diminish. However, this was counteracted by higher volatility which increased the market risk. The overall market risk is expected to be stable or increase moderately.

Consequences for Gard's counterparty default risk

The counterparty default risk may increase somewhat due to possible delays in settlements from customers and members. An increase in counterparty default risk may also be caused by a weakening of credit rating over time for some reinsurers.

Consequences for Gard's operational risk

Most of Gard's operational expenses are denominated in NOK, while the reporting currency is USD. Therefore, the deterioration of the NOK reduces the operational expenses in Gard's USD financial statements. The operational risk as calculated by the standard formula is expected to be stable.

Sensitivity and stress tests performed

There is a high degree of uncertainty as to how deep the corona crisis will be or how long it may last. Gard has prepared a set of scenarios based on different assumptions on the development of the investment portfolio, changes to premium, and claims and expenses to assess the impact and consequence to the Profit & Loss, balance sheet and capital and solvency position. The scenarios are ranging from deep financial depression to quick recovery. Gard is compliant with regulatory requirements in all the anticipated scenarios.

D. Valuation for economic balance sheet purposes

COVID-19 does not lead to any changes in the valuation of assets and liabilities.

E. Capital management

Consequences for Gard's solvency and capital position

Gard is capitalized to withstand a one in one-hundred-year annual loss and continue to operate with the same risk tolerance. Despite COVID-19, the financial and solvency position of the Group at the time of reporting remains strong.

The development of the solvency and capital position is monitored continuously, to ensure that all legal entities and branches, as well as the Group, are sufficiently capitalized.

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”)

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 the 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