

DIRECTORS' REPORT  
AND FINANCIAL STATEMENTS

for the year to 20 August

2017



Highlights

77

**Combined ratio**  
PER CENT, ETC BASIS, 1H

150

**Total comprehensive income**  
USD MILLIONS, ETC BASIS, 1H

664

**Gross written premium**  
USD MILLIONS, ETC BASIS, 1H

1285

**Equity**  
USD MILLIONS

# FIVE YEAR COMPARISON

	12 months				6 months
	2014	2015	2016	2017	August 2017
<b>Gross written premium</b> USD millions, ETC basis	959	991	911	824	664
<b>Total comprehensive income</b> USD millions, ETC basis	89	87	86	215	150
<b>Combined ratio</b> Per cent, ETC basis	97	88	83	83	77
<b>Equity</b> USD millions	919	960	1,010	1,135	1,285
<b>Assets</b> USD billions	2.7	2.7	3.0	3.0	3.5

# CEO'S OPERATIONAL REVIEW



## Operational review

The first half of the 2017 financial year has seen a strong performance across the group. I am pleased to announce that the surplus for the first half of 2017 was USD 150 million after tax on Estimated Total Call (ETC) basis. As of 20 August 2017, the consolidated equity which provide security and stability for the joint membership stood at USD 1,285 million, compared to USD 1,135 million on 20 February 2017. The consolidated technical result across all business areas has delivered a combined ratio net of 77 per cent, while our investment return was 3.7 per cent.

## Driving improvements

Gard's insurance performance has been better than our target over the last three years due to a number of factors. The first is that there has been a benign claims environment, both in terms of frequency and severity. Another important factor has been the quality of our membership. There is no doubt that the shipping industry has improved their processes and reduced the number of accidents – part of an overall societal ambition towards improved operations and higher quality in all activities, resulting in lower costs and fewer accidents.

Members of Gard do not just reflect these trends, many are at the forefront of them – leading the drive for improvement. And they also do so through their choice of P&I club. The most direct impact is in delivering a better claims picture which allows us to offer lower premiums. It also challenges us to improve our risk pricing and selection, as well as our handling of claims across the spectrum from major accidents to the more everyday accidents.

We are also looking closely at how we can organise work processes and tasks better. We believe that this can enhance customer satisfaction, improve efficiency and quality and sustain the high levels of employee satisfaction that are crucial with so many knowledge-based workers. We believe that a cross-functional approach will drive improvement initiatives across the entire support organisation for the benefit of our Members and clients.

## Security and service at a low cost

Our goal as a mutual is to provide risk mitigation solutions, quality service and strong financial security at a low cost. The premiums that shipowners pay today have reduced over time, and we believe that we can continue to operate at lower premium levels despite the volatility that is inherent in the P&I industry.

In P&I some of this is as a result of reductions in reinsurance and the effect of fleet turnover as old vessels are sold or scrapped and new lower rated vessels attach to the portfolio. The overall result, however, is that the average premium per gross tonne is reducing. For a mutual, keeping overall premiums down is a good thing – as long as it is accompanied by a correspondingly benign claims environment. Currently this is justified because claims are low. Should that trend reverse, however, pricing will have to respond.

The marine hull market has experienced declining prices for a sustained period, and the general view is that current levels are not sufficient to cover the severe claims which inevitably occur. Energy pricing too has reduced below the level at which it can handle the large claims which are inherent in this volatile line of business. The low frequency

of these claims does mean that, in the short term, good returns can be earned but over the longer term these may not be sustainable.

## Looking at individual performance

In looking at the premium policy for the next year, we have to consider both claims trends, currency movements and expected investment income. Over recent years, the strong US dollar has contributed positively to claims costs. However, next year's claims are likely to be negatively impacted by a weaker dollar.

The continuous development of the portfolio means that the performance and pricing level of segments and individual members in the portfolio are varied. To ensure fairness over time, individual adjustments in premium rates are needed to reflect relative risk and claims performance. There will therefore be no general increase in the Advance Call for owners' mutual P&I or for mutual FD&D for the 2018 policy year. The exposure and expected claims combined with existing premium levels, and informed by an individual's record, will determine the renewal result. The target of a small negative insurance result remains, with a forecast combined ratio net of 102.5 per cent

## Capital management over the cycle

While our premium policy allows us to adjust pricing annually, our mechanism for capital management is designed to take a longer-term view. We believe that maintaining our financial strength delivers the stability and consistency that protects the assets, incomes, and reputations of our Members and clients. This allows them to make decisions with an eye to the future, and helps them to manage their costs and bottom line. By creating long term financial value, we are helping our Members to do the same.

# CEO'S OPERATIONAL REVIEW

continued

A core part of this is transparency – clarity on our financial targets and how much capital we feel it is prudent to hold to achieve long term stability in a volatile industry. When we achieve the targets set by our shipowner Board, we return excess funds to our Members. We have done this consistently over the last decade. If the full year result at 20 February 2018 is in line with the half year result, a reduction in the deferred call could be expected also for the 2017 policy year.

## **Caring for customers and communities**

We are also living up to our reputation for being a 'hands on' organisation by tackling marine pollution with our global beach clean-up campaign. Employees from across the Gard group have been taken to the shoreline twice this year – most recently on International Coastal CleanUp Day on Saturday,

16 September 2017, to pick up plastics and other litter.

I am also pleased to announce that Gard has signed the world's first insurance industry statement on sustainable marine insurance. This commits us to tackling illegal, unreported and unregulated (IUU) fishing through education, awareness building, risk management and underwriting. We integrate social and environmental concerns into our day-to-day activities and are committed to making a positive contribution to the industries we serve by offering dedicated resources to share knowledge and expertise. Participating in initiatives such as this is one important way in which we can do that.

## **A fair response**

The 2017 year has been a good one so

far. As well as delivering a strong result we continue to make significant investments to improve the quality of our processes so we are delivering services as efficiently and effectively as possible. We have an active programme of external events planned for the coming months, and we hope we will see many of you at our Gard evenings around the world. As we move through the second half of the year, we look forward to talking to our Members and clients to gain a greater understanding of the issues they face in the context of current market conditions.

## **Rolf Thore Roppestad**

Chief Executive Officer

# GARD P. & I. (BERMUDA) LTD.

## Summary income and expenditure account

Amounts in USD 000s	21.02.17 to 20.08.17	21.02.16 to 20.08.16
Premium earned gross*	371,542	429,156
Earned premium for own account	307,878	348,071
Other insurance related income	1,087	1,014
Claims incurred for own account**	199,104	290,566
Operating expenses	39,066	43,552
<b>Technical result</b>	<b>70,796</b>	<b>14,967</b>
<b>Result on non-technical account</b>	<b>79,076</b>	<b>82,302</b>
<b>Total result</b>	<b>149,872</b>	<b>97,269</b>
Combined Ratio Net (CRN)	77%	96%

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

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

# GARD P. & I. (BERMUDA) LTD.

## Summary consolidated balance sheet

Amounts in USD 000's	As at 20 August 2017	Restated As at 20 February 2017
Total investments	2,478,595	2,336,321
Reinsurers' share of technical provisions	317,282	296,740
Cash and equivalents	200,257	176,189
Other assets	466,796	239,361
<b>Total assets</b>	<b>3,462,930</b>	<b>3,048,611</b>
Equity	1,284,735	1,134,862
Gross premium reserve	393,209	100,709
Gross claims reserve	1,354,395	1,445,660
Other liabilities	430,591	367,380
<b>Total equity and liabilities</b>	<b>3,462,930</b>	<b>3,048,611</b>

# GARD P. & I. (BERMUDA) LTD.

## Income and expenditure accounts on lines of business

Amounts in USD 000's	P&I	M&E	21.02.17 to 20.08.17 Consolidated
Premiums earned gross	266,501	105,041	371,542
Premiums earned net	214,747	93,131	307,878
Claims incurred for own account*	129,446	69,657	199,103
Operating expenses	18,721	19,258	37,979
Result on technical account	66,580	4,216	70,796
Result on non-technical account	63,007	16,068	79,075
Result ordinary operations	129,587	20,284	149,872
Combined ratio net	69%	95%	77%

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

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