S&P Global
Ratings

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Gard Group

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Gard Group

SACP* Assessments					SACP*		Support		Ratings
Anchor	a+	+	Modifiers	0	= a+	+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0	Liquidity	0	Group Support	0	A+/Stable/--
Strong									
Financial Risk			Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Extremely Strong									

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Overview

Strengths	Weaknesses
• Extremely strong capitalization. • Good diversification across marine lines. • Largest member of the International Group (IG) of P&I Clubs, which buttresses Gard's competitive strength.	• Concentration in the volatile marine sector.

Rationale

Gard is the largest and best-diversified of the 13 protection & indemnity clubs of the IG. Financially, Gard enjoys an extremely strong risk-based capital adequacy and a wide capital base. Its recent profit record has been strong and stable. In spite of the relatively volatile nature of the protection and indemnity sector, Gard derives financial flexibility from its ability to make unbudgeted supplementary calls. With strong ERM backing, Gard is unlikely to experience losses outside its risk tolerance and is well equipped to cater to the needs of managing client risks in the marine industry.

Outlook: Stable

The stable outlook reflects our view that the group's earnings are likely to support its capital adequacy such that our assessment of its capital and earnings does not fall below strong. Furthermore, we expect the group to maintain its strong business risk profile via its brand strength.

Downside scenario

We do not expect to lower the ratings in the next two years. However, we could do so if the group's risk-based capital adequacy falls below the 'AA' (very strong) range, or if operating performance materially deteriorates below our expectations during the next two years. This could result from Gard suffering substantial investment losses outside its risk tolerance.

Upside scenario

We do not anticipate raising the ratings during the next two years. Gard already enjoys an extremely strong financial risk profile, our highest assessment, and a stronger business risk profile would require considerable diversification away from the marine sector.

Base-Case Scenario

Macroeconomic Assumptions

- Global shipping companies will continue to face difficult operating conditions, characterized by fragile demand and chronic structural oversupply in the industry.
- Charter rates might finally be bottoming out in subsectors. That said, they remain subdued and this, combined with the rising price of the oil-based fuel used to run ships (bunker fuel), will continue to constrain cash flow generation for most ship operators.
- Neither the IG pool structure nor the pool sharing methodology will change significantly.
- Increased capacity in the reinsurance markets will continue to have a positive impact on IG group reinsurance and retention protection premium and terms.

Company-Specific Assumptions

- Gard will retain its position as the largest IG club, as measured by gross written premium and total assets. We expect gross written premiums to be around $770 million in FY2019 (assuming no deferred call rebate).
- A combined (loss and expense) ratio of 93% in FY2019. For FY2020-FY2021, we expect loss experience to be 97%-103%.
- We expect that investment losses will see Gard make a loss in FY2019, before profits revert closer to historical norms of around $60 million in FY2020 and FY2021.
- We expect the group's risk-based capital to be managed at the 'AAA' (extremely strong) level using S&P Global Ratings' model over the next three years.

Key Metrics

	Year ending Feb. 20					
	2020F	**2019F**	**2018**	**2017**	**2016**	**2015**
Net Earned Premiums ($ in m)	634.0	613.0	626.0	617.2	727.5	804.7
Net Income ($ in m)	66.0	(25.0)	114.0	122.0	48.1	49.5
P/C Net Combined Ratio (%)	97.0	93.0	91.0	95.2	86.8	92.4
S&P Capital Adequacy	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Very Strong

Company Description

Gard P&I was established in Norway in 1907 as a marine mutual P&I club. Measured by size of gross premium calls, total assets, and free reserves, Gard P&I is the largest of the 13 global P&I clubs that make up the IG of P&I clubs.

Business Risk Profile: Strong

Overall, the global marine P&I sector--being largely exposed to developed markets--presents low country risk. IG's presence provides high barriers to entry but, given the inherent volatile nature of earnings in this sector, we view profitability as negative.

Gard has a strong competitive advantage, in our view, mainly stemming from its leading position within the IG, which provides P&I cover to more than 90% of the world's shipping. Gard enjoys the highest market share, at 17%, in terms of poolable tonnage within the IG. It has diversified more successfully than any other club into the Marine and Energy segment. Through its ownership of Gard Marine & Energy Ltd. (Gard M&E), Gard is also one of the largest marine insurers globally.

Owing to falling insurance rates and moderate growth in the world fleet, Gard's premium volumes decreased by 6% to

$775 million in FY2018 on an ETC basis. Marine markets are likely to face pricing pressure in FY2019 and we expect Gard's premiums to shrink further by 3%-4% in FY2019 before recovering to 3%-4% growth in FY2020 and FY2021 as the pricing pressure in the sector eases. Due to the decline in premiums across the sector, such a performance would, however, likely see Gard's share of global P&I premiums (currently 17%) increase slightly.

In terms of gross tonnage, Gard reported a net increase in tonnage of 7.6 million gt in 2018, 4.6 million net increase during the year and a net increase of 3 million gt after renewal, higher than the modest net increase of 1.1 million gt in 2017.

Financial Risk Profile: Extremely Strong

Gard's capital is securely established at $1.3 billion in 2018 and shrinkage of premiums, has reduced the strain on Gard's capital base. Consequently, its capital surplus over the 'AAA' threshold on our model has increased. We expect premiums to be lower again in 2019 and Gard plans to increase capital in line with business growth when such growth returns. Even allowing for Gard continuing its recent habit of reduced deferred calls, we expect the capital base to remain above $1 billion over our three-year rating horizon.

In FY2018 the group reported a combined ratio of 91% on an estimated call basis, higher than FY2017. The combined ratio for P&I was 92%, and for Marine & Energy it was 88%. Gard did not call the final instalment of the year's premiums, which was $79 million. Deducting this from premiums raises the combined ratio to 104%. Nevertheless, Gard's recent performance compares favorably to its peers within the IG.

Gard continued to produce strong technical performance (absolutely and relative to peers) in FY2019, the combined ratio in H1 being 78%. We expect, however, that investment losses will more than offset technical profitability and lead to a bottom-line loss for the year ended February 2019. Nevertheless, we take comfort from the technical performance and expect that the Club will return to profitability in subsequent years.

While marine P&I can be a volatile business line, we see Gard's strong track record of producing stable and profitable technical returns as positive.

Gard's portfolio is well spread by sector and obligor and is expected to remain broadly similar over the next two years. However, Gard has material exposure to high-risk assets such as equities and real estate funds, compared with non-life insurance industry norms, which creates potential volatility in its capital and earnings.

Like its P&I peers, Gard has the ability to make unbudgeted supplementary calls on its mutual members, which enhances our view of its financial flexibility.

Other Assessments

We assess Gard's ERM as strong overall, and we believe it is highly unlikely that Gard will experience losses outside of its risk tolerances.

The group's cost-effective access to excellent legal, technical, and administrative capabilities enables it to assist members and clients in the marine industry.

The club's liquidity is strong and it is well positioned to absorb larger claims in size or frequency largely due to the very strong credit quality of its bond portfolio.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models, Jan. 24, 2011
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of January 10, 2019)	
Operating Companies Covered By This Report	
Gard P&I (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Assuranceforeningen Gard - gjensidig -	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Gard Marine & Energy Insurance (Europe) AS	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Gard Marine & Energy Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Domicile	Bermuda

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable

Ratings Detail (As Of January 10, 2019) (cont.)

across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.