S&P Global
Ratings

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Gard Group

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Gard Group

Anchor	a+	+	Modifiers	0	=	SACP	a+

Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

+

Support	**0**
Group support	0
Government support	0

=

A+/Stable/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
Gard (or the "club") has a dominant market share in the P&I sector with strong brand recognition and robust historical operating results.	Although more diverse than peers within its marine specialism it lacks product diversification outside marine-related risks.
Extremely well capitalized based on results of our risk-based model.	The club is exposed to the volatility of other International Group (IG) clubs' claims through the IG's pooling system.
Strong risk management capabilities have reduced volatility in its underwriting result.	Market conditions in recent years have been tough and rate increases in short supply within its main P&I product.

Bermuda-domiciled Gard will remain the dominant player in the P&I market and a significant participant in the marine market more widely. We expect that Gard will remain the largest player in the P&I sector with a market share of close to 18%. We expect that rate increases in the hull market will mean that this line of business grows so that it makes up around 25% of group revenues.

Gard will maintain an excess of capital at our 'AAA' benchmark. Gard holds a significant excess of capital over our 'AAA' benchmark along with a regulatory solvency level of 282%. We expect that the club will reduce the level of capital surplus over the next two years, but still maintain a comfortable excess at the 'AAA' benchmark.

Like the majority of its peers, Gard remains largely undiversified outside of its marine specialism. Although Gard is more diversified than any of its P&I peers writing both hull and energy covers alongside its core P&I offering, it remains largely undiversified outside of its marine specialism. The majority of its peers at the 'A+' level will have more product diversification with many writing both life and non-life products or having a significant non-risk-bearing income stream. Gard is therefore exposed to the fortunes of one sector than many of its 'A+' peers.

Outlook : Stable

The stable outlook reflects our view that the club will retain its pre-eminent position in the P&I and marine sectors and maintain capital above our 'AAA' category over the next two years.

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 consistently below our 'AAA' levels, 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.

Key Assumptions

- Global GDP growth to slow.
- P&I rates to improve, but at a measured rate.
- IG's pool structure will not change significantly.

Key Metrics

	2021f	2020f	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premium written (mil. €)*	~840	~800	760	696	735
Net income (mil. €)	~65	~50	-90	114	125
Return on shareholders' equity (%)	2-7%	0-5%	-7	10	12
P/C: net combined ratio (%)*	95-100%	97-102	110	91	83

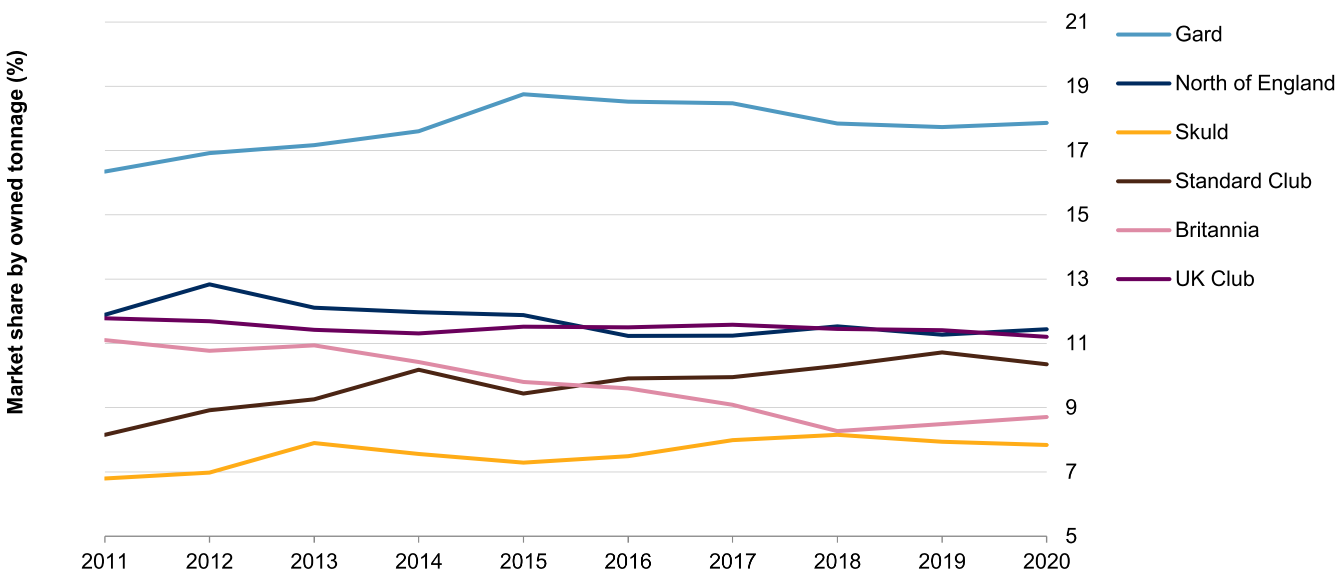
f--S&P Global Ratings forecast. *On an estimated total call basis.

Business Risk Profile: Strong

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 close to 18%, in terms of poolable tonnage within the IG. Its nearest competitors, North and the UK Club, have market shares just over 11%. Gard benefits from strong relationships with both members and brokers in the marine market and has a reputation for its quality service to insureds. Gard has also returned over $400 million of premium (more than any other club) through reductions in the final instalment of premium to mutual P&I members since 2011. In our opinion, this further enhances member loyalty and the club's reputation in the market.

Chart 1

Gard Continues To Dominate The P&I Market



Source: S&P Global Ratings. Data from Arthur J. Gallagher (UK) Ltd.

Gard is one of the most diversified members of the IG, writing both hull and marine covers alongside its core P&I offering. By offering these products Gard has become somewhat of a one stop shop for marine risks and the club is able to cross sell its products. Gard has been more successful in its diversification than any other club with both hull and energy lines having boosted the bottom line in recent years. We note, however, that the club still remains significantly undiversified outside of its marine specialism compared to other 'A+' peers such as Lloyd's and If.

As a mutual, Gard balances many factors when deciding its strategy. Unlike non-mutual players, Gard looks beyond risk versus reward optimization measures when thinking about strategic risk. For example, the club's fixed premium business is undertaken to subsidize the mutual P&I business, with the aim of reducing premium for mutual members. Nevertheless, we believe that Gard still remains disciplined in pricing its business, responding to trends in the market with changes in underwriting decisions. This is demonstrated by the continuing profitability of its core P&I line.

Owing to falling insurance rates and moderate growth in the world fleet, Gard's premium volumes have decreased in recent years from close to $1 billion in 2015 to $800 million in 2019. We expect that Gard's premium base will return to growth in the year ended Feb. 20, and then grow by around 5% a year. In particular, we expect that Gard's hull book of business will experience growth in rates in 2020-2022 as many competitors have left or significantly reduced their exposure to this sector. We expect more moderate growth in the club's P&I line in terms of rates. The club is one of the few clubs not to have announced a general increase for its mutual P&I members for the policy year 2020-21, meaning the club has now not applied a general increase for four years. We think that Gard's below-average increases and return of premium may drive volume growth in its P&I book over the next couple of years.

Financial Risk Profile: Very Strong

Gard has maintained an excess of capital above our 'AAA' benchmark for some time and we believe that the club will continue to sustain a comfortable surplus over the next two years. The club also has an ample excess of capital on a regulatory basis with a Solvency ratio of 282% at year-end 2019 (the second highest ratio in the IG). We expect the moderate growth in premiums we forecast over the next two years along with continued returns of premium to members to slightly reduce the amount of surplus the club holds under both of our capital model and regulatory solvency. However, we expect the club will still be among the top quartile of P&I clubs in terms of capitalization over the next two years.

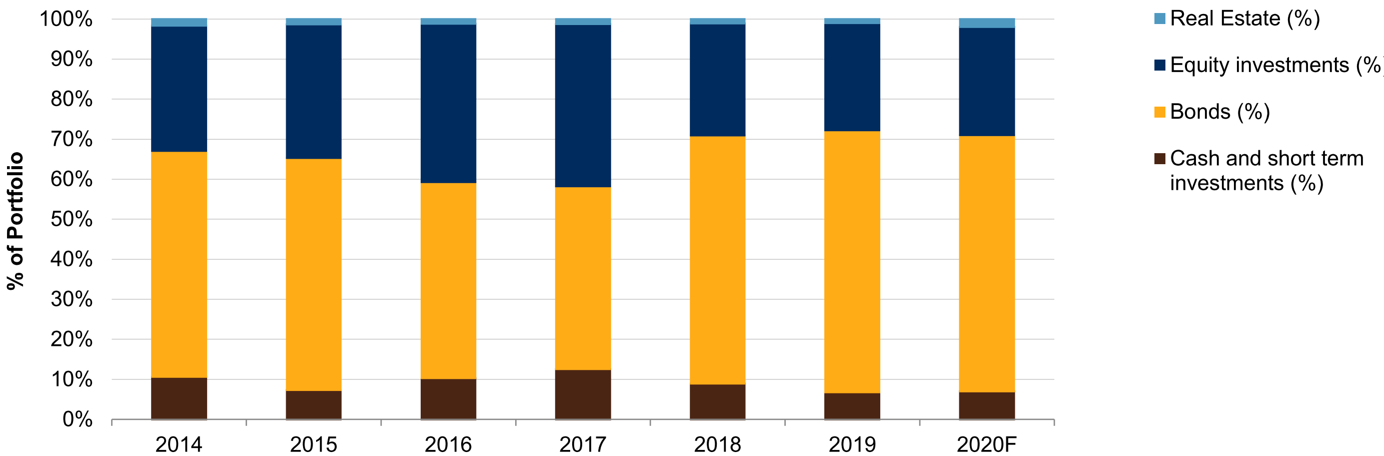
In FY2019, the group recorded a loss of $90 million--the first for over five years. This was driven by both an investment and underwriting loss. Like many of its peers, the club suffered as a result of a higher-than-expected amount of pool claims and large claims in its own book. This resulted in a 110% combined ratio (117% when the impact of returned premiums are taken into account), significantly higher than the 91% recorded in 2018. A $40 million write off related to an IT project also hindered the club's result. Excluding this, Gard's combined ratio improves to 101%. Nevertheless, Gard's recent performance compares favorably to its peers within the IG, with a five-year average of 91% (99% when including the impact of returned premium). We expect Gard will return to profit in FY2020 with a combined ratio of close to 100% and a reasonable investment return. At half-year, the club reported net income of $64.7 million and a combined ratio of 96%. The investment portfolio yielded 3% at half year as interest rates fell globally.

We view the P&I line of business as a volatile business line, with the large amount of pool claims producing significant volatility in capital and earnings. However, we view Gard as less exposed compared to peers due to its strong track record of producing stable and profitable technical returns, its flexibility in its policy of returning premium to members, and the strong risk controls it maintains, especially in its underwriting portfolio.

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 and many of its P&I peers, which creates potential volatility in its capital and earnings.

Chart 2

Gard's Portfolio Remains Higher Risk Than Many Of Its Peers



Source: S&P Global Ratings.

Other Key Credit Considerations

Governance

We consider Gard's governance to be in line with that of the majority of the P&I clubs. The majority of Gard's Board are ship-owner members.

Gard's executive team has been led by Rolf Thore Roppestad since 2014 and has been relatively stable in recent years. In 2019, Gard appointed Christian Pritchard–Davies to the CFO role.

Gard has a strong risk management culture, with a Chief Risk Officer in place and a group risk committee made up of non-executive directors.

Liquidity

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

Group support

We assess Gard P&I (Bermuda) Ltd, Assuranceforeningen Gard –gjensidig, Gard Marine & Energy Ltd., and Gard Marine & Energy Insurance (Europe) AS, as core to the Gard group. These entities therefore share the rating of the overall group (A+/Stable/--).

Accounting considerations

The group prepares its consolidated financial statements under local generally accepted accounting principles. We view the group's financial communication and disclosure as sound and transparent.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- 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

Appendix

Credit Metrics History

	2019	2018
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	2,260	2,354
Total shareholder equity	1,159	1,249
Gross premium written	760	696
Net premium written	606	562
Reinsurance utilization (%)	20.2	19.3
EBIT	-108.8	123.1
Net income (attributable to all shareholders)	-90.2	114.2
Return on revenue (%)	-16.6	2.1
Return on shareholders' equity (%)	-7.5	9.6
Property/casualty: Net combined ratio* (%)	117.3	104.0
Property/casualty: Net expense ratio (%)	24.9	16.4
Property/casualty: Return on revenue (%)	-16.4	2.2
EBITDA fixed-charge coverage (x)	N/A	N/A
EBIT fixed-charge coverage (x)	N/A	N/A
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	N/A	N/A
Financial obligations/adjusted EBITDA (x)	N/A	N/A
Financial leverage including pension deficit as debt (%)	N/A	N/A
Net investment yield (%)	0.1	1.4
Net investment yield including investment gains/(losses) (%)	-0.4	5.9

N/A--Not applicable. *Includes the impact of premium return to members.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	**a+/a**	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of December 11, 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 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.