Half Year Management Report

20 August 2009

CEO'S STATEMENT

2009 has been a difficult year for the maritime industries as they continue to suffer from the global economic recession. Our core purpose is to have the capabilities and financial strength to help our Members and clients to mitigate their risks and, when times are tough, it is more important than ever that we are in a position to do so.

We are pleased to report that for the first half of this financial year we made a profit of USD 197 million and increased our free reserves to USD 627 million. Our assets now total USD 2.02 billion. This is a result of the strong performance from the insurance side of the business, as well as the recovery in the financial markets.

While the condition of the underlying shipping market remains depressed, we have nevertheless seen a stable volume of business written in the past six months. Our underwriting result was positive and the combined net ratio for the period was 92 per cent. The drivers behind this were a benign claims environment and a continued focus on achieving the right pricing and risk selection. The decline in utilisation rates for most shipping segments around the world also means that claims have reduced, but there is no room for complacency as the claims picture has already started to normalise.

In P&I, the mutual book has continued to perform well and we now have 131million gt on the books; this ongoing growth underlines the trust our Members have in the Gard operation. In Marine & Energy we had budgeted for a decline in premium, but we are pleased to say that – to date – income has been better than planned.

Our ongoing financial strength is one of the pillars on which the future of our business is built, and without it we are unable to help our Members and clients. For this reason, we have been taking active steps to ensure that our investment portfolio reflects the changing risk environment. For the first half of the year, the balance on our non-technical account was USD 169 million, with the recovery in the financial markets playing a positive role. However, from this position we have been 'de-risking' the portfolio and reducing the portion invested in the equity markets.

Our new underwriting organisation is now fully in place and our customer-focused teams are getting ready for the next set of renewals. So far, the response from our clients has been positive, and they welcome the fact that we are allocating our resources so that we can understand and meet their needs as intelligently as possible. We hope that as the months and years go by, this will deliver real benefits in terms of efficiency, effectiveness, knowledge and expertise.

Claes Isacson
Chief Executive Officer

UNDERWRITING

Through the spring and summer, we have been implementing the new underwriting organisation with a series of internal and external initiatives. Internally, a series of 'campus' training courses have been held to share technical expertise and practical experience between underwriters. Our new specialist functions – market research and analysis, products, technical underwriting, and documentation and support – are all now resourced and are operating at full strength.

Externally, we have been talking to our Members, clients and brokers about the new structure and have received a positive response, with many commenting that this unified way of working may well be the way of the future. Our geographic teams for shipowners and charterers, as well as those concentrating on industry segments such as oil and gas companies, offshore, trader charterers, small craft risks, and marine builders' risks, are now gearing up for an autumn of client-visiting. This will give the managers and underwriters an opportunity to introduce the new teams and start focusing on the coming renewals.

P&I

The claims development in the first six months of the year has been below budget overall, mainly due to a lower than expected frequency and severity of large claims, combined with those claims within our own retention level of USD 7 million being as expected.

In terms of volume, the book is marginally above where it was for the same period last year, with volume growth of some five per cent. Given the slowdown in the maritime industries overall, this result is a good one. We are still growing in a number of sectors that we have identified as being strategically important, and we believe that this ongoing growth – despite our more conservative pricing strategy – underlines the trust our Members have in the Gard operation.

MARINE

The summer season was a busy one and there was no doubt that the economic troubles in the shipping market – double digit falls in hull values and day rates – were being felt in the marine insurance market. As a result, we had budgeted for a small decline in premium income this year.

However, the insurance market overall has been hardening steadily over the last six months and the volume of business written has been slightly better than planned. This trend has now eased slightly and the market is broadly stable, with only small increases being seen.

ENERGY

The energy book had a good first quarter, with Gard being appointed to the leadership panel for some significant accounts.

Prices in the energy market increased steadily, by an average of seven per cent, this year. However, with a very quiet hurricane season, many buyers are reluctant to pay more for their Gulf of Mexico coverage. With the competitive environment relatively unchanged, it is hard to see where increased pressure for rises might come from, and therefore the speed at which prices have been increasing has started to flatten out.

MARINE BUILDERS' RISKS

The problems in the construction yards have been well-documented, with virtually no new contracts being signed and a fair number of cancellations. While it is still a significant part of the portfolio, it has inevitably been affected by the fact that there are very few contracts beyond 2012.

CLAIMS

Our claims services are affected by, and responsive to, the market conditions faced by our Members and clients. For example, the slowdown in cargo movements in many shipping segments has reduced the frequency of P&I claims; the improved repair yard and spare part availability have both helped on the hull and machinery side; and the economic climate has created a strong need for the services that our Defence lawyers can provide.

Our goal is to be the most trusted provider of claims solutions – both in the scope of the service we provide and the results that we achieve. This requires a constant focus on developing our skills and our understanding of the markets we serve, as well as on running a cost-effective operation.

ENERGY

The claims picture in energy has undergone a shift in the last quarter, with a number of claims relating to well-servicing and offshore rigs. The latter have seen collisions and blow-outs, resulting in physical damage and business interruption claims. However, the very benign hurricane season – so far – has been good news for the sector.

MARINE BUILDERS' RISKS

Following a run of casualties in the spring, the three months to 20 August did not see any new losses.

MARINE

Overall, claims are in line with expectations, although the period from June to August saw more significant casualties than usual in both hull & machinery and loss of hire. However, a positive feature of this period was several successful third-party recoveries – a testament to an increased vigilance to exploit opportunities.

Repair yard availability has improved, partly due to cancellations of newbuilding orders. On the other hand, difficult market conditions for shipowners and yards alike may affect the speed with which repairs are carried out, leading to inflated loss of hire claims. Another focus at present is the technical quality of ships built during the boom years.

P&I

Both the frequency and severity of P&I claims were slightly lower than the same period last year, and this was most noticeable for cargo claims. No reported claim exceeded the Club retention of USD 7 million, however, there were a number of serious collisions – some tragically involving loss of life. This demonstrates that less active shipping markets are no guarantee against shipboard errors. Prudent reserve setting is a key aspect of dealing with long tail claims, and several older claims have been finalised close to the level for which they were reserved.

DEFENCE

Tough times in the shipping industry have meant busy times for the Defence team, with the number of claims up compared to the same six months the year before. Claims are also generally larger and more complex, reflecting the fact that, in times of need, Members are looking for help and support from their Defence insurance.

This high level of activity means that we are growing the team – both by adding to resources in our existing offices, as well as by recruiting a Defence claims handling specialist for our Greek office.

LOSS PREVENTION AND RISK ASSESSMENT (LPRA)

Over the last six months, we have seen a fall in the number of entry surveys – primarily due to the reduction of vessels entering the Club that are more than 12 years old. Our LPRA team has therefore been able to undertake more condition surveys. In consultation with the underwriting and claims staff, we continue to target ship categories that are considered high risk, both from a safety and claims frequency/severity perspective.

A new fleet assessment tool providing a host of ship-specific information to aid the underwriting process has been developed in-house. It is now an integrated part of the underwriting guidelines.

Our circulars and case studies still receive very positive feedback – on average we distribute some form of information every two weeks to more than 1,200 individual recipients – reinforcing our position as a market leader in this type of information sharing.

SUMMARY COMBINED CONSOLIDATED INCOME AND EXPENDITURE ACCOUNTS AND BALANCE SHEET

Summary combined consolidated income and expenditure accounts

(All amounts are stated in USD 000's)

Six months to 20 August	2009	2008
Premiums and calls*	392,208	390,564
Premiums earned net	335,327	341,267
Claims costs net**	253,636	300,150
Operating expenses net	54,477	49,263
Result on technical account	27,214	(8,146)
Result on non-technical account	169,335	(40,376)
Surplus/(deficit)	196,549	(48,522)
Combined Ratio Net (CRN)	92%	102%

* Premiums and calls 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 net are included in Claims costs net.

Summary combined consolidated balance sheet

(All amounts are stated in USD 000's)

As at	20 August 2009	20 February 2009
Investments at market value	1,015,368	904,147
Cash and equivalents	558,531	438,828
Other net assets	446,980	323,798
Net assets	2,020,879	1,666,773
Unearned premium reserve for own account	264,346	147,639
Provision for outstanding and unreported claims	1,052,800	1,020,163
Other liabilites	76,776	68,563
General contingency reserve	626,957	430,408
Net equity and liabilities	2,020,879	1,666,773

Investments at market value in the wholly owned subsidiary Gard Marine & Energy Limited was USD 465 million as at 20 August 2009 (USD 420 million as at 20 February 2009).

GARD P&I AND M&E RESULT ON TECHNICAL ACCOUNT

Income and expenditure accounts on lines of business
(All amounts are stated in USD 000's)

Six months to 20 August 2009	P&I	M&E	Combined consolidated accounts
Premiums and calls	236,224	155,984	392,208
Premiums earned net	198,769	136,558	335,327
Claims incurred net	134,267	106,613	240,880
Claims handling costs*	11,005	1,751	12,756
Claims costs net	145,272	108,364	253,636
Operating expenses net excluding claims handling costs	26,824	27,653	54,477
Result on technical account	26,673	541	27,214
Result on non-technical account	84,959	84,376	169,335
Result ordinary operations	111,632	84,917	196,549
Combined ratio net	87%	100%	92%

* Claims handling costs' share of operating expenses net are included in Claims costs net.

This report has been prepared by Gard AS, managers of Assuranceforeningen Gard (the Association), from data and accounts provided by the Association and its 'sister' company, Gard P&I (Bermuda) Limited (the Bermuda Association), and Gard Marine & Energy Limited.