

Gard Group

Financial Strength Rating

Local Currency
A/Stable/—

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Major Rating Factors

Strengths:

- **Very** strong competitive position, supported by the significant barriers to entry within protection and indemnity insurance
- Strong capitalization supported by conservative reserving and reinsurance
- Strong financial flexibility based on ability to make unbudgeted supplementary calls and impose significant premium increases at renewal

Weaknesses:

- Concentration on volatile insurance classes where claims size and frequency is unpredictable
- High investment-risk tolerance compared with insurance industry norms

Rationale

The ratings on Bermuda-based marine mutual protection & indemnity (P&I) association Gard P&I (Bermuda) Ltd. and its Norway-based sister mutual club Assuranceforeningen Gard - gjensidig - (collectively known as Gard P&I or the club) and Bermuda-based Gard Marine & Energy Ltd. (Gard M&E) and Sweden-based Gard Marine & Energy Forsäkring AB (Gard M&E AB), reflect the companies' core status as principal operating entities of the Gard group (Gard). The major rating factors of Gard are its very strong competitive position, strong capitalization, and strong financial flexibility. Partially offsetting these strengths are Gard's concentration on volatile insurance classes and its investment strategy, which remains aggressive compared with non-life insurance industry norms.

Gard P&I has a very strong competitive position, supported by the significant barriers to entry within P&I insurance. We believe the club's competitive position will benefit from not

having made an unbudgeted supplementary call in the run up to the February 2009 renewal, unlike some of its peers. With a market share of approximately 14%, Gard P&I is the largest (as measured by gross premium calls, assets, and free reserves) of the 13 global P&I clubs that make up the International Group of Protection & Indemnity Clubs (IG). In addition, through its ownership of Gard M&E, the Gard group is the third-largest marine insurer globally.

The Gard group has strong capitalization supported by its very strong capital-adequacy, measured using our capital model, and its conservative approach to reserving and reinsurance. Gard's capital adequacy has recovered from its weakened position at the Feb. 20, 2009 year-end, largely due to a recovery in the mark-to-market value of its investments and the strong underwriting results, which increased free reserves to \$666 million in November 2009 (\$430 million in February 2009).

Gard's strong financial flexibility derives from its ability to collect unlimited additional premiums by making unbudgeted supplementary calls on open policy years. In addition, the club can impose significant premium increases at renewal, demonstrated by the high general increases for the 2008 and 2009 policy years. However, the club's financial flexibility is not quite as strong as for some of its peer group because this ability applies only to the P&I club's mutual members (likely to account for about 45% of total premium at February 2010), and not to Gard M&E policyholders or fixed premium P&I business.

Overall operating performance is considered strong in the context of its mutual status. However, Gard's concentration on the volatile P&I and M&E insurance sectors means that there exists potential for significant earnings volatility and regular underwriting losses, as demonstrated in prior years. Following the weak results in February 2009 caused by investment losses, Gard posted a record post-tax profit of \$236 million in November 2009, supported by investment gains and underwriting profit. Consequently, if there is no abnormal loss experience for the remainder of the financial year, we believe that the Gard group is likely to post a bottom-line profit of about \$250 million.

In spite of a reduction in investment risk tolerance since February 2009, Gard maintains an investment portfolio which we view as aggressive relative to the non-life insurance industry as a whole. The club retains a large exposure to market risk, which can lead to volatility in net income and free reserves.

Outlook

The stable outlook reflects Standard & Poor's view that Gard will maintain its very strong competitive position, strong capitalization, and strong financial flexibility. We consider that Gard's operating performance is likely to remain volatile, but we do not expect it to reduce to a level that would cause the capital adequacy to fall below that commensurate with its current ratings.

Corporate Profile: An Important P&I And Hull Insurer

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.

In February 2005, the Gard group bought out the 42.1% minority interest in Bermuda-based Gard M&E previously owned by Swedish insurer If P&C Insurance Ltd. (publ) (A/Stable/—). Gard P&I Bermuda is a sister mutual P&I association to Gard P&I.

As part of restructuring to enhance capital management, starting from the 2010 policy year, 75% of the business will be written by P&I association Gard P&I (Bermuda) Ltd., which will form a branch office in Norway. At the same time, the Bermudian association will assume, via a quota share, 25% (previously 85%) of the risks of sister marine mutual club Assuranceforeningen Gard - gjensidig, (members are the same as for the Bermudian association) which will assume, via a quota share, 2% (previously 15%) of the risks incurred in relation to members directly entered into the Bermudian association. Furthermore, a Bermuda-based captive reinsurer, Gard Re, will be established and Assuranceforeningen Gard – gjensidig and Gard M&E will cede about 50% of their retained business (after external reinsurance) to Gard Re.

Gard M&E is a wholly owned subsidiary of P&I association Gard P&I (Bermuda) Ltd. Gard M&E's 100% subsidiary, Gard M&E AB, writes business in the EU and the European Economic Area.

Competitive Position: Very Strong Largely Supported By IG's Current Structure

Table 1

<i>Gard Group/Business Statistics*</i>					
	— Year ended Feb. 20—				
<i>(Mil. \$)</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
<i>P&I</i>					
Gross calls	460	406.1	337.1	287.6	283.7
Annual change (%)	13.3	20.5	17.2	1.4	10.0
Net calls	372.3	307.7	258.1	208.9	196.2
Annual change (%)	21	19.2	23.6	6.4	12.0
Tonnage (mil. gross tons)	170	170	150	135	120
Annual change (%)	(1.6)	13.3	11.1	12.5	0.0
<i>Gard Marine & Energy Ltd.</i>					
Gross premiums written	340.6	313	300.3	262.4	247.5
Annual change (%)	8.8	4.2	14.4	6.0	1.8

*Combined consolidated accounts of Assuranceforeningen Gard - gjensidig with the accounts of P&I association Gard P&I (Bermuda) Ltd.

Gard's P&I product, which accounts for 58% of total premium, enjoys a very strong, although niche, competitive position. This largely reflects the club's membership of the IG, which provides P&I cover to more than 90% of the world's merchant fleet, and the resulting barriers to entry for non-IG providers. The club's competitive position within the IG is very strong, demonstrated by its continued ability to source new business while maintaining its membership diversity and providing marine industry services. Avoiding making unbudgeted supplementary calls in February 2009 and not imposing a general increase for the 2010 policy year, in our opinion, has enhanced the club's competitive position. In addition, through its ownership of Gard M&E, the dominant provider of M&E covers in the Nordic area, the Gard group is the third-largest marine insurer globally, behind Lloyd's (A+/Stable/—) and Allianz SE (AA/Stable/A-1+).

We anticipate that Gard's consolidated premium income in February 2010 will remain in line with the February 2009 level, when it stood at \$801 million. Gard P&I, with a gross premium calls of \$460 million over the same period, enjoys an excellent reputation within its sector, and the competitive advantage of a particularly close relationship with the Norwegian maritime industry, which remains

the world's fourth largest in terms of tonnage. Gard's leadership status has enhanced its influence among the marine mutuals of the IG and other industry bodies. Nevertheless, Gard is not resting on its laurels and it continues to develop new products in response to members' demands. This is reflected in its setting-up of Safeguard Guarantee Co. Ltd. (not rated) to provide cover under the Bunker Convention.

In October 2009, Gard P&I insured in excess of 170 million gross tons (gt), of which 118 million gt derived from owners' poolable entries and 14 million gt from owners' nonpoolable mobile offshore unit (MOU) entries, with the balance of just below 50 million gt in respect of both poolable and nonpoolable charterers' covers. Of the total owned tonnage (excluding MOU), 19% was domiciled in Norway, 49% in the rest of Europe, 22% in Asia, and 10% in the Americas. By type, 31% of the tonnage was tankers, 30% bulk carriers, 18% container vessels, 4% dry cargo vessels, and 21% other. The age profile of the fleet is stable, with an average age of about 12 years, which is reasonably recent by sector standards. In terms of membership concentration, the share of premium represented by the 10 largest members (eight of which have both P&I and M&E cover) remains relatively stable at 15%.

Gard M&E enjoys a strong competitive position in the Nordic and international M&E insurance markets. It provides hull and machinery, loss-of-hire, energy, and special risks coverage—the latter comprising builders' risk for shipbuilders. The importance of Gard M&E to Gard's overall competitive position is reflected in the fact that marine hull business accounted for 29% and energy for about 13% of total group gross premium income at Feb. 20, 2009.

Standard & Poor's considers that Gard has a strong service ethic with a high level of member support, and this is seen as a source of competitive advantage.

Prospective

We believe that the Gard group's very strong competitive position will be maintained as result of its strong brand, reputation, and the continuing benefits afforded to its P&I product through membership of the IG.

We forecast that Gard's gross premium income is likely to remain stable at year-end February 2011 compared to the February 2010 level. The impact of a deteriorating economy and constrained shipping market threatens the club's income. We do not expect the club to make unbudgeted supplementary calls in the near term because of its strong capitalization. We believe that if an unbudgeted supplementary call were to be made, it could place some downward pressure on the club's competitive position.

Management And Corporate Strategy: Clear Strategy Set To Meet Members' And Clients' Needs

The quality of Gard group's management contributes positively to the ratings. With all its management and services provided through the Norwegian and the Bermudian management companies, the Gard group has cost-effective access to world-class legal, technical, and administrative capabilities. This enables it to provide assistance to members and clients in the marine industries to manage risk and its consequences.

Strategy

The prime strategic priority is the maintenance of the club's financial strength as a means of ensuring a diversified, high-quality membership in what is essentially a shipowner-owned and shipowner-controlled organization. Neither growth nor the maximization of profits is explicitly targeted, and management considers that performance and growth will follow naturally from a selective underwriting policy. In our view, Gard has set itself apart from its peers by the success of its joint P&I/M&E strategy, demonstrated by the club's rise to a clear leadership position in its sector. This has strengthened Gard's competitive position and increased the diversification of its revenues and earnings.

Operational management

We consider operational management to be highly professional and highly efficient. Administrative functions are performed effectively and at relatively low cost, aided by the sharing of the Norwegian and Bermudian management infrastructure between the P&I and M&E operating entities. With the proposed restructuring (see corporate profile) the balance of the corporate governance infrastructure will shift further toward Bermuda.

Over the recent months, Gard has swept away the boundaries between its P&I and M&E products by moving away from product-based underwriting to combined underwriting teams that will offer a full range of products. Furthermore, with the help of an external consultant, Gard is in the process of improving its claims-handling platform through 2010. In our opinion, both of these initiatives will further enhance Gard's brand and reputation.

Financial management

Gard aims to provide financial stability to members and clients. As a mutual it does not have strong incentives to maximize profit. That said, it does aim to have appropriate levels of capital to withstand adverse developments. We believe that Gard exercises considerable prudence in the assessment of liabilities, and this, together with a conservatively defined comfort zone for free reserves, has helped to cushion slightly the impact of the 2008 investment losses. Despite the transfer of most business to Bermuda, Gard still intends to comply with the requirements of Solvency II. The group's own internal capital allocation modeling and the overall quality of its ERM enhance the quality of financial management.

Enterprise Risk Management: Strong In Spite Of Recent Shortcomings

Gard's enterprise risk management (ERM) assessment remains strong, in spite of the shortcomings exposed by the group's unexpected mark-to-market investment losses in February 2009. Standard & Poor's does not believe that these shortcomings were pervasive enough to warrant a change in the overall ERM assessment to adequate. A strong ERM assessment means that it is highly unlikely that Gard will experience losses outside of its risk appetite under normal circumstances. ERM is considered of moderate importance to the overall rating given the group's size, relatively simple structure, and virtual monoline status as a marine insurer; this is partially offset by the historical earnings volatility.

A part of the definition of the group's risk appetite addresses earnings volatility, and a more stable pattern has emerged over the past five years in terms of a less volatile underwriting performance, with the combined ratio showing an average of 102% and a standard deviation of 14.9% over this period. The most significant risks for Gard are insurance risks (underwriting and reserving) and market risks.

Although market-related risk resulted in sizable investment losses in 2008, these losses just fell within Gard's risk tolerances and the controls for insurance and market risks are assessed as strong. These controls are supported by a strong risk culture, which is open and transparent across its operations.

Gard has had an economic capital model in place for a number of years and as this is effectively used as part of its strategic planning, reporting, and performance management processes, this leads to a strong strategic risk-management score for the group. The group's operational risk controls, use of reinsurance, and emerging risk processes are also assessed as strong. The group's catastrophe risk controls are assessed as adequate despite the group having an effective internal risk monitoring process. This is predominately a result of the group's exposure to the claims of other P&I clubs over which it has limited control.

Gard has a very risk-aware culture and has had a process of control and risk self-assessments (CRSA) in place for more than 10 years. Risk appetite is defined using both quantitative and qualitative measures, and the risk limits at the operational level are closely aligned with these measures. Risk reporting is effective and allows management clear oversight of risk-taking activities across the group. The group has recently implemented a risk and capital committee, which we view as a positive development. The investment portfolio is managed with the help of external consultancy support. This aims to achieve regular optimization through effective matching of liabilities and also an explicit risk-reward consideration. However, the unexpectedly high correlation in the performance of equities and bonds in the second half of 2008 led to an underestimation of investment risk. Subsequently, Gard reduced the potential volatility in investment earnings by reducing the market risk.

The group's underwriting controls are transparent and effective, with a range of measures used to manage the insurance risk profile on an ongoing basis. All processes are widely available to staff using the internal intranet and an effective quality management system is in place to ensure that controls are implemented. All business is quality checked before it is put on to the books and these controls are further backed up by regular quality audits across portfolios. Most business has a technical price calculated using detailed risk allocations from the economic capital model. However, these technical prices are not fully tracked and monitored across the group. The reserving process is robust and is conservative in nature; this has led to Gard releasing reserves regularly over time. The reserves are calculated independently by the risk-management department and overseen by the separate claims accrual committee. Gard has enhanced its reserving methodology and tools. The Norwegian regulator has given Gard a dispensation and it is not required to obtain an external actuarial opinion on its reserves, but may seek one.

In addition to considering capital in terms of regulatory, rating, and economic requirements, Gard uses the output from the economic capital model to determine its options in relation to such aspects as insurance/investment risk balance, the added value of reinsurance purchase, and risk/reward trade-offs in investment asset allocation. This ability to make informed decisions based on optimizing risk-adjusted returns places Gard ahead of its P&I peers. Gard makes effective use of reinsurance to protect its financial strength. The current focus of the reinsurance program is capital protection, with little use made of reinsurance to help smooth earnings volatility. The CRSA is a comprehensive process to ensure that operational risks are effectively controlled. In line with a number of companies, Gard has not effectively managed to quantify all its operational risks. Gard is very aware of the possible impact that future risks might bring and regularly scans the risk environment to help it identify potential new trends to ensure that its underwriting process is up to date.

Accounting: Financials Amended To Account For IG Pooling Agreement

Despite the restructuring (see “Corporate Profile”), Assuranceforeningen Gard - gjensidig will continue to be regulated by the Norwegian Finanstilsynet (previously known as KreditTilsynet), while P&I association Gard P&I (Bermuda) Ltd. and its 100%-owned subsidiary, Gard M&E, are regulated in Bermuda. The Norwegian branch of Gard M&E is regulated by Finanstilsynet and from 2010 the new Norwegian branch of P&I association Gard P&I (Bermuda) Ltd. will also be under its supervision. Gard M&E AB is regulated by the Swedish Finansinspektionen.

Our analysis focuses on the accounts of the Gard group, which combine the consolidated accounts of Assuranceforeningen Gard - gjensidig with the accounts of P&I association Gard P&I (Bermuda) Ltd., observing the same conventions as if the two entities were under common ownership. These accounts have no formal legal standing. Gard expects the first stage of International Financial Reporting Standards (IFRS) to be implemented in Norway from February 2010. Standard & Poor’s does not expect IFRS to have any material consequences for the ratings on Gard.

The financial statements include payments and recoveries relating to the IG pooling agreement. As the pooling agreement provides a mutual reinsurance mechanism for the IG, we have treated the amount paid into the pool of \$21.4 million at February 2009 (\$39.3 million in 2007/2008) as ceded reinsurance premiums, rather than gross claims incurred. Gard’s share of the IG’s Bermuda-based protected cell captive reinsurer, Hydra Insurance Co. Ltd. (Hydra; unrated), is consolidated within the financial statements.

The only key adjustment made within Standard & Poor’s risk-based capital model from published financial statements relates to recognition of a loss-reserve discount.

Operating Performance: Strong Underwriting Performance Largely Supported By Non-Mutual Business

Table 2

<i>Gard Group/Operating Statistics*</i>					
	<i>—Year ended Feb. 20—</i>				
<i>(Mil. \$)</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Pretax result	96.4	144.6	26.2	24.7	52.9
Change in estimated free reserves (%)	(25.9)	13.4	16.8	12.7	18.6
Pretax result/average estimated free reserves (%)	19.1	26.5	5.5	6.0	14.8
Loss ratio (%)	61.0	92.5	96.6	90.1	84.3
Expense ratio (%)	15.9	16.8	16.9	20.3	17.3
Combined ratio (%)	76.9	109.3	113.5	110.4	101.6
Paid loss ratio (%)	71.3	72.6	73.0	70.2	75.5

*Combined consolidated accounts of Assuranceforeningen Gard - gjensidig with the accounts of P&I association Gard P&I (Bermuda) Ltd.

Overall operating performance is considered strong in the context of Gard P&I’s status as a mutual and the group’s concentration on volatile insurance classes with unpredictable size and frequency of claims. That said, Gard’s technical performance benefits from its nonmutual lines of businesses; in particular the M&E business, which gives it some diversification of earnings.

In February 2009, Gard posted a very strong combined ratio of 77% (109% in the previous year) because of premium rate increases and a favorable claims environment, coupled with reserve releases

that reduced the combined ratio by nine percentage points. Despite this, because of its high exposure to risky assets, Gard felt the impact of significant mark-to-market investment losses, which resulted in a net loss of \$150 million. That said, the recovery in investments, coupled with a strong underwriting performance, led to a record post-tax profit of \$235 million for the nine months to November 2009.

Historical

As a mutual, with a consequent absence of a motivation to maximize earnings, Gard P&I's long-term operating performance has proven strong, particularly relative to international marine sector norms. However, a constant feature of Gard's operating performance is its potential volatility, either through exposure to other clubs' claims via the IG pool or, as was amply demonstrated in 2008, through reduced, but still high exposure to falls in risky asset values. At an underwriting level, the three-year average combined ratio for the P&I book at year-end February 2009 stood at 105%, which is well below the IG average of 114% (excluding the impact of unbudgeted supplementary calls). On a consolidated basis, the M&E business reduced the combined ratio to 100%.

Prospective

We believe that Gard's underwriting performance for the year to February 2010 is likely to decline from the very strong performance in 2009; we anticipate a small underwriting surplus. The decline in performance largely stems from the build-up of a reserve margin and a high-profile claim. If loss experience for the remainder of the financial year remains normal, we believe that the club is likely to post a bottom-line result of about \$250 million in February 2010, largely due to its investment gains.

Over the medium term, we expect the underwriting performance to improve over prior years, as the group feels the benefits of premium increases for the P&I and marine hull business. We forecast that the group will, in the medium term, achieve respectable combined ratios averaging close to 100%. However, although Gard's focus is on maintaining the strength of its balance sheet, as always, there exists potential for significant earnings volatility and regular underwriting losses arising from the industry risk profile of both the P&I and M&E sectors, particularly given the general volatility and uncertainty of major loss distribution. Another traditional feature of Gard's operating performance, that of volatility in financial return, has been partly addressed through a reduction in exposure to equities, which will increase the emphasis on achieving underwriting profitability.

Investments: Aggressive Relative To Non-Life Insurance Industry, But Not By Comparison With Peers

Table 3

<i>Gard Group/Investment Statistics*</i>					
	<i>—Year ended Feb. 20—</i>				
<i>(%)</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
<i>Portfolio performance</i>					
Investment yield	2.8	1.7	2.4	2.7	3.6
Total investment return	(3.5)	13.3	5.7	6.0	5.8
<i>Portfolio composition</i>					
Shares	25	31	28	26	19

Table 3

Gard Group/Investment Statistics* (cont. 'd)

(%)	—Year ended Feb. 20—				
	2009	2008	2007	2006	2005
Bonds	41	51	61	65	75
Cash and bank deposits	32	16	9	7	4
Real estate	2	2	2	2	2
Total	100	100	100	99	100

*Combined consolidated accounts of Assuranceforeningen Gard - gjensidig with the accounts of P&I association Gard P&I (Bermuda) Ltd.

Strategy

The credit quality and other exposure risks of investments are good overall, but in common with the rest of the IG, the significant exposure to volatile assets led to large mark-to-market losses in the year ended Feb. 20, 2009; total investment return for Gard was negative \$293 million. Recoveries in global financial markets have reversed a significant proportion of these unrealized losses; for the nine months to November 2009, Gard's investment gains were \$209 million. Following its experience in 2008, Gard has moderately reduced its investment risk tolerance but, in our view, still retains a high investment risk appetite compared to the non-life insurance industry norms.

The club's benchmark for its invested assets (excluding a working capital of about \$60 million-\$80 million held as cash) weighting toward the most volatile asset classes has reduced from 35% (30% in equities and 5% in hedge funds) to 20% (15% in equities and 5% in real estate). The benchmark allocation for the remaining assets is 50% in government bonds (previously 45%), and corporate bonds 30% (increased from 25%).

Credit risk

The credit quality of fixed-income portfolio is very strong, with 80% of this asset class held in 'AAA' rated bonds. Bonds rated 'A' or higher represented 93% of the portfolio.

Market risk

Gard is heavily exposed to market risk, with a benchmark weighting of 20% of invested assets in equities and real estate. In February 2010, these financial instruments are likely to account for about 45% of the free reserves.

Asset-liability management

Gard matches liabilities by currency. The average duration of Gard's bond portfolio, at about three years, is consistent with the company's estimate of the mean term of the respective underlying liabilities, which is two years for the P&I business and 1.5 years for M&E.

Liquidity: Strong

Liquidity is regarded as strong. On a consolidated basis, liquid assets represented about 80% of the total assets in February 2009 and 131% of net technical reserves. Gard also maintains a committed funding line of \$75 million.

Capitalization: Strong, But Investments Add Volatility

Gard's strong capitalization benefits from a conservative approach to both reserving and the use of reinsurance, and also reflects its very strong capital adequacy, measured using Standard & Poor's proprietary model. However, the significant market risk (see "Investments") within Gard's balance sheet adds volatility to the capital adequacy, as we saw in 2008. Following the significant reduction in free reserves in February 2009, improvement in asset valuation coupled with strong underwriting results increased the free reserves to \$666 million in November 2009.

Capital adequacy

Gard's capital in February 2009 was reduced significantly to \$430 million (\$580 million in February 2008) caused by mark-to-market investment losses. Investment gains in 2009, coupled with the reduced investment risk and underwriting profit, improved Gard's risk-based capital (measured using Standard & Poor's proprietary model) to a very strong level; as such, we expect capital adequacy to comfortably support the rating in the near term.

Quality of capital

The quality of the capital base is strong, without a heavy dependency on "soft" forms of capital, such as a loss-reserve discount. No debt is used to supplement group capital, although the Gard group could issue hybrid equity if it so chose, given favorable market conditions.

Reserves

Reserves appear adequate. Following the reserve release in 2008, Gard has rebuilt its reserve margin (amount held in excess of its best estimate). Gard P&I has a long-established track record of conservative reserving, and has experienced a positive run-off of its reserves in almost all of the 11 years to February 2009.

Reinsurance

The reinsurance protection enjoyed by Gard P&I is conservative relative to its means, but cannot address the inherent volatility caused by other clubs' pool claims. In common with other marine mutuals, the club retains the first \$8 million (for the 2010 policy year) of each loss, with losses in excess of this amount up to \$50 million covered by the 13 IG clubs as a pool retention under the International Group Agreement, which includes the IG captive insurer, Hydra. Regarding nonpooled cover, maximum net losses are \$20 million per product line. The reinsurance program is of a high quality, with about 90% placed with reinsurers carrying a minimum 'A' range rating. The remaining exposure stems from the above-mentioned pooling agreement, for which the credit risk is to some extent mitigated by collaterals.

Financial Flexibility: Strong, But Constrained By Gard M&E

Table 4

Gard Group/Financial Statistics*					
	—Year ended Feb. 20—				
<i>(Mil. \$)</i>	2009	2008	2007	2006	2005
Total assets	1,667	1,931	1,733	1,530	1,362
Adjusted free reserves	430	580	512	438	389
Net calls/estimated free reserves (%)	157.9	100.6	101.9	92.0	101.8
(Technical reserves + estimated free reserves)/net claims paid (%)	330.0	432.8	429.7	505.2	429.3
(Technical reserves + estimated free reserves)/net premiums written (%)	150.1	188.4	187.5	212.7	202.5
Claims outstanding reserves/net claims paid (%)	210.7	259.5	256.7	303.1	268.0
Due from members/total assets (%)	8.5	8.8	7.2	5.0	7.2
Reinsurance utilization ratio (%)	15.1	18.8	18.1	26.7	25.5

*Combined consolidated accounts of Assuranceforeningen Gard - gjensidig with the accounts of P&I association Gard P&I (Bermuda) Ltd.

Financial flexibility (defined as the ability to source capital relative to capital requirements) remains strong, based on the club's ability to collect unlimited additional premiums (by making unbudgeted supplementary calls) from members on open policy years and impose significant premium increases at renewal. However, the club's financial flexibility is not quite as strong as for some of its peer group because this ability applies only to the P&I club's mutual members (likely to account for about 45% of total premium at February 2010), and not to Gard M&E policyholders or fixed premium P&I business.

Needs and sources

Operational needs for additional capital are modest, given only gradual growth in underwriting exposures. A need for additional capital could also arise if the group were to suffer an exceptional volume of underwriting losses. The preferred means of capital reinforcement would be through retained earnings and, particularly, stronger earnings generation from for-profit operations. Alternatively, hybrid debt capital could be raised, dependent on market conditions, or solvency enhanced through the increased use of reinsurance.

Although the Gard group's range of options as regards potential sources of capital is theoretically greater than that of its peers, particularly in relation to its ability to raise share capital in Gard M&E, in practice, Standard & Poor's considers it unlikely that this method would be used. Ultimately, in the event of a catastrophic claim or claims that exceed the protections available, Gard P&I, like other such clubs, has unlimited recourse to its members through unplanned, supplementary premium calls, with the last such call for Gard P&I having been in 1992.

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