

January 11, 2012

Gard Group

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Gard Group

Major Rating Factors

Strengths:

- 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 frequency and size of large claims is unpredictable.
- High investment-risk tolerance compared with insurance industry norms.

Operating Companies Covered By This Report

Financial Strength Rating

Local Currency

A/Positive/--

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. and Sweden-based Gard Marine & Energy Forsäkring AB (collectively known as Gard M&E), reflect the companies' core status as principal operating entities of the Gard group (Gard). The major rating factors are Gard's strong competitive position, strong underlying operating performance, and strong financial flexibility. Standard & Poor's Ratings Services considers, however, that volatility will remain a weakness in Gard's financial profile because of the prevailing level of financial and underwriting risks. That said, we anticipate that these will be within Gard's risk tolerances.

Gard enjoys a strong competitive position, supported by the significant barriers to entry within P&I insurance. Gard P&I has a market share of approximately 15%, which makes it the largest (measured by gross premium calls, assets, and capital) and the most respected 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, Gard is one of the largest marine insurers globally. Given its leading position within the P&I sector, we anticipate that growth in the group's premium is likely to come from the non-P&I marine business. Prices in this sector are generally softening but remain favorable, particularly for segments such as energy. We forecast that the group's gross premium is likely to reach about \$850 million (\$792 million in February 2011, before the adjustment to the deferred calls).

Capitalization is strong overall, supported by prudent reserving and a comprehensive reinsurance program. Risk-based capital adequacy is currently at the 'AA' level, with free reserves likely to be at about \$795 million in February 2012. Gard's capital, as reported and as measured by our model, is highly volatile. This is due to Gard's high investment risk and the fact it concentrates on an insurance class that is potentially exposed to a high frequency of large-value claims (i.e., above \$5 million). However, Gard's strong enterprise risk management gives us comfort regarding its ability to appropriately manage its risk profile so that its risk-based capital, measured using our model, does not fall below 'AA' level.

Gard's strong financial flexibility derives from its ability to collect unlimited additional premiums by making

unbudgeted supplementary calls on open policy years or imposing 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, which account for about 45% of the total premium, and not to Gard M&E policyholders or fixed premium P&I business.

We consider overall operating performance to be strong in the context of its mutual status. However, Gard's concentration on the volatile P&I and M&E insurance sectors means that it can suffer significant earnings volatility and regular underwriting losses. Thus, while the club's five-year average combined ratio is 99%, its standard deviation is high at 14.2%. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.)

In August 2011, Gard posted a small surplus of \$6 million arising from moderate investment gains which offset a technical deficit of \$6 million. Subject to a normal loss experience for the remainder of the current financial year, we anticipate that the club will post a net combined ratio close to 100%, in line with its five-year average. We expect the group will find it difficult to avoid a modest investment loss; reflecting the volatile financial markets, it posted an investment return of -1.4% for the nine months to November 2011.

Outlook

The positive outlook reflects our opinion that the ratings may be raised if Gard maintains its strong financial profile over the next 12 months, in particular if Gard's management continues to demonstrate its ongoing commitment to manage the potential volatility in earnings and capital. We expect Gard's risk-based capital, measured using our model, to be resilient to asset-driven volatility without falling below the 'AA' level over the next two years, at least. We do not expect material changes to the asset-allocation strategy over the rating horizon.

In our view, operating profits for the next two years will suffer slightly from the generally volatile financial markets and the continued downward pressure on nonmutual business premium rates, even though these rates remain favorable. That said, we expect Gard's operating performance to remain strong, for a mutual. We expect the group's combined ratio to be very close to 100%. Even under extremely negative conditions, we do not expect the group's operating performance to deteriorate to a level such that its risk-based capital deteriorates to a level below 'A' range.

We could revise the outlook to stable if the club's operating performance deteriorates, causing its capital adequacy to weaken to a level below that of the club's current ratings. Although unlikely over the rating horizon, a weakening in the barriers to entry for the P&I sector would also place downward pressure on Gard's and its peers' ratings.

Corporate Profile: Global Marine Insurer With Leading Position In The P&I Sector

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.

Gard Marine & Energy Ltd. is a wholly owned subsidiary of P&I association Gard P&I Bermuda. Gard Marine & Energy Ltd.'s 100% subsidiary, Gard Marine & Energy Forsäkring AB, writes business in the EU and the European Economic Area. Gard P&I (Bermuda) Ltd. has the power to vote for about 80% of all member votes in Assuranceforeningen Gard - gjensidig (AF Gard), meaning that Gard P&I (Bermuda) Ltd. governs and controls AF

Gard's business activities.

For policy-year 2010, the group changed its structure as part of a wider program to enhance its capital management. Since then, 82% of the P&I business has been written directly by Gard P&I (Bermuda) Ltd., which formed a branch office in Norway; the remaining 18% has been written by AF Gard. AF Gard has the same members as the Bermudian association. The Bermudian association assumes 25% (previously 85%) of AF Gard's risk via a quota share, while AF Gard assumes 2% (previously 15%) of the risks incurred in relation to members directly entered into the Bermudian association. Furthermore, Gard P&I (Bermuda) Ltd., a Bermuda-based captive reinsurer, has been established with a paid-up capital of \$150 million. AF Gard and Gard Marine & Energy Ltd. cede about 50% of their retained business (after external reinsurance) to Gard Re.

Competitive Position: Strong, Supported By IG's Current Structure

Table 1

Gard Group/Competitive Position*					
	--Year ended Feb. 20--				
(Mil. \$)	2011	2010	2009	2008	2007
P&I					
Gross calls	463.1†	447.6	460.0	406.1	337.1
Annual change (%)	3.5	(2.7)	13.3	20.5	17.2
Net calls	362.9	355.0	372.3	307.7	258.1
Annual change (%)	2.2	(4.7)	21.0	19.2	23.6
Tonnage (mil. gross tons)	190	185	170	170	150
Annual change (%)	2.7	8.8	(1.6)	13.3	11.1
Gard Marine & Energy Ltd.					
Gross premiums earned	311.9	318.3	340.6	313.0	291.2
Annual change (%)	(2.0)	(6.5)	8.8	4.2	14.4

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

†Post reduction in deferred call from 25% to 15%.

The Gard group enjoys a strong, although niche, competitive position. This largely reflects the club's membership of the IG, which provides P&I (accounts for 62% of total premium) 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 strong, demonstrated by its continued ability to source new business while maintaining its membership diversity and providing marine industry services. Financial strength and predictability of premium levels are highly regarded by mutual members, and we consider that Gard has clearly demonstrated this over the long term. Unlike several of its peers, it has avoided making unbudgeted supplementary calls and, during the last 10 years, its average general increases have been below its peers. In our opinion, these factors have boosted the club's competitive position, making it one of the most reputable clubs within the IG. Furthermore, through its ownership of Gard M&E, the dominant provider of M&E covers in the Nordic area, the Gard group is one of the largest marine insurer globally.

As a member of the IG, Gard P&I operates within the framework of the IG Agreement (IGA). In particular, the key benefits to the clubs include access to the IG pool and the excess-of-loss contract, which together created high barriers to entry into the P&I sector. In August 2010, the European Commission opened an investigation into certain aspects of the IG's pooling and reinsurance arrangements. In our opinion, any consequent weakening of the

barriers to entry into the P&I sector would have a negative effect on the competitive position and possibly the ratings on most IG clubs, including Gard. However, we anticipate that the EU investigation is unlikely to lead to wholesale changes to the IGA and that neither this initiative, nor the prospect of new entrants to the P&I market, is likely to pose a major threat to the club's business over the rating horizon.

Gard P&I, which had gross premium calls of \$463 million (after a reduction in the deferred call from 25% to 15%) at February 2011, 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.

In November 2011, Gard P&I insured in excess of 170 million gross tons (gt), of which 138.8 million gt derived from owners' poolable entries and 13.5 million gt from owners' nonpoolable mobile offshore unit (MOU) entries. The balance of 50 million gt came from nonpoolable charterers' covers. Of the total owned tonnage, 18% was domiciled in Norway, 50% in the rest of Europe, 22% in Asia, and 10% in the Americas. By type, 32% of the tonnage was tankers, 19% bulk carriers, 17% container vessels, 11% MOU, 6% gas carriers, 4% other dry cargo vessels, and 11% other. 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 10%.

The age profile of the fleet is stable and the average age is about 11 years, which is reasonably young by sector standards. Although the younger ships improve the club's risk profile, having them does mean that the club has been exposed to the churning effect caused by insuring new builds, which attract lower premium rates than older tonnage. However, we understand that the club carefully manages this.

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 27% and energy for about 11% of total group gross premium income on Feb. 20, 2011. While market capacity in energy-related business is generally increasing, we do not consider this a threat to Gard's competitive position, given its strong reputation within the marine sector. 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 anticipate that the Gard group will maintain its strong competitive position as a result of its strong brand, reputation, and the continuing benefits afforded to its P&I product through membership of the IG.

We expect that Gard's consolidated premium income (on an estimated total call basis) in February 2012 will reach \$850 million. For the 2011 renewals, the club announced a P&I general increase of 5%, which was in line with most of its peers. However, we believe that the premium is likely to increase slightly in February 2013, reflecting the expected premium increases in P&I. We expect the club to manage the above-mentioned churning to avoid weakening its underwriting results. For the non-P&I business, we expect the group to maintain its pricing discipline despite the entry of new capacity, notably during the last 12 months.

We do not expect the club to make unbudgeted supplementary calls in the near term because of its strong capitalization. In our view, if an unbudgeted supplementary call were to be made, it could place some downward

pressure on the club's competitive position. That said, we consider such a call to be highly unlikely.

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

The quality of Gard group's management and strategy contributes positively to the ratings. The group has cost-effective access to world-class legal, technical, and administrative capabilities. This enables it to assist its members and clients in the marine industries manage their risks and the consequences of those risks.

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 non-P&I marine business strategy. As a result, the club has achieved a clear leadership position in its sector. This has strengthened Gard's competitive position and partly increased the diversification of its revenues and earnings.

Operational management

We consider operational management to be highly professional and 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.

The club is managed by 24 board members from ship-operating companies, representing all categories of shipping covered by the club. Currently, the board makes up about 30% of the club's total tonnage. With the recent restructuring (see "Corporate Profile" section), the corporate governance infrastructure has shifted further toward Bermuda.

Over recent years, Gard has removed the boundaries between its P&I and M&E products by moving away from product-based underwriting to combined underwriting teams that offer a full range of products. Over the last two years, Gard has been improving its claims-handling platform. Furthermore, the group has a new quality management system to enhance its operational processes. In our opinion, 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. Its target is to achieve a five-year average net combined ratio of 105%. At the same time, it does aim to have appropriate levels of capital to withstand adverse developments. We consider that Gard exercises considerable prudence in the assessment of liabilities, and this, together with a conservatively defined comfort zone for free reserves, helped to slightly cushion the impact of the 2008 investment losses. Despite the transfer of most of its business to Bermuda, Gard still intends to comply with the requirements of the EU's Solvency II directive on the supervision of insurance and reinsurance. The group's own internal capital allocation modeling and the overall quality of its enterprise risk management (ERM) enhance the quality of financial management.

Enterprise Risk Management: Strong, Partly Reflecting Its Relatively Simple Structure

We assess Gard's ERM framework as strong overall. Standard & Poor's considers that it is highly unlikely that Gard will experience losses outside of its risk tolerances. The main factors supporting the score are a strong assessment for risk management culture, strategic risk management, and for the controls of the material risks. ERM is considered to be 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 potential earnings volatility.

We consider Gard's risk management culture to be strong. It has a clear and well-defined governance structure. Gard has a very risk-aware culture and has had a control and risk self-assessment process in place for over 10 years. The 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 the risk-taking activities across the group. The group has an independent risk committee which provides a more-transparent discussion forum for risk issues.

In our view, the controls for investment risk are strong. External consultants are used to regularly optimize the investment portfolio. This optimization ensures effective matching of liabilities and also an explicit risk reward consideration. The assets are managed by external asset managers, and the group has a strong process in place to ensure that granular risk limits are adhered to via a clear compliance process using reports produced by the global custodian bank. In our view, the group's use of futures to manage its net exposure to equity holdings is effective (see investment section).

We assess risk controls for underwriting as strong. The group's underwriting controls are transparent and effective and a range of measures are 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. A large proportion of the business has a technical price calculated using detailed risk analysis. However, it is unclear how these technical prices are fully tracked and monitored across the group.

We view Gard's reinsurance risk controls as adequate. The group mainly relies on external credit ratings to measure reinsurer security, and it has no defined limits for exposures to reinsurance counterparties. Due to its membership of the IG, it is unable to easily and frequently optimize the reinsurance protection provided.

We consider the group's catastrophe risk controls 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 controls.

In our view, 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.

The control and risk self-assessment is a comprehensive process to ensure that operational risks are effectively controlled. In line with a number of companies, Gard has not managed to effectively 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. This is to ensure that its underwriting process is up to date.

We assess strategic risk management as strong. Gard has had an economic capital model in place for a number of years, which is effectively used as part of its strategic planning, reporting, and performance management processes. 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. It also has a clear "comfort zone" that defines how much capital the club wants to retain and is used in the decision making process for returning capital to its members. This ability to make informed decisions based on optimizing risk-adjusted returns places Gard ahead of its P&I peers.

Accounting: Financials Amended To Account For IG Pooling Agreement

AF Gard is regulated by the Norwegian Finanstilsynet (previously known as Kredittilsynet), while Gard P&I Bermuda and its 100%-owned subsidiary, Gard Marine & Energy Ltd., are regulated in Bermuda. The Norwegian branch of Gard M&E is regulated by Finanstilsynet and the new Norwegian branch of Gard P&I Bermuda is under its supervision. Gard Marine & Energy Fors kring AB is regulated by the Swedish Finansinspektionen.

Our analysis focuses on the combined accounts of the Gard group, which combine the consolidated accounts of AF Gard with the accounts of Gard P&I Bermuda, observing the same conventions as if the two entities were under common ownership. Before February 2011, these accounts did not have a formal legal standing. However, with the new structure (see corporate profile), the consolidated accounts do have a legal standing.

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 \$13.9 million at February 2011 (\$22.8 million in 2010) as ceded reinsurance premium, 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.

We do not expect International Financial Reporting Standards to have any material consequences for the ratings on Gard. 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, But Highly Volatile, Reflecting Potential Exposure To Accumulation To Large Claims And High Investment Risk

Table 2

Gard Group/Operating Statistics*					
	--Year ended Feb. 20--				
(Mil. \$)	2011	2010	2009	2008	2007
Pretax result excluding unrealised gains	42.1	(32.2)	96.4	144.6	26.2
Change in estimated free reserves (%)	23.8	48.3	(25.9)	13.4	16.8
Pretax result/average estimated free reserves (%)	6.5	(6.0)	19.1	26.5	5.5
Loss ratio (%)	81.6	82.6	61.0	92.5	96.6

Table 2

Gard Group/Operating Statistics* (cont.)					
Expense ratio (%)	17.4	16.4	15.9	16.8	16.9
Combined ratio (%)	99.0	99.0	76.9	109.3	113.5
Paid loss ratio (%)	70.6	76.0	71.3	72.6	73.0

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

We consider overall operating performance to be strong in the context of the group's status as a mutual, and its concentration on insurance classes that are exposed to unpredictable frequency of large claims. For example, the group's estimate for its six largest claims (i.e., above \$5 million) during the nine months to November 2011 stood at \$85 million, which equates to 11% of the total capital and 13% of the net premium reported at February 2011. Furthermore, its high exposure to risky assets (see investment section) means that its total investment income exacerbates the potential volatility, reflecting the generally volatile financial market conditions. In August 2011, Gard posted a small surplus of \$6 million arising from moderate investment gains which have offset a technical deficit of \$6 million.

Historical

Gard's five-year average combined ratio is 99% and it has a very high standard deviation of 14%. That said, Gard's technical performance benefits from its nonmutual lines of businesses which account for about 55% of the total net premium; in particular the M&E business, which gives it some diversification of earnings. In February 2011, Gard posted a combined ratio of 99%, which we regard as good given its mutual status. This reflects the strong performance of the M&E business. Coupled with strong investment income, this led to a strong bottom-line surplus of \$155 million.

As a mutual, with a consequent absence of 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 five-year average combined ratio for the P&I book at year-end February 2011 stood at 106%, which is just under the IG average (excluding the impact of unbudgeted supplementary calls). On a consolidated basis, the M&E business reduces the combined ratio, as shown above.

Prospective

We anticipate that Gard is likely to post a reasonable underwriting surplus of close to \$20 million at February 2012 despite the increased number of large claims over the recent months. The attritional combined ratio, which excludes the impact of claims above \$5 million, remains strong. We expect it to be close to 85% for the year to February 2012 if we assume a normal loss experience to Feb. 20, 2012. We anticipate that the group will find it difficult to avoid a modest investment loss; it has already posted an investment return of -1.4% for the nine months to November 2011, reflecting the weak financial markets. We forecast that the group is likely to break even at financial year-end February, 2012 and this forecast is broadly in line with what we expect for most of its peers.

We forecast that the group will, in the medium term, achieve respectable combined ratios averaging close to 100% (barring catastrophes), reflecting its disciplined pricing. In our opinion, this, coupled with forecasted low investment yields, is likely to lead to a modest level of surplus at February 2013. 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. Volatility in financial return is another traditional feature of Gard's operating performance.

Investments: High Risk Tolerance Relative To The Non-Life Insurance Industry, But Not When Compared With Peers

Table 3

Gard Group/Investment Statistics*	--Year ended Feb. 20--				
	2011	2010	2009	2008	2007
(%)					
Portfolio performance					
Investment yield excluding unrealised gains	2.7	3.1	2.8	1.7	2.4
Total investment return excluding unrealised gains	2.2	(2.5)	(3.5)	13.3	5.7
Portfolio composition					
Shares	21	18	25	31	28
Bonds	64	64	41	51	61
Cash and bank deposits	13	15	32	16	9
Real estate	2	2	2	2	2
Total	100	100	100	100	100

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

Strategy

In common with most of the IG members, the club has a high risk tolerance for investment risk compared with the average exposure for the European non-life sector generally. Following its substantial investment losses in 2008, Gard has moderately reduced its investment risk tolerance but, in our view, still retains a high investment risk appetite. The club's current benchmark for its invested assets (excluding a working capital of about \$60 million-\$80 million held as cash) has material exposure to volatile asset classes; 15% in equities and 5% in real estate. The benchmark allocation for the remaining assets is 80% bonds, with about 50% in U.S. government bonds. The current allocation of its invested assets is in line with the benchmark target. The group has been using futures contracts since 2005 to manage its net exposure to equities. This hedging program has proven to be effective and we therefore give credit for it in our risk-based capital analysis.

Credit risk

The credit quality of Gard's fixed-income portfolio is very strong; 70% of this asset class is held in bonds rated 'AA' or above. Bonds rated 'A' or higher represented 84%, while bonds rated 'BB' or below accounted for 5%.

Market risk

Gard's exposure to market risk is high. It has a benchmark weighting of 20% of invested assets in equities and real estate. Given the generous level of surplus capital, we consider the investment mix to be appropriate for the current ratings.

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 duration of the respective underlying liabilities, which is two years for

the P&I business and 1.5 years for M&E.

Liquidity: Strong

We view liquidity as strong. On a consolidated basis, liquid invested assets represented about 86% of the total assets in February 2011 and 169% of net technical reserves. Gard also has a committed funding line of \$40 million. In the event of major adverse claims development, we believe that the group is well positioned to meet any liquidity needs that may arise as a result largely due to the generally very strong credit quality of its bond portfolio.

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 our capital model. However, the significant market risk (see "Investments" section) within Gard's balance sheet adds volatility to the capital adequacy, as we saw in 2008. In our view the group's capitalization is likely to remain strong over the next two years.

Capital adequacy

Gard currently enjoys a very strong risk-based capital (measured using Standard & Poor's proprietary model) redundant at the 'AA level' and reflecting the group's strong level of free reserves. Mostly due to the reduction in capital (reflecting the reduction in deferred calls by \$28 million) and the slight increase in credit and premium risk, the group's risk-based capital reduced to its current 'AA' level compared with the 'AAA' level at February 2011. We expect capital adequacy to comfortably support the rating and not fall below the 'AA' level over the next two years.

Quality of capital

The quality of the capital base is strong as the group does not depend heavily on "soft" forms of capital, such as loss-reserve discount. No debt is used to supplement group capital, although the Gard group could issue hybrid equity if it so chose.

Reserves

Reserves appear adequate. 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 2011.

Reinsurance

The reinsurance protection enjoyed by Gard is conservative relative to its means, but cannot address the inherent volatility caused by other clubs' pool claims through mutual P&I business. Like other IG clubs, Gard's P&I business benefits from very strong reinsurance cover under the IG excess-of-loss program and through pooling of risks under the IGA, including the IG protected cell company, Hydra. These provide a protection of up to \$3 billion in excess of the club's net retention of \$8 million for poolable risks. Regarding nonpooled cover, maximum net losses are \$20 million per product line; including its reinsurance cover, the group can provide capacity up to \$1 billion.

The reinsurance program is of a high quality--about 90% is 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 collateral.

Financial Flexibility: Strong, But Constrained By Non-Mutual Business

Table 4

Gard Group/Financial Statistics*					
(Mil. \$)	--Year ended Feb. 20--				
	2011	2010	2009	2008	2007
Total assets	2,187.0	1,919.0	1,666.8	1,930.7	1,732.9
Adjusted free reserves	790.2	638.0	430.4	580.5	512.0
Technical reserves /net premiums written (%)	175.6	164.1	150.1	188.4	187.5
Claims outstanding reserves/net claims paid (%)	248.6	215.7	210.7	259.5	256.7
Due from members/total assets (%)	5.2	6.8	8.5	8.8	7.2
Reinsurance utilization ratio (%)	18.0	16.8	15.1	18.8	18.1

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

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 or 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 (accounting for about 45% of total premium), and not to Gard M&E policyholders or fixed premium P&I business.

Needs and sources

Operational needs for additional capital are very modest, given only gradual growth in underwriting exposures and excess level of free reserves. Although unlikely, a need for additional capital could 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.

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.

Ratings Detail (As Of January 11, 2012)

Operating Companies Covered By This Report

Gard P&I (Bermuda) Ltd.

Financial Strength Rating

Local Currency

A/Positive/--

Counterparty Credit Rating

Local Currency

A/Positive/--

Assuranceforeningen Gard - gjensidig -

Financial Strength Rating

Local Currency

A/Positive/--

Issuer Credit Rating

Local Currency

A/Positive/--

Ratings Detail (As Of January 11, 2012) (cont.)**Gard Marine & Energy Forsakring AB**

Financial Strength Rating

Local Currency

A/Positive/--

Issuer Credit Rating

Local Currency

A/Positive/--

Gard Marine & Energy Ltd.

Financial Strength Rating

Local Currency

A/Positive/--

Issuer Credit Rating

Local Currency

A/Positive/--

Domicile

Bermuda

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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