

**DIRECTORS'
REPORT AND
FINANCIAL
STATEMENTS**

*for the six months to
20 August 2012*

HIGHLIGHTS

As at 20 August 2012

GROSS WRITTEN PREMIUM

USD MILLIONS

724

COMBINED RATIO

PERCENTAGE

105

GENERAL CONTINGENCY RESERVE

USD MILLIONS

817

TOTAL ASSETS

USD BILLIONS

2.6

AFTER TAX RESULT

USD MILLIONS

-11

CHIEF EXECUTIVE OFFICER'S OPERATIONAL REVIEW



"Knowing that your insurer is ready for the unexpected with both expertise and funds is vital."

Claes Isacson
Chief Executive Officer

The first half of the 2012 financial year has been one of contrast between a strong operational performance from the business and the rare occurrence of a number of claims in a short time period. However, our business is all about being prepared for the unexpected, and we have created a model that is built to handle risk – both financially and operationally. We are pleased therefore to report a satisfactory result for the first half year.

Our combined net ratio was 105 per cent and, overall, the group recorded a deficit of USD 11 million. The result was reduced by a write-off of system development expenses. In terms of investment results, our aim is to outperform the benchmark over time and, for the period, the return reflected the ongoing low interest rate environment.

With ongoing uncertainty around the state of the global economy, insurance buyers and brokers continue to be focussed on the financial strength and operational stability of their risk transfer partners. In a world when the costs from a casualty can mean the difference between corporate survival or failure, knowing that your insurer is ready for the unexpected with both expertise and funds is vital. Gard is strongly capitalised with free reserves of USD 817 million.

The stability of our operations is demonstrated by our track record in managing our estimated and actual deferred calls. In May 2012, the Board decided to reduce the deferred call for the 2011 policy year, giving mutual members 4% lower premium than originally estimated. Over the last two years, Gard has returned USD 42.6 million to the mutual Members of the Club.

A challenging market

Our gross written premium rose by five per cent to USD 724 million in the first half of the year in what remains a competitive market environment, particularly in P&I. A continued disciplined approach to risk selection has meant a reduction in the rate of growth.

There is no doubt that the upcoming renewals are likely to be more challenging than usual as the market remains difficult across the board for Members and clients. The mutual market is still seeing under-pricing on newbuildings, and marine capacity has not shrunk despite a year of large claims. There is no room for complacency, but conversations with Members and clients does show that our overall service levels and investment in local relationships is a value proposition that genuinely resonates with them.

A rare occurrence

The first three months of the financial year saw the rare and unfortunate occurrence of Gard having five claims in the Pool. Of the five, three are related to navigational errors while two resulted from fire – fortunately none of them involved serious environmental damage.

This illustrates the volatility inherent in our industry for which we need to be prepared and, given the effect catastrophic claims such as these have on the International Group, our key priority is to manage the impact of these losses as effectively as possible. In this, the strength of our claims organisation has played a vital role.

Delivering world-class claims handling is central to Gard's core purpose and our long-term success. Our structure focuses on claims types and skill sets, allowing us to optimise processes across the organisation and exploit synergies across business areas. Through our ability to bring together the skills and expertise of our marine and P&I claims handlers, we

have been able to meet the challenge of periods of high claims activity and manage the outcomes successfully. It is also clearly advantageous when we have both the claims lead on the marine insurance, as well as providing the P&I cover, since this allows us manage the process proactively: reducing third party costs and ensuring as swift a resolution as possible to get our shipowners back on track.

The handling of the M/V BARELI, which ran aground in March 2012 near the port of Liangyin port in Fujian province in China was a good demonstration of the strength of this premise. Given the severity of the casualty and that the Chinese oil response legislation was only introduced in January, 2012, it was a steep learning curve to ensure our handling was as effective as possible.

It was critical to get on-site attendance as rapidly as possible. Claims handlers from various Gard offices – including the Hong Kong office with people who understand the local market and speak the language – were able to get there rapidly and to contract directly with spill response team to record and influence the work done. They were also able to collect information quickly and act on it to considerable effect.

Local and global

Over the last decade Gard has created a genuinely global footprint – designed to offer a first class service wherever we are needed. We are continuing to build on this strategy by ensuring that we go where our Members and clients are going, and where growth is being driven by the emerging markets.

In the first instance we are looking at Brazil – one of the world's fastest growing economies. While the P&I clubs have always had access to the Brazilian market, the same has not been the case for foreign marine and energy insurers. As a result, Gard P&I has had a portfolio

of Brazilian business for more than 20 years, however Gard Marine & Energy Limited has only been able to compete in a very limited way.

In August we began the process of seeking to establish Gard M&E as an admitted reinsurer in Brazil, with a representative office in Rio de Janeiro which will be manned by an experienced underwriter as a first step. We also continue to invest in more mature markets. For example, we are seeking to widen our Japanese presence to offer greater 'on the ground' support in Imabari. A significant number of shipowners operate from the west of Japan, so we are opening an office there to understand local needs, and decide on what resources we should provide to meet them going forward.

Outlook

This is a pivotal time of year, when we start the process of talking to our Members and clients to gain a greater understanding of the issues they face in the context of current market conditions. The recent past has been dominated by major marine claims, and these continue to develop and affect both the direct and reinsurance markets. As we move through the second half of the year, we need to balance the technical rating that is required in this environment with the long-term support we offer to our Members and clients. Our focus, as always, is to plot the steadiest course through these difficult times.



Claes Isacson
Chief Executive Officer

GARD P. & I. (BERMUDA) LTD

Summary consolidated income and expenditure accounts

Amounts in USD 000s

	21.02.12 to 20.08.12	21.02.11 to 20.08.11
Premiums and calls*	431,311	413,657
Premiums earned net	344,845	346,736
Other insurance related income	450	655
Claims costs net**	298,300	307,058
Acquisition costs	43,454	44,997
Operating expenses net	20,699	1,450
Result on technical account	(17,158)	(6,114)
Result on non-technical account	6,514	12,147
Surplus / (deficit)	(10,644)	6,033
Combined Ratio Net (CRN)	105%	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

GARD P. & I. (BERMUDA) LTD

Summary consolidated balance sheet

Amounts in USD 000s

	As at 20.08.12	As at 21.02.12
Investments at market value	1,791,398	1,844,115
Reinsurers' share of technical provisions	336,376	209,942
Cash and equivalents	215,203	195,638
Other assets	289,862	244,549
Net assets	2,632,839	2,494,244
Gross unearned premium reserve	318,287	157,755
Gross provision for outstanding and unreported claims	1,393,765	1,370,242
General contingency reserve	817,059	826,082
Other liabilities	103,728	140,165
Net equity and liabilities	2,632,839	2,494,244

GARD P. & I. (BERMUDA) LTD

Income and expenditure account on lines of business

Amounts in USD 000s

	P&I As at 20.08.12	Marine & Energy As at 21.08.12	Consolidated accounts As at 20.08.12
Premiums and calls	272,066	159,245	431,311
Premiums earned net	209,007	135,838	344,845
Claims incurred net	177,778	86,248	264,026
* Claims handling costs	26,674	7,600	34,274
Claims costs net	204,452	93,848	298,300
Operating expenses net excluding claims handling costs	40,392	23,311	63,703
Result on technical account	(35,837)	18,679	(17,158)
Result on non-technical account	(197)	6,711	6,514
Result ordinary operations	(36,034)	25,390	(10,644)
Combined ratio net	117%	86%	105%

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

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