



DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE SIX MONTHS TO 20 AUGUST 2020



A large offshore oil rig stands in the middle of the ocean under a dramatic sunset sky. The sun is low on the horizon, casting a golden glow over the water and the rig's structure. The waves are dark blue with white foam, and the sky is filled with soft, colorful clouds.

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HISTORICAL COMPARISON

GROSS EARNED PREMIUM

USD millions, ETC basis
6 months to 20.08

2020		425
2019		400

USD millions, ETC basis,
12 months to 20.02

2020		829
2019		773
2018		760
2017		857

RESULT

USD millions, ETC basis
6 months to 20.08

2020		-62
2019		65

USD millions, ETC basis,
12 months to 20.02

2020		93
2019		-53
2018		193
2017		215

COMBINED RATIO

Per cent, ETC basis
6 months to 20.08

2020		116
2019		96

Per cent, ETC basis,
12 months to 20.02

2020		102
2019		110
2018		91
2017		83

EQUITY

USD millions, as at 20.08

2020		1,117
2019		1,211

USD millions, as at 20.02

2020		1,179
2019		1,159
2018		1,249
2017		1,135

ASSETS

USD billions, as at 20.08

2020		3.2
2019		3.2

USD billions, as at 20.02

2020		2.9
2019		2.9
2018		2.9
2017		2.8

NON-TECHNICAL RESULT

USD millions, to 20.08

2020		-9
2019		52

USD millions, to 20.02

2020		118
2019		-9
2018		144
2017		104

CEO'S OPERATIONAL REVIEW

DESPITE THE NEGATIVE RESULTS, GARD IS WELL CAPITALISED AND WITHIN OUR TARGET RANGE.



The first half of the 2020 financial year has tracked the global spread of the COVID-19 pandemic and our results have been negatively affected by its impact on both the shipping and financial markets. Additionally, several major incidents within the International Group Pool have incurred significant claims costs. As an organisation, our priorities in these difficult times have been to focus on our customers, our social responsibilities around the world and the welfare of our employees. Like many businesses, Gard shifted to remote working and has continued to support and sustain our Members, clients and the operations of the Gard group.

HALF YEAR RESULTS

The result for the Gard group at 20 August 2020 is:

- A loss after tax of USD 62 million on an Estimated Total Call (ETC) basis
- The technical result is a loss of USD 54 million
- The Combined Ratio Net (CRN) is 116 per cent
- The non-technical result is a loss of USD 9 million, including taxation and other comprehensive income/loss
- Equity of USD 1,117 million

Our half year results have been significantly impacted by a steep rise in claims in the mutual P&I business line. The increase mainly comes from Pool claims from International Group Clubs, but also our own mutual portfolio has performed below expectation. Conversely, the results from the for-profit lines of business are positive and better than expected for the first half year of 2020.

The pandemic's impact on the financial markets led to investment losses in the first quarter of 2020 which have now largely been recovered. Gard has a moderate exposure to equities to reduce the risk of large losses from the investment portfolio.

CAPITAL POSITION

Despite the negative results, Gard is well capitalised and within our target range. Gard will continue to balance its ability to help individual Members and clients with the maintenance of the long-term financial health of the group. In May 2020 the Board decided to support our Members' cash flow by delaying the decision on the final premium instalment for 2019 policy year until November 2020. The Board has now decided that mutual Members will get a 5 per cent reduction in the Estimated Total Call for the 2019 policy year. This means only collect 75 per cent of the last instalment for that year, delivering an overall saving for Members of USD 18 million.

LOOKING FORWARD

Reductions in the average pricing of owners mutual P&I over recent years have been justified by a benign claims development, but this has deteriorated over the last year with the market seeing greater

severity in claims. In order to balance the portfolio, a moderate increase in the Estimated Total Call for owners' mutual P&I will need to be achieved for the 2021 renewal. The Board has however decided that, instead of a General Increase, individual members rates will be adjusted to reflect their risk profile and claims record. Overall, we will seek to price Owners' Mutual P&I to target a CRN of 102.5%.

BUSINESS REVIEW

Gard group result

The first six months of the 2020 financial year produced a total comprehensive loss on an Estimated Total Call (ETC) basis of USD 62 million.

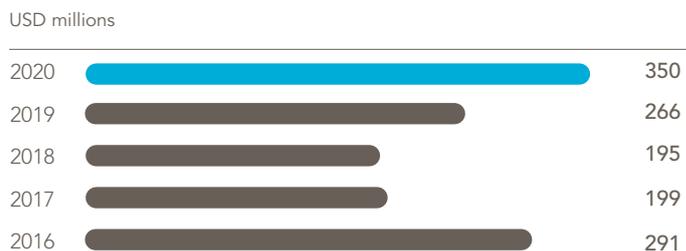
The consolidated equity, which provides security and stability for the membership, was USD 1,117 million as at 20 August 2020 compared to USD 1,179 million at the end of last year.

Gross earned premium on ETC basis was USD 425 million, an increase from the comparable period last year. There has been a strong growth in the Marine business and rates are hardening. The P&I insurance market is still soft; however the market is expected to turn. The premium volume for P&I mutual has slightly reduced due layup returns.

Development of gross earned premium, group in the last five years, as at 20 August



Development of claims incurred for own account, group in the last five years, as at 20 August



CEO'S OPERATIONAL REVIEW

CONTINUED

Claims incurred for own account totalled USD 350 million, a large increase from the comparable period of last year. There have been several large P&I mutual claims in the first half of 2020 and particularly a large increase in Pool claims from the International Group clubs which continued the trend from 2019. The claims development is worse than expected.

The technical result was a loss of USD 54 million. The negative result is below expected and below the good start in the comparable period last year. The combined ratio net was 116 per cent.

The non-technical result was a negative USD 9 million. The Gard group's investment portfolio returned -0.4 per cent in the first half year of 2020, versus 3.0 per cent the comparable period of last year.

PROTECTION & INDEMNITY ON ETC BASIS

For P&I, gross earned premium was USD 250 million, a small decrease from the comparable period last year. The volume increase for P&I mutual does not offset the effect of reduced premium rates due to churn and lay up returns. The P&I market has been soft for a number of years due to a benign claims development. The ongoing soft market is expected to turn as pricing needs to reflect the possibility of major claims as happened in the first half year of 2020.

Claims incurred for own account totalled USD 251 million, a large increase from the comparable period of last year. There have been several large claims in the first half of 2020 particularly from a large increase in Pool claims from the International Group clubs which continued the trend from 2019.

The technical result for P&I was a loss of USD 68 million. The combined ratio net for the period was 134 per cent.

Development of gross earned premium, P&I, in the last five years, as at 20 August

USD millions

Year	Gross earned premium (USD millions)
2020	250
2019	256
2018	256
2017	267
2016	307

Development of claims incurred for own account, P&I, in the last five years, as at 20 August

USD millions

Year	Claims incurred for own account (USD millions)
2020	251
2019	190
2018	139
2017	129
2016	185

MARINE & ENERGY

For Marine & Energy, gross earned premium was USD 175 million, a substantial increase from the comparable period of last year. The increase is due to growth in volume for Marine business and hardening of rates both for Marine and Energy.

Claims incurred for own account totalled USD 99 million, an increase from the comparable period of last year. The increase is expected as the volume of business is increasing. There have been few large claims in the period and claims incurred is better than expected.

The technical result for Marine & Energy was a profit of USD 15 million. The combined ratio was 89 per cent.

INVESTMENTS

The Gard group's investment portfolio returned -0.4 per cent for the first half year of 2020, versus 3.0 per cent in the comparable period last year.

This was an exceptional period in the financial market as the spread of Covid-19 and the consequent economic shut down measures led the market into a sell-off in late February/March. Central banks around the globe responded strongly by lowering interest rates to zero whilst providing extraordinary amounts of liquidity to support the markets, with the Federal Reserve's balance sheet increasing by USD 3 trillion over a couple of months. Alongside the strong monetary support, governments across the world offered extensive support to companies and individuals through a range of fiscal measures, intended to help with a sudden deterioration of economic activity due to the lock-down. The effect was that equity markets rebounded strongly over the next few months and regained much of the lost grounds. The US equity market, led by

Development of gross earned premium, Marine & Energy, in the last five years, as at 20 August

USD millions

Year	Gross earned premium (USD millions)
2020	175
2019	144
2018	118
2017	105
2016	122

Development of claims incurred for own account, Marine & Energy, in the last five years, as at 20 August

USD millions

Year	Claims incurred for own account (USD millions)
2020	99
2019	75
2018	56
2017	70
2016	106

CEO'S OPERATIONAL REVIEW

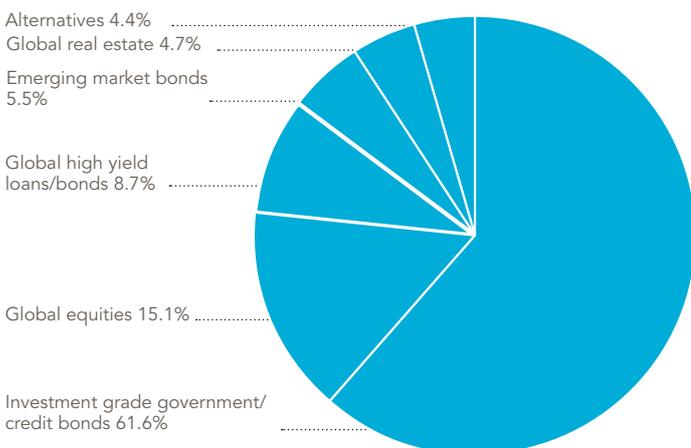
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big tech companies, led the market, and outperformed global ex US stocks with the Nasdaq hitting new highs.

The main contributor to returns over the period was the investment grade bonds portfolio. Unfortunately, the returns suffered from allocations to emerging market debt and high yield, in addition to an allocation to global tactical allocation. A below market weight to big technology companies also hurt performance.

Investment allocation, as at 20 August 2020

Per cent



CAPITAL AND RISK MANAGEMENT

Over the first six months of the 2020 financial year, the Gard group continued to be very well capitalised, despite challenging insurance conditions and falling investment markets. The probability that Gard would have to raise additional capital from its mutual Members by way of unbudgeted supplementary calls is low.

Eligible own funds	20 August 2020	20 February 2020
Tier 1 Basic own funds	1,030	1,089
Tier 2 Ancillary own funds	277	255
Tier 3 Other own funds		
Eligible own funds	1,307	1,344

Gard has a simple capital structure consisting of Tier 1 capital through equity, which is earned and available, high quality Tier 2 capital in the form of unbudgeted supplementary calls and tax assets included as Tier 3 capital. The eligible own funds are calculated based on a partial internal model.

The Gard group manages its capital in such a way that all its regulated entities meet local regulatory capital requirements at all times.

S&P RATING

In October 2020 Standard & Poor's affirmed the A+ financial strength of the Gard group and its direct writing subsidiaries (Gard P. & I. (Bermuda) Ltd., Assuranceforeningen Gard – gjensidig -, Gard Marine & Energy Limited and Gard Marine & Energy Insurance (Europe) AS). The rating reflects Gard's strong capital adequacy and business profile as a leading insurer.

TAX

Changes in the Norwegian Tax Act for insurance companies

On 9 February 2018, the Ministry of Finance (MoF) issued a consultation paper with proposals for changes in the tax legislation for insurance companies.

The proposal from the MoF clarified the rules for the taxation of mutual insurance associations such as Assuranceforeningen Gard -gjensidig-. In short, the MoF proposed that a real mutual shall be taxed based on the non-technical result while, on the other hand, the technical result (premium income) shall be exempted from taxation.

Further, conversion of the contingency reserve to equity capital shall be partly exempted from taxation (only 25 per cent of the contingency reserve shall be treated as a taxable surplus subject to special transitional rules). Finally, it was proposed to repeal the special rules for taxation of branches of foreign insurance companies with the effect that they shall be taxed similarly to insurance companies that are resident in Norway.

The repeal of the special rules for taxation of branches was adopted and will have retroactive effect from 20 February 2018 whereas the special rules for real mutual insurance associations are subject to review by the European Free Trade Association Surveillance Authority (ESA). The MoF's application to ESA for an approval of the proposed tax exemption remains unresolved. Based on the feedback the MoF has received from ESA, it may be difficult to get an acceptance for the proposed exemption. As a result, the MoF are looking into other options. Until a special rule is in place for marine mutual associations, marine mutuals in Norway will be subject to the same tax regime as regular casualty insurers.

The background of the page is an aerial photograph of the ocean at sunset. The sky is filled with soft, golden clouds, and the water below is a deep, dark blue. A small, dark boat is visible on the horizon line in the distance.

FINANCIAL STATEMENTS

FOR THE SIX MONTHS TO 20 AUGUST 2020

GARD P. & I. (BERMUDA) LTD.

SUMMARY INCOME STATEMENT

Amounts in USD 000s	Consolidated accounts	
	21.02.20 to 20.08.20	21.02.19 to 20.08.19
Gross earned premium*	425,335	399,532
Earned premium for own account	336,136	318,944
Other insurance related income	799	1,480
Claims incurred for own account**	350,049	265,876
Operating expenses	40,477	41,670
Technical result	(53,591)	12,878
Non-technical result***	(8,812)	51,826
Result	(62,403)	64,704
Combined Ratio Net (CRN)	116%	96%

* Gross earned premium 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 are included in Claims incurred for own account.

***Taxation and Other comprehensive income/(loss) are included in Non-technical result.

SUMMARY BALANCE SHEET

Amounts in USD 000s	Consolidated accounts	
	As at 20.08.20	As at 20.02.20
Investments at fair value	2,129,398	2,101,961
Reinsurers' share of technical provisions	307,238	265,484
Cash and equivalents	201,155	183,189
Other assets	579,960	330,795
Total assets	3,217,751	2,881,429
Equity	1,116,797	1,179,200
Gross premium reserve	445,110	185,388
Gross claims reserve	1,483,448	1,381,124
Other liabilities	172,396	135,717
Total equity and liabilities	3,217,751	2,881,429

GARD P. & I. (BERMUDA) LTD.

INCOME STATEMENT ON LINES OF BUSINESS

Amounts in USD 000's	P&I	21.02.20 to 20.08.20	
		M&E	Consolidated
Gross earned premium	250,428	174,907	425,335
Earned premium for own account	200,094	136,042	336,136
Other insurance related income	785	14	799
Claims incurred for own account*	251,470	98,579	350,049
Operating expenses	17,705	22,771	40,477
Technical result	(68,297)	14,706	(53,591)
Non-technical result**	(9,919)	1,107	(8,812)
Result	(78,214)	15,811	(62,403)
Combined ratio net	134%	89%	116%

* Claims handling costs' share of operating expenses are included in Claims incurred for own account

**Taxation and Other comprehensive income/(loss) are included in Non-technical result.



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