DEN NORSKE KRIGSFORSIKRING FOR SKIB
GJENSIDIG FORENING

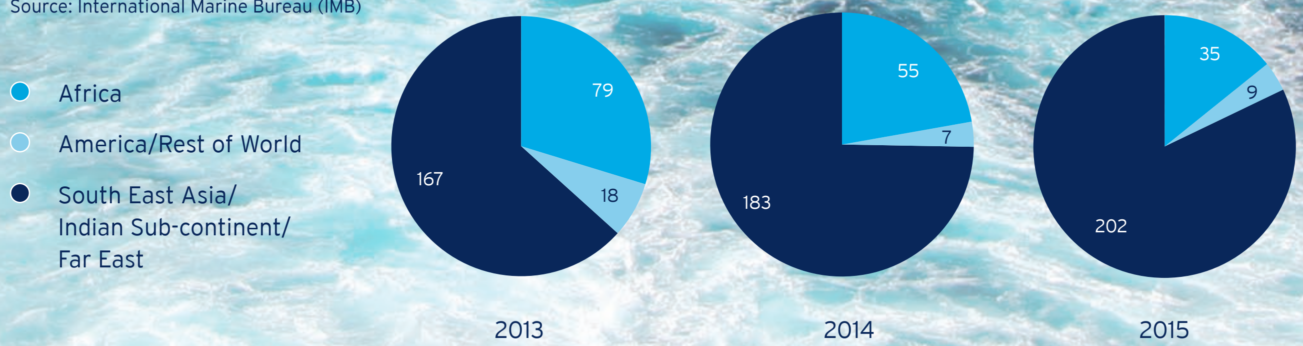
The Norwegian Shipowners' Mutual
War Risks Insurance Association

Annual Report 2015

Areas at Risk

Global Piracy Incidents

Source: International Marine Bureau (IMB)



Cover photo: iStockphoto

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80th Financial Year

The annual report of The Norwegian Shipowners' Mutual War Risks Insurance Association ("the Association" or "DNK") is presented in English, with audited financial statements in USD.

Governing Bodies

The Board of Directors

MEMBERS

Jan Pedersen
Chairman

Kristian Gerhard Jebsen Skibsrederi AS

Garup Meidell
Vice-Chairman

SinOceanic Shipping ASA

Benedicte Bakke Agerup

Wilh. Wilhelmsen ASA

Roar Flom

Høegh Capital Partners

Olav Eikrem

Frontline Management

Harald Fotland

Odfjell Tankers

Mons Aase

DOF ASA

DEPUTIES
Vanessa Chapman, Odfjell Drilling AS
Rune Olav Pedersen, Petroleum Geo-Services ASA
Odd Christian Krohn, Fred Olsen Brokers AS

Supervisory Committee

MEMBERS
Rolf Sæther, Chairman, Ex. Norwegian Shipowners' Association
Henrik Aass, State Authorised Public Accountant
Ivar Alvik, Scandinavian Institute of Maritime Law

DEPUTY
Salve Sandvik, Sandvik Shipping & Trading AS

Election Committee

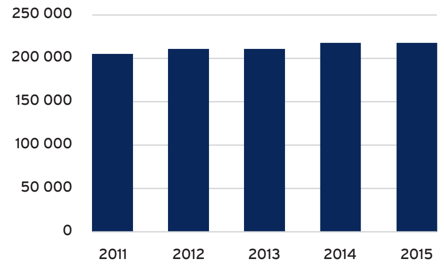
MEMBERS
Johan Hvide, Seatrans AS
Lars Peder Solstad, Solstad Offshore ASA
Trond Kleivdal, Color Line AS

External Auditor

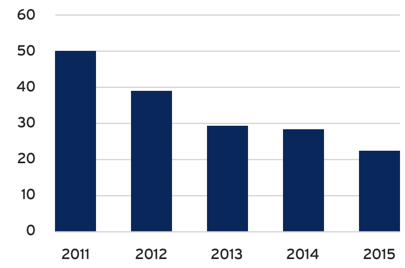
PricewaterhouseCoopers AS

Key Figures Amounts in USD million

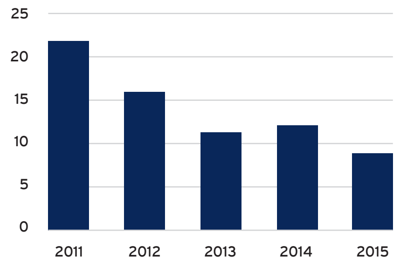
Insured values



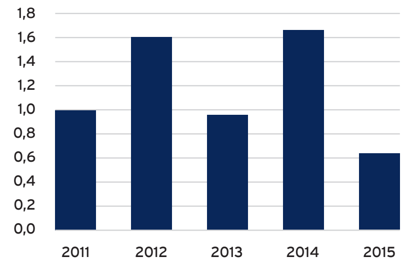
Gross premiums



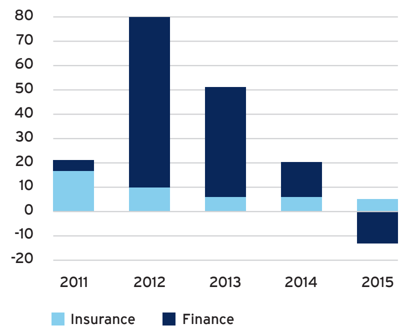
Premium for own account



Gross claims



Operating result



Insurance reserves

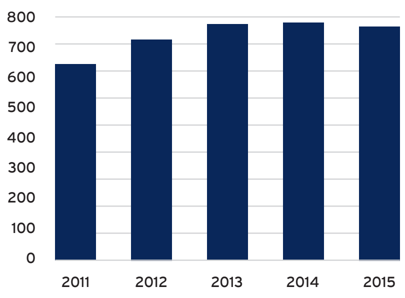


Photo: iStockphoto

Annual Report

The Norwegian Shipowners' Mutual War Risks Insurance Association, ("DNK" or "the Association") is a mutual insurance company insuring members' interests in ships, drilling rigs and other similar mobile units against risks of war, terrorism and piracy.

The Association conducts its business from an office in Oslo.

Highlights 2015

- At the end of 2015 DNK insured 3,258 ships and movable offshore units (3,109 in the previous year), with an aggregate insured value of USD 216 billion (218). An additional 17 (35) newbuildings were covered.

- No merchant ships were hijacked in the Indian Ocean during 2015. Attacks on maritime units continued in the Gulf of Guinea, while piracy and maritime crime increased in South East Asia. Vessels insured by DNK suffered only minor incidents in these areas. The aftermath of the Arab spring has led to instability and a challenging security situation for international shipping, notably in Libya and Yemen. While this has not resulted in any losses during 2015, operational issues have occurred for DNK's members.

- In 2015, insurance activities generated a satisfactory result. The number of voyages and average premium rates declined in the conditional trading areas versus 2014. The level of premium income for own account, and low losses, allowed for an adjustment of both annual and additional premiums before year-end. The return on DNK's investments portfolio was -1.4 % (2.3 %) in USD.

- The war risk insurance market is characterised by high capacity, for both direct and reinsurance contracts. Reinsurance contracts were renewed at satisfactory terms, enabling the Association to retain competitive rates into 2016.

- The Norwegian Financial Services Authority (Finanstilsynet) approved mutual funds as supplementary capital under Solvency II, and a methodology to calculate the solvency captial requirement under the new regulatory regime entering into force in 2016.

- In May the Ministry of Finance presented a notice of proposed rulemaking that could change the tax rules for insurance reserves. The proposed regulation would have a substantial negative effect for DNK. After receiving feedback from industry, including DNK, and public interests in the hearing process, the ministry issued a new rule with effect for 2016 which maintained the existing regime whilst further work on this issue is undertaken.

- DNK's buffer capital at year-end 2015 was USD 1.10 billion (1.14). This capital consists of two elements; insurance reserves and mutual liability. The insurance reserves, including equity, declined by USD 8.2 million in 2015 to USD 766.0 million (774.2). The mutual liability decreased by USD 34 million to USD 336 million (370). The buffer capital was 0.5 % of gross insured values at the end of 2015.

Results 2015

Gross premium income in 2015 amounted to USD 22.1 million (28.4) after a USD 10.4 million (12.3) payment of premium adjustment, or no-claims bonus ('NCB'), to members. Adjusted for such no claims-bonus, gross premium declined 22 % in 2015. While annual rates declined 15 % on average, rates for conditional trading areas fell 25 %. The number of transits through these areas increased 16 % versus 2014. Annual premiums represented 46 % of gross premium income in 2015 (42 %).

Reinsurance costs fell USD 2.8 million, or 17 %, because of lower rates.

Premiums for own account amounted to USD 8.7 million in 2015 (12.2).

Gross claims costs of USD 0.6 million (1.7) were related to two incidents that did not include piracy. Claims for own account was USD 0.1 million (0.0).

The operating result from DNK's insurance activities amounted to USD 4.6 million (6.6) after administration costs.

The operating loss from investment management was USD 12.2 million (15.3), which corresponds to a return of -1.4 % in 2015 (2.3 %). On average, equities made up 26 % of the portfolio, with the balance allocated to domestic and global bonds.

DNK thus incurred an overall operating loss of USD 7.7 million in 2015 before changes in insurance reserves and tax, versus a gain of USD 21.9 million in 2014. After allocating USD 8.2 million from the insurance reserves to cover the incurred loss and taxes, the net result for 2015 was USD 0.0 million (0.0). In 2014 USD 4.2 million was transferred to the insurance reserves, and deferred tax increased by USD 17.7 million, which gave a net result of USD 0.0 million.

Insurance reserves, including equity, amounted to USD 766.0 million at the end of 2015 (774.2).

Cash flow from insurance activities was USD 3.2 million in 2015 (6.3). Premium income, reinsurance expenses and administrative costs were the main cash items. Cash flow from finance activities was USD -0.9 million (-10.1). Realised gains and losses from the sale of financial assets, reinvestments and administrative expenses constitute the major cash flow items in portfolio management. Net investment in fixed assets was USD 0.1 million (0.1). Net cash flow for the period was USD 2.2 million (-3.8). At the end of 2015 bank deposits amounted to USD 5.2 million (3.0).

The allocation of capital to the insurance reserves is based on an assessment of current liabilities and risks versus available reserves. When incurring an operating loss, such as in 2015, there is an allocation from the insursance reserve to avoid the accumulation of negative equity. DNK is not required to show equity capital on its balance sheet, and year-end 2015 equity was USD 0.0 million (0.0).

The Board confirms that the presentation of DNK's financial statements reflects the assumption that business operations are viable and will continue. The Board is not aware of any incidents occurring after the balance sheet day that may have any bearing on the presented accounts for 2015.

Insurance activities

DNK is one of the world's leading providers of war risk insurance for ships, whether measured in terms of scope of cover, ability to insure the most valuable vessels, risk-bearing capacity, or number of units insured and their aggregate value. DNK is also in the forefront when it comes to adopting new technological solutions to enhance its service level, and to assist members effectively in emergencies. A new ship monitoring system was implemented during 2015 as a permanent tool for loss prevention, emergency response and portfolio management.

New covers are developed and introduced to reflect changes in the market, or as special products offered exclusively to our members. The Association offers competitive premiums, also utilising year-end premium adjustments (NCB) applicable for both annual- and additional premiums.

The current war risk insurance market provides satisfactory returns, but capacity and competition have increased in recent years. Over time, this has resulted in lower premiums, which is positive from a member's perspective. DNK will continuously develop products and offer competitive premium rates to maintain its position in the market.

Threats to maritime security

The aftermath of the Arab spring has led to instability and a challenging security situation for international shipping in many key areas. The situation in Libya and Yemen continued to deteriorate during 2015. While this has not resulted in any losses to date, there have been some challenges affecting members' operations.

The deterioration of the global crude oil markets may also further undermine political stability in certain countries and areas, which in turn may affect international shipping.

After several years with reduced activity by Somalian pirates, DNK reduced the conditional trading area in the Indian Ocean. This followed shortly after a similar change was adopted by the Joint War Committee.

Even though the piracy situation in the Indian Ocean area has improved during the last couple of years, West Africa and South East Asia continue to create a challenging environment for shipping. Since piracy remains an imminent threat to shipping, beside political and military instability in various regions of the globe, DNK continues the development of insurance covers, contingency response, preparedness and training.

Loss prevention and contingency measures

A new Head of department was employed to further develop DNK's capabilities with regard to crisis response, contingency preparedness, training and security. DNK works closely with the Norwegian Shipowners' Association on matters such as crisis response and contingency measures.

DNK regularly provides members with bespoke security alerts and updates, and with risk analysis of actual and potential threats to maritime security. This is partly done in cooperation with highly professional vetted third parties, and internal resources at DNK.

Services where members are given access to timely and updated information about threats in areas particularly affected by piracy, such as the Indian Ocean, Gulf of Guinea and South East Asia, have also been prioritised.

Special contingency resources remain in place to handle potential hijackings. These measures secure members access to the expertise and services required to deal with a hijacking, without the need to obtain separate insurance cover or enter into separate contracts for the supply of such services.

Insurance conditions, premium adjustments and reinsurance

Based on positive premiums, claims figures and an established insurance cover, reinsurance costs for 2015 were reduced. This reduction in costs was passed on to members by way of lower insurance premiums, supplemented by premium adjustments for annual- and additional premiums (NCB).

As from the 1st of January the new version of the Nordic Marine Insurance Plan, the NMIP 2013, Version 2016 will apply to DNK policies, and amendments have been made in the DNK Insurance Conditions accordingly.

Regulatory developments

DNK monitors developments in the national and international sanctions' regimes closely, and implements appropriate measures to ensure continued compliance.

Investment management

Financial markets through 2015

The financial markets became increasingly volatile through the second half of 2015, driven by falling raw material prices and concern for weaker global economic growth – not least in China. The European and Japanese central banks maintained, or even expanded, a loose monetary policy, while the U.S. tightened rates by year-end. This divergence in policies may continue into 2016. The discrepancy between a brighter economic outlook in the U.S. and continued weakness in other major economies led to a further strengthening of the USD through 2015; around 11 % vs. EUR and 18 % vs. NOK. Debt concerns in European countries resurfaced as political tensions in Greece reemerged. This disrupted credit spreads and peripheral bond markets. A rise in geopolitical tensions, not least due to conflicts in Syria, was another source of insecurity and volatility in the financial markets. Major emerging economies did not live up to growth expectations for 2015. Global economic growth failed to meet forecasts, and expectations for 2016 are muted.

Key market indices 2013-2015

The table below shows the annual and aggregate return over three years for market indices that are of particular relevance to DNK's investment strategy.

The global equity index for developed markets increased 44.0 % over the last three years, while medium term global bonds only returned 3.1 %. Norwegian government bonds generated a return of 7.7 % in 2013-2015, while the U.S. dollar rose 59.3 % versus NOK in these three years.

Return/ change in value %	2015	2014	2013	3 years
Global equities, MSCI, USD	2.0	9.7	28.7	44.0
Global bonds, Barclays, 1-3 years, USD	0.8	1.2	1.1	3.1
Norwegian government bonds, 3 years, NOK	1.6	5.1	0.9	7.7
USD vs. NOK	18.3	23.4	9.1	59.3

Investment strategy

The investment portfolio consists of global liquid securities and fund units. The strategic exposure to equities is 25 %. The remaining 75 % is in investment-grade bonds with an average maturity near 2 years. Part of the portfolio may periodically deviate from its benchmark within a defined band. Both assets and liabilities have a currency mix of 85 % USD, while the balance is primarily in NOK.

Measured in USD, the portfolio return was -1.4 % in 2015 (2.3 %). Equities returned 2.9 % while bonds fell 2.7 % in value. DNK's portfolio return was marginally lower than its benchmark.

Two external managers overlook most of DNK's fixed income portfolio. The investment management agreements regulate interest rate risk, currency risk, credit risk, relative volatility and concentration risk. The equity portfolio consists of index funds that track the performance of the global developed markets in USD.

Risk measures

The Board has defined acceptable levels of market risk for the investment portfolio. Market risk is the annual loss potential calculated by a stress test and by value at risk (VaR). Relative volatility is the degree of active risk in the portfolio versus the benchmark. The table below shows these risk measures at the end of the past three years.

The stress factor for equities was 38 % in 2015 versus 45 % in 2014. Market volatility has declined in recent years in spite of the recent turbulence. These two factors explain the lower loss potentials in 2015. Multiple factors explain the decline in relative volatility, of which one is a lower allocation to equities. Relative volatility measures the degree of active risk in DNK's portfolio compared to its benchmark.

Governance

The Articles of Association states objectives and membership conditions for DNK. The governing bodies are the General Meeting, the Board of Directors, the Supervisory Committee, and the Nomination Committee. The Board of Directors also serves as DNK's Audit Committee and its Compensation Committee.

Aside from the annual ordinary general meeting, the Board, or a group of members, may convene an extraordinary general meeting. DNK's governing body is the general meeting. The Articles of Association outline the scope and conduct of an ordinary general meeting. Each member has a number of votes proportional to its registered insured amount with DNK. There are no restrictions with respect to voting rights. The Articles of Association also include guidelines for the Board's composition, procedures and functions.

DNK's Articles of Association regulate payment of premiums, financial reporting, premium adjustment and additional calls (mutual liability). The Articles also

Risk measures	2015	2014	2013
Stress test, USD million	-83.5	-100.3	-120.8
Value at Risk (VaR), USD million	-75.1	-97.6	-109.5
Relative volatility	0.5 %	1.0 %	1.3 %

include provisions for specific measures in times of crises.

Policies and instructions ensure the appropriate governance, control and overview of DNKs operational activities. The governance components take into account the nature, scale and complexity of DNK's risk profile and its organisational and operational structures.

War risk insurance involves unique forms of risk. Neither the timing, or the size, of possible claims can be determined through statistical methods. A long period without any claims may be followed by catastrophic events. DNK is thus exempt from the standardised capital requirements imposed on general insurance companies operating in Norway. Instead, stress tests and scenarios form the basis of DNK's capital requirement, as approved by the Financial Supervisory Authority of Norway (Finanstilsynet). The Association is not required to have an actuary in-house. DNK's Controller reports directly to the Managing Director and to the Board of Directors.

DNK is subject to requirements governing Solvency II for insurance companies, which comes into force from 2016.

Risk management

The Board determines principles and guidelines for DNK's risk management and internal control. As a minimum, these are reviewed yearly.

Independence in control functions, risk monitoring and reporting is achieved through segregation of duties, systematic re-examination procedures, and independent reporting lines. The Association's Controller has an independent control, risk assessment and reporting function. Furthermore, an external auditor undertakes an annual review of DNK's risk management and internal control systems.

DNK's risk exposures are insurance risk, counterparty risk, market risk, liquidity risk and operational risk. The loss potential for these risks is individually calculated, aggregated and aligned with available solvency capital. The Association is organised to comply with the Board's goal of maintaining a moderate-to-low risk profile.

Insurance risk is limited for each cover, and through reinsurance risk mitigation. Premiums are set on an annual basis. Rates for conditional trading areas are set for each voyage according to current evaluations of the underlying risks.

Counterparty risk is restricted through credit quality standards and concentration limits for participating reinsurers. The use of financial derivatives is mainly limited to currency hedging with standardised products. The parties to any hedging contract have to meet defined standards of creditworthiness.

Market risk is regulated by the guidelines in the Association's investment strategy. Broadly speaking, these guidelines cover restrictions relating to interest rate risk, active risk, equity risk, currency risk and credit risk.

Liquidity is important to secure payments and honor liabilities if a major loss occurs. Scenarios test the degree of liquidity risk. These scenarios assume the liquidation of DNK's investment portfolio and the call of additional premiums from members.

Operational risk is mitigated through a framework of guidelines and policies, a clear strategy, defined responsibilities and reporting lines, sound internal control, regular risk assessments, procedures for operational incidents, and updated contingency plans.

More details about the main risks and their management, are in the notes to the financial statements.

DNK is implementing the European Union's Solvency II directive. The existing framework for risk management is refined to comply with the capital requirement under Solvency II, including procedures for own risk and solvency assessment (ORSA).

A model is required to calculate the capital requirement for war risk insurance under Solvency II. DNK has developed such a model in dialogue with the Financial Supervisory Authority of Norway. The Association will comply with the Solvency II Directive by its implementation in 2016.

Capital requirements

In 2008, DNK introduced a limit of USD 1 billion for cover of war between major powers. The Association's buffer capital was USD 1.10 billion at the end of 2015, split between USD 766.0 million in insurance reserves, including equity, and USD 336 million in members' mutual liability.

DNK calculates its minimum capital requirement for two different scenarios. The scenarios differ with respect to size of loss and available reinsurance. The Associaton's capital exceeds the authorities' minimum requirements.

The notes to the annual accounts include further details on available capital and the capital requirement.

Administration

The Association had 15 employees at the end of 2015.

Sick leave in 2015 totalled 62 days (190), which represented 2.0 % of overall working hours (5.9 %). Excluding long-term absence due to illness, the sick leave for 2014 was 1.6 %.

There were no work-related accidents resulting in material injury to personnel or property. The Association is not engaged in activities that pollute the environment.

The Association seeks to contribute to the development of employees and their careers, irrespective of gender.

DNK's Board consists of one woman and six men. The Association's administration consisted of eight women and seven men at the end of 2015.

Outlook

The main factors affecting DNK's financial performance relate to geopolitical risk and volatility in financial markets. More volatility on the political arena, or in financial markets, may result in an insurance-related claim or an investment loss – or both. On a more detailed level, the following factors may impact DNK's future earnings: Gross insured values, conditional trading areas, market rates, price and availability of reinsurance, return on financial investments, and claim costs.

Premiums for war risk insurance is influenced by geopolitical risk and by more local factors such as piracy or other violent attacks against ships and offshore units. Although the level of activity outside Somalia was low in 2015, problems with maritime crime and piracy in the Gulf of Guinea and South East Asia continue. Implemented proactive measures in these areas have mitigated the potential damage to vessels and crew.

Rates for annual premiums have declined in recent years, while the gross value of insured tonnage has increased. Reinsurance costs have also declined. The reinsurance renewal for 2016 implies lower rates, and a likely decline in profitability versus 2015. Additional premiums, and the number of transits, in conditional trading areas are more volatile and thus less predictable. While the geopolitical risk in some areas is of concern, its potential impact on shipping is less obvious under normal circumstances. A major conflict could, however, in a very short time frame, cause monumental losses in respect of insured ships and mobile offshore units. Increased capacity in the war risk insurance market will also contribute to reduce current rates, barring any significant change in perceived risks or claims. Lower rates and increased market capacity should benefit DNK's members.

The investment portfolio has a moderate risk profile, and the expected return varies with movements in the global equity and bond markets. With moderate economic growth, low yields, and weaker earnings momentum, investment returns are likely to be below average.

DNK will be compliant with the regulatory requirements of Solvency II, as they come into effect from 2016.

DNK solvency capital at the end of 2016 is expected to be somewhat lower than in 2015. A reduction in ancilliary own-funds (members' mutual liability) is anticipated due to the overall decline in war risk insurance premiums. This decline may be partially offset by DNK's operating result for 2016.

The Ministry of Finance issued a new rule, with effect for 2016, which maintained the existing regime for taxation of insurance reserves. A revised proposal is likely to be released in 2016, taking effect as of 2017 at the earliest. There is consequently still a risk that Solvency II will weaken DNKs solvency capital if built-up insurance reserves will be subject to taxation. DNK will maintain its dialogue with the authorities to highlight the unreasonable consequences of such a potential change.

The Norwegian Shipowners' Mutual War Risks Insurance Association. Oslo, 15th of March 2016.

Jan Pedersen
(Chairman)

Garup Meidell
(Vice-Chairman)

Benedicte Bakke Agerup

Mons Aase

Roar Flom

Harald Fotland

Olav Eikrem

Svein Ringbakken
(Managing Director)

Photo: Tor-Erland Iversen

Photo: Kristian Gerhard Jebsen Skibsrederi AS

Financial Statements in USD

INCOME STATEMENT

Amounts in USD 1000	Note	2015	2014
PREMIUMS			
Gross premiums		22 141	28 447
Reinsurance premiums		(13 441)	(16 234)
Premiums for own account		**8 700**	**12 213**
Allocated investment return		**5 427**	**10 395**
CLAIMS			
Claims paid			
Gross claims paid	8	(990)	(1 269)
- Reinsurers' share of gross claims	8	1 306	1 973
Change in claims provisions			
Change in gross claims provisions	8	350	(391)
- Change in reinsurers' share of gross claims provisions	8	(807)	(340)
Claims for own account		**(142)**	**(28)**
Insurance related administrative expenses	2, 3, 4, 5, 10	**(3 994)**	**(5 589)**
Technical result before allocation to reserves		**9 990**	**16 991**
Allocation to insurance reserves	16	**8 167**	**(4 183)**
OPERATING RESULT TECHNICAL ACCOUNTS		**18 158**	**12 807**
Interest and dividend from financial assets	9	10 580	11 590
Change in fair value of financial assets	9	(89 779)	(40 993)
Realised gains from financial assets	9	71 083	49 961
Administrative expenses related to financial assets	2, 3, 4, 5, 9, 10	(4 097)	(5 274)
Total income/loss from financial assets		**(12 213)**	**15 284**
Allocated investment return transferred to technical accounts		**(5 427)**	**(10 395)**
OPERATING RESULT NON-TECHNICAL ACCOUNTS		**(17 640)**	**4 889**
PRE-TAX RESULT		**518**	**17 696**
Tax expenses	6	(518)	(17 696)
PROFIT FOR THE YEAR		**0**	**0**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**0**	**0**
TOTAL RESULT		**0**	**0**

BALANCE SHEET

Amounts in USD 1000	Note	2015	2014
ASSETS			
Owner occupied properties	5	212	212
Bank deposits investment portfolio	2	63 426	41 491
Shares and other equity investments	11, 12, 14	197 677	199 075
Bonds and other fixed income securities	11, 12, 13, 14	528 332	547 281
Financial derivatives	14, 15	2 042	86 239
Total investments		**791 688**	**874 297**
Reinsurers' share of gross claims provisions	**8**	**538**	**1 345**
Insurance related receivables		1 864	2 117
Reinsurers receivables		0	0
Other receivables		112	4 446
Total receivables		**1 976**	**6 562**
Equipment and fixtures	5	1 220	1 297
Cash and bank deposits	7	5 189	2 960
Other assets	4	254	174
Total other assets		**6 663**	**4 431**
Total prepaid expenses and accrued income		**286**	**196**
TOTAL ASSETS		**801 151**	**886 831**
EQUITY & LIABILITIES			
Equity	16	**0**	**0**
Provision for unearned gross premiums		0	0
Gross claims provisions	8	710	1 060
Insurance reserves	16	766 053	774 221
Total insurance reserves		**766 764**	**775 281**
Pension liability provisions	4	475	694
Taxes payable	2, 6	28	66
Deferred tax liability	2, 6	21 728	25 132
Other provisions		0	560
Total provisions		**22 231**	**26 453**
Reinsurance liabilities		924	1 529
Financial derivatives	14, 15	5 996	80 690
Other liabilities		1 968	1 658
Total liabilities		**8 888**	**83 877**
Other accrued expenses and prepaid income		**3 268**	**1 220**
TOTAL EQUITY AND LIABILITIES		**801 151**	**886 831**

The financial statements are approved by the Board of Directors and the Managing Director.

Oslo, 15th of March 2016

The Norwegian Shipowners' Mutual War Risks Insurance Association

Jan Pedersen
(Chairman)

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(Vice-Chairman)

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Mons Aase

Roar Flom

Harald Fotland

Olav Eikrem

Svein Ringbakken
(Managing Director)

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CASH FLOW STATEMENT

Amounts in USD 1000	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	22 441	28 574
Cash paid to re-insurers	(14 045)	(16 817)
Net cash flows related to claims expenses	315	703
Paid insurance related administrative expenses	(5 555)	(6 128)
Net cash flows from the technical accounts	**3 155**	**6 332**
Net cash flows from interest, dividends and realised gains/losses on financial assets	62 204	41 628
Net cash flows from acquisition/disposal of financial assets	(57 402)	(45 885)
Paid administrative expenses related to financial assets	(5 658)	(5 813)
Net cash flows from the non-technical accounts	**(856)**	**(10 070)**
Net cash flows from operating activities	**2 299**	**(3 738)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows from acquisition/disposal of fixtures and fixed assets	(71)	(26)
Net cash flows from investing activities	**(71)**	**(26)**
Net cash flows in the period	**2 229**	**(3 764)**
Net changes in cash and bank	2 229	(3 764)
Cash and bank 01.01.	2 960	6 724
Cash and bank 31.12.	**5 189**	**2 960**

Notes

NOTE 1: Accounting principles

The Financial Statements have been prepared in accordance with the "regulations for annual accounts for insurance companies" approved by the Norwegian Ministry of Finance and in accordance with the Norwegian Accounting Act and accounting principles generally accepted in Norway.

Classification and evaluation of balance sheet items

Current assets and short-term liabilities include items associated with insurance and administration activities.
The following assets are classified as financial current assets:

- Shares and units
- Bonds and other fixed or variable income securities
- Financial derivatives
- Other financial current assets

Financial assets

The Association uses the possibilities provided in the accounting regulations of insurance companies, § 3-3 and IAS 39 point 9, to measure equities, units, bonds and claims on credit institutions at fair value through profit or loss in accordance with the fair value option.

Financial derivatives are classified in the trade category in accordance with IAS 39 and are measured at fair value.

Recognition and measurement of financial assets

Regular purchases and sales of financial assets are recognised on the settlement date. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flow from the investments have expired or have been transferred, and the Association has transferred substantially all risk and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value, including dividends and interest income, are included in "change in value of financial assets", and "realised gain and loss on financial assets" in the period in which they arise. Dividend income from financial assets is recognised in the income statement when the Association's right to receive payments is established.

Fair value of financial instruments listed or traded on an exchange is based on the acquisition cost.

The Association assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Foreign exchange

The Association's goal is to reasonably balance receivables against potential obligations in each individual currency.

The major part of the premium income, financial assets and potential claims obligations are in USD. USD is the Association's functional and presentation currency and the figures are presented in this currency.

Profit and loss transactions in foreign currencies are translated into USD using the average monthly rate of exchange. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Norwegian kroner are used in the official Norwegian regulatory reporting.

Fixed assets
Fixed assets are recognised at historical cost in the balance sheet and depreciated linearly over the asset's life. Direct maintenance of business equipment is recognised in operating expenses on an on-going basis, while additions or improvements are capitalised to an asset's cost price and depreciated along with the asset.

Pensions
Pension costs are accounted for in accordance with the Norwegian accounting standard for pensions.

The Association has two collective pension insurance schemes for its employees, plus an additional scheme for salaries surpassing 12 G. The schemes are defined benefit schemes, which means that pensions are based on linear accrual and expected final salary. Prior service costs are amortised over the expected remaining earning period. The same applies to deviations in estimates to the extent that they exceed 10% of the larger of pension obligations or pension assets.

Pension assets and pension liabilities are estimated on an annual basis. The estimated values are corrected each year in accordance with calculations performed by an actuary. The employer's contribution accrues for unsecured pensions.

Deferred tax
Tax costs in the profit and loss account consist of taxes payable and changes in deferred tax/tax benefits.

Taxes payable are calculated on the basis of the year's taxable result.

Deferred tax is calculated at 25 % (27 %) on the basis of the temporary differences that exist between book and tax values, as well as the deficit for tax assessment purposes that will be carried forward at the end of the financial year. Tax increasing and tax reducing temporary differences that are reversed or could be reversed during the same period are offset and the tax effect is calculated on a net basis.

Real estate
The Association does not currently own any properties except for an apartment in Spain. This is valued at the lowest of cost and market value. Any write down is treated as an ordinary expense in the profit/loss accounts. There is no depreciation on real estate.

Allocated investment returns
Allocated investment returns have been transferred from the non-technical accounts and comprise the amount equivalent to the estimated return on the financial year's average insurance reserves. An actuarial interest rate that is equal to the average yearly yield on government bonds with 3 years remaining until maturity is used to calculate the investment return. The amount is calculated in accordance with the requirements issued by The Financial Supervisory Authority of Norway (Finanstilsynet).

Premium recognition and premium for own account
Premium and commission are recognised when earned. Premium for own account includes premiums written, net of premiums ceded (reinsurance). All premium payments follow the calendar year, so there is no allocation to premium reserve at year end. Premium for own account appears in the technical accounts.

Cost recognition and claims reserve
Claims are expensed as incurred. Other costs are expensed in the same period as the income to which they relate is recognised. Claims reserves are intended to cover anticipated future claims payments for losses incurred but not yet settled at the end of the fiscal year. These reserves comprise provisions for losses reported to the Association. Provisions for losses are assessed individually by the claims department.

Insurance reserves
The Financial Supervisory Authority of Norway (Finanstilsynet) has prepared separate minimum requirements for the following five types of allocations (reserves); premium allocations, claims reserve, contingency allocations, reinsurance allocations and unallocated loss adjustment expenses.

In this particular insurance sector (war risk insurance), the Association cannot use methods of calculating reserves commonly used by non-life insurance companies. The Association has therefore, in the insurance reserves, made an allocation for the combined insurance risks that exist at the end of the year.

Statutory insurance reserves

Statutory insurance reserves are allocations made to cover the Association's liabilities in the event of any war catastrophes with extraordinary claims. Allocation to the insurance reserves is based on an assessment of prevailing liabilities and risks in light of available reserves and the year's financial result.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates may differ from actual results, but are based on best estimates at the time the financial statements are approved by the Board. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Fair value assessments for financial instruments in inactive markets are made using valuation methods based on market conditions at the balance sheet date. Net pension liabilities and pension costs for the accounting period are based on actuarial and economic assumptions.

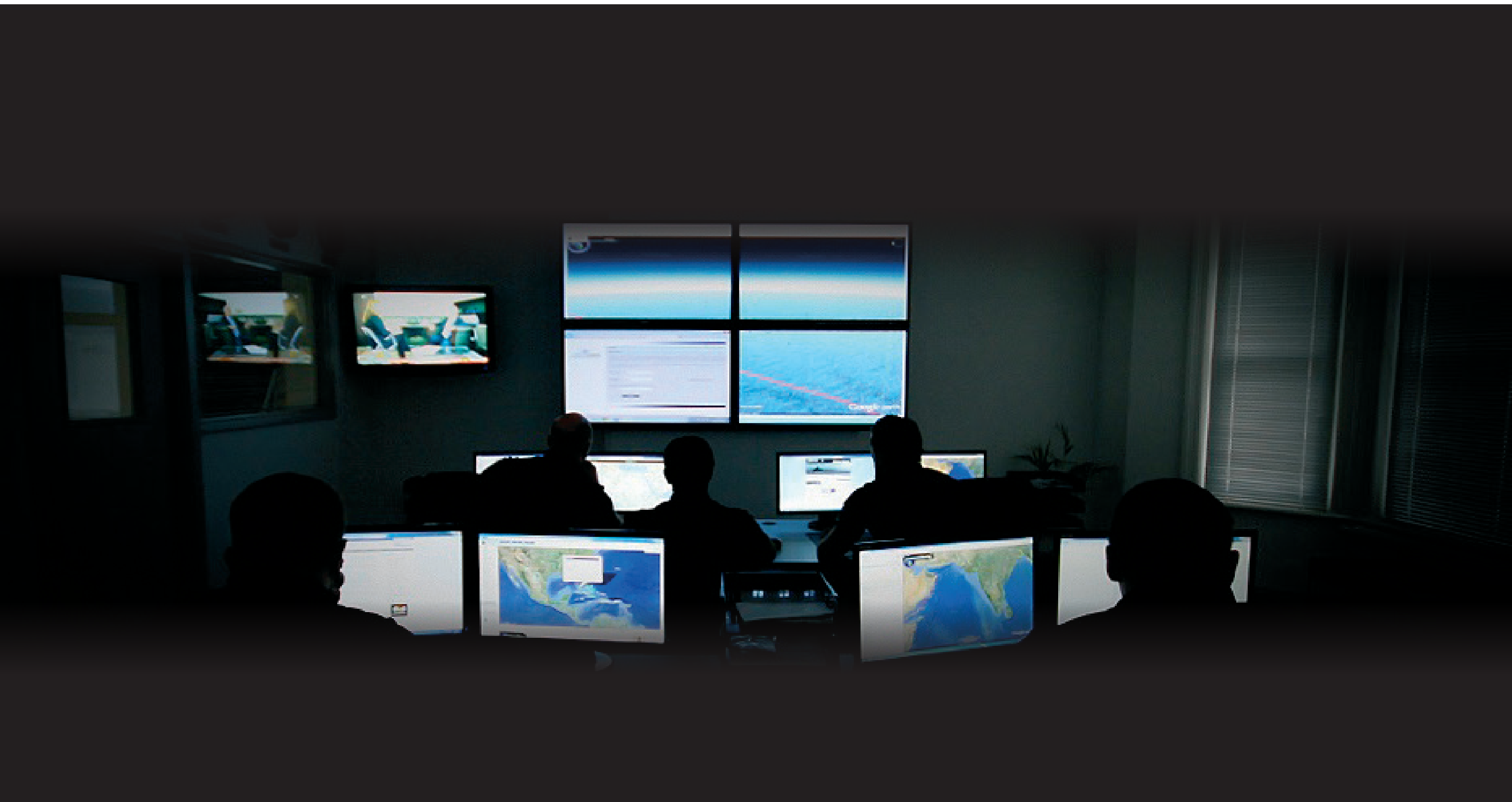

Photo: Operations room, Clearwater

NOTE 2: Payroll costs, number of employees, other benefits, loans to employees

On average there were 15 people employed by the Association in 2015. The following amounts are expensed as salary, fees and other benefits, and the following loans were outstanding:

2015

Amounts in USD 1000	Salary/ fees	Bonus	Pension costs	Other benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	381	116	440	44	**981**	3
Sverre Huse, Finance Director	290	97	178	34	**599**	0
Göran Skuncke, Insurance Director	197	21	33	3	**254**	0
Helena Brudvik, Controller	158	32	41	3	**235**	0
BOARD OF DIRECTORS						
Jan Pedersen, Chairman	25	0	0	0	**25**	0
Garup Meidell, Vice Chairman	17	0	0	0	**18**	0
Benedicte Bakke Agerup, Board member	14	0	0	0	**14**	0
Olav Eikrem, Board member	15	0	0	0	**15**	0
Harald Fotland, Board member	14	0	0	0	**14**	0
Mons Aase, Board member	14	0	0	0	**14**	0
Roar Flom, Board member	16	0	0	0	**16**	0
SUPERVISORY COMMITTEE						
Rolf Sæther, Chairman	6	0	0	0	**6**	0
Henrik Aass, Committee member	4	0	0	0	**4**	0
Ivar Alvik, Committee member	4	0	0	0	**4**	0

NOTE 2 cont.

NOTE 2 cont.

2014

Amounts in USD 1000	Salary/ fees	Bonus	Pension costs	Other Benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	432	124	150	56	**762**	5
Sverre Huse, Finance Director	358	102	181	42	**683**	0
Göran Skuncke, Insurance Director	237	0	32	5	**274**	0
Helena Brudvik, Controller	190	32	62	2	**287**	0
BOARD OF DIRECTORS						
Jan Pedersen, Chairman	28	0	0	0	**28**	0
Garup Meidell, Vice Chairman	19	0	0	0	**19**	0
Benedicte Bakke Agerup, Board member	17	0	0	0	**17**	0
Trine - Lise Wilhelmsen, Board member (to 28th of April)	17	0	0	0	**17**	0
Olav Eikrem, Board member	17	0	0	0	**17**	0
Harald Fotland, Board member	17	0	0	0	**17**	0
Mons Aase, Board member	17	0	0	0	**17**	0
Roar Flom (from 28th of April)	0	0	0	0	**0**	0
SUPERVISORY COMMITTEE						
Rolf Sæther, Chairman	8	0	0	0	**8**	0
Henrik Aass, Committee member	5	0	0	0	**5**	0
Ivar Alvik, Committee member	5	0	0	0	**5**	0

Loans to employees follow common repayment schedules. No loans/guarantees have been extended to the Board of Directors, Supervisory Committee or other related parties.

Holiday-pay accrued in 2014 is included under salary for 2015.

The Association has introduced a tentative variable compensation plan for all employees. The plan comprises individual quantitative and qualitative criteria to earn such variable compensation. The variable compensation can be up to 10, 30 or 50 % of annual base salary, depending on position held*. The Association's variable compensation plan for the management is in line with legal requirements with respect to documentation, size of payment, payment period, adjustment for risk and cyclicality in earnings.

There are no other compensation agreements with the Managing Director, the Chairman of the Board or the other members of the Board.

NOTE 3: Auditor's fees

The auditor's fees include a legally required audit of USD 51,400 (internal control review is included in this amount), tax related services of USD 12,200 and other audit related services of USD 10,892. These amounts are stated without value-added tax.

* As from 2016, the corresponding upper limits are 10 %, 20 % and 30 %.

NOTE 4: Pension costs and pension obligations

As from March 2016, DNK changed its pension scheme from a defined benefit to a defined contribution plan.

Employees' pensions are secured through a collective pension scheme established in accordance with legal act no. 16 of March 24th, 2000 relating to company pension schemes. The collective pension scheme covers pensions from the age of 67. According to individual employment contracts, employees are entitled to an early retirement pension. The legal act relating to company pension schemes came into effect on January 1st 2001 and does not give early retirees the right to remain members of the pension scheme. If the Association's employees leave before they turn 67 they will, according to the provisions of the act relating to companies' pensions, be withdrawn from the pension scheme and receive a so-called paid-up policy, i.e. the value of their accrued rights.

The individual agreements, combined with a collective pension scheme, mean that an employee should receive a retirement pension equivalent to 70% of the basis for calculating pensions from the moment they retire. From the age of 67, pensions from the Association are coordinated with social security benefits. In the event of less than 30 years of service at the time of retirement, a proportional reduction will be made in the pension payments.

Amounts in USD 1000	2015	2014
Present value of the year's pension accruals	729	574
Net interest cost and expected return on pensions	17	26
Management fee	56	52
Administration costs	11	12
Actuarial gain/(loss)	120	61
Net pension costs (incl. social security taxes)	**933**	**725**
Calculated pension obligations as at 31.12	6 287	6 645
Pension assets (at market value) as at 31.12	(3 760)	(3 658)
Effect of estimated deviations	(2 306)	(2 467)
Net pension assets/(liabilities)	**(221)**	**(520)**
FINANCIAL ASSUMPTIONS		
Discount rate	2,50 %	3,00 %
Expected return on pension fund assets	3,30 %	3,80 %
Expected payroll adjustment	2,50 %	3,25 %
Expected pension increase	1,50 %	1,75 %
Expected G-adjustment	2,25 %	3,00 %

The actuarial assumptions are based on the standard assumptions used by insurers with respect to demographic factors.

NOTE 5: FIXED ASSETS

Amounts in USD 1000		Machinery/ Fixtures and vehicles	Works of art (paintings)	Real estate
Acquisition cost as at 01.01		1 544	145	212
+ Additions during year		74	0	0
- Disposals during year		(64)	0	0
+ Exchange rate effects		(22)	0	0
Acquisition cost as at 31.12	**A**	**1 531**	**145**	**212**
Accumulated ord. depr. as at 01.01		392	0	0
+ Ordinary depreciation		147	0	0
- Disposals at acquisition cost		(64)	0	0
+ Exchange rate effects		(19)	0	0
Accumulated ord. depr. as at 31.12	**B**	**455**	**0**	**0**
Book value as at 31.12	**A-B**	**1 075**	**145**	**212**

The Association uses linear depreciation for all fixed assets. The economic life of fixed assets is estimated as follows: Machinery and fixtures 3-10 years, vehicles 3-5 years and IT-systems 3-5 years.

NOTE 6: Taxes

Amounts in USD 1000	2015	2014
THE YEAR'S TAX COSTS ARE CLASSIFIED AS FOLLOWS:		
Payable tax (deficit)	(9 940)	(24 711)
Part of deficit not included in deferred tax	9 940	24 711
Use of not recognised tax asset of tax loss carry forward	0	0
Adjustment to historic tax	0	6
Change in deferred tax	490	17 622
Net worth tax	28	66
Total	**518**	**17 696**
CALCULATION OF TAXES:		
Profit/loss before tax	518	17 696
Permanent differences, non-deductible	108	242
Accounting related gain on realisation of securities	(178 113)	(62 170)
Accounting related loss on realisation of securities	58 970	15 067
Tax related gain/loss on realisation of securities	40 953	21 398
Reversal of change in marketable securities	40 887	(83 603)
Diff. between deducted and refunded withholding tax	0	0
Taxable share of dividend and gain	0	0
Change in temporary differences	(139)	(151)
This year's taxable result	**(36 816)**	**(91 521)**
Taxes payable (deferred taxes)	**(9 940)**	**(24 711)**
OVERVIEW OF TEMPORARY DIFFERENCES		
Fixed asset investments	(98)	(22)
Diff. between market and book value of trading portfolio	87 233	90 301
Pension obligations	(221)	(520)
Taxable share of dividend and gain	0	0
Total	**86 914**	**89 759**
25 % (27 %) deferred tax	**21 728**	**25 132**
WHY TAX COST DIFFERS FROM 25 % (27 %) OF PROFIT/LOSS BEFORE TAX:		
27 % tax of the profit/loss before tax	140	4 778
Tax effects of permanent differences (27 %)	(21 082)	(6 875)
Change in tax effects of unrealised gain/loss on shares	13 230	(4 991)
Tax loss carried forward	0	0
Too little tax set aside in previous years	0	6
Net worth tax	28	66
Tax effect of reduced tax rate	(1 738)	0
Deferred tax deficit not shown on balance sheet	9 940	24 711
Calculated tax costs	**518**	**17 696**

NOTE 6 cont.

NOTE 6 cont.

Tax cost figures in USD are converted from the Norwegian taxable income.
The Association has chosen not to recognise deferred tax benefits in the balance sheet, since the reversal (usage) of each benefit will take place in the future. Tax loss carry forwards in 2015 was USD 195 million (187).

NOTE 7: Bank deposits

Holdings of cash and liquid assets at the end of the period appear in the cash flow statement. Cash and bank includes USD 486,553 of unpaid tax withholdings as at 31.12.15.

NOTE 8: Claims expenses

Gross claims expenses related to three incidents, one dating back to 2012. Net claims costs after reinsurance were negligible.

Amounts in USD 1000	2015	2014
PROFIT & LOSS		
Gross paid claims	990	1 269
- Deducted claims provisions	(975)	(1 218)
Expensed gross claims	**16**	**51**
New gross claims provisions	625	1 609
Gross expensed claims, total	**641**	**1 661**
Reinsurers' share of gross paid claims	1 306	1 973
- Deducted reinsurers' share of claims provisions	0	0
Expensed reinsurers' share of gross claims provisions	**1 306**	**1 973**
Change in reinsurers' share of gross claims provisions	(807)	(340)
Reinsurers' share of expensed gross claims	**499**	**1 632**
Claims for own account	**142**	**28**
BALANCE SHEET		
Gross claims provisions 01.01	1 060	685
- Paid claims deducted from claims provisions	(975)	(1 218)
New claims provisions	625	1 609
Change in gross claims provisions	**(350)**	**391**
Exchange rate effects	0	(17)
Gross claims provisions 31.12	**710**	**1 060**
Reinsurers' share of gross claims provisions 01.01	1 345	1 701
- Deducted reinsurers' share from gross claims provisions	0	0
Change in reinsurers' share of gross claims provisions	(807)	(340)
Change in gross claims provisions	**(807)**	**(340)**
Exchange rate effects	0	(17)
Reinsurers' share of gross claims provisions 31.12	**538**	**1 345**
Claims provision for own account 31.12	**172**	**(285)**

NOTE 9: Items that have been combined in the Income Statement

Amounts in USD 1000	2015	2014
Interest income from bank deposits	(13)	20
Interest income from domestic loans	0	8
Interest income on bonds	10 273	11 340
Dividends on equities	319	222
Interest and dividend from financial assets	**10 580**	**11 590**
Unrealised gains/losses on financial current assets	**(89 779)**	**(40 993)**
Exchange rate gains	28 206	153 641
Exchange rate losses	(8 747)	(133 718)
Realised gains/losses on equities	44 496	25 467
Realised gains/losses on bonds	(3 434)	833
Realised gains/losses on derivatives	10 563	3 739
Realised gains from financial assets	**71 083**	**49 961**
Administrative expenses associated with financial assets	**(4 097)**	**(5 274)**
Total income/loss from financial assets	**(12 213)**	**15 284**

NOTE 10: Administrative expenses

Amounts in USD 1000	Insurance 2015	Finance 2015	Total 2015	2014
Salary and holiday pay, employees	1 363	1 363	2 726	2 888
Social security taxes	172	172	345	492
Pension cost	394	394	789	725
Other personell costs	99	78	177	234
Fees	357	357	714	940
Rental costs, office and machinery	184	184	369	465
Ordinary depreciation	73	73	147	192
Other administrative expenses	1 352	1 475	2 826	4 927
Total administrative expenses	**3 994**	**4 097**	**8 091**	**10 864**

The Association's administrative expenses are allocated between its insurance and finance activities as far as practically possible. Where not practically possible, common costs are allocated according to the distribution of personnel expenses between the two operating activities, which for 2015 were split 50/50.

NOTE 11: Financial assets – fair value hierarchy

Amounts in USD 1000	2015	2014
Equities	197 677	199 075
Bonds and fixed income securities	528 332	547 281
Financial derivatives, assets - liabilities	-3 955	5 548
Loans and accounts receivable	63 426	41 491
Total financial assets*	**785 480**	**793 395**

2015 - Financial assets measured at fair value over the income statement

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Equities	196 607	0	1 070	197 677
Bonds	373 065	155 267	0	528 332
Financial derivatives, net	0	-3 955	0	-3 955
Total	**569 672**	**151 312**	**1 070**	**722 054**
Distribution	78,9 %	21,0 %	0,1 %	100,0 %

2014 - Financial assets measured at fair value over the income statement

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Equities	198 004	0	1 070	199 075
Bonds	339 174	208 108	0	547 281
Financial derivatives, net	0	5 548	0	5 548
Total	**537 178**	**213 656**	**1 070**	**751 904**
Distribution	71,4 %	28,4 %	0,1 %	100,0 %

* Total fair value equals book value.

Fair value is meant to be a representative price based on what similar assets or liabilities would be traded at given normal terms and market conditions.

LEVEL 1 is the highest quality of fair value. It is based on listed prices in active markets. A financial instrument is considered listed in an active market if prices are easily and regularly accessible from the exchange, dealer, broker, pricing service or governing authority, and these prices represent actual and frequent transactions on an arm's length basis.

LEVEL 2 is based on observable marked data, but the instrument is not considered to be actively traded. This includes prices derived from identical instruments and prices of similar assets that can be confirmed through market data. Level 2 financial instruments are for example fixed income securities that are priced based on representative yield curves.

LEVEL 3 is considered to represent an inactive market, where observable data is unavailable. Prices are primarily estimated out of internal assessments. Level 3 financial instruments can be private equity, real estate and financial claims.

NOTE 12: The Association's investment portfolio in equities and mutual funds

2015 - Investment portfolio in equities and mutual funds

Amounts in USD 1000	Value at cost	Fair value	Distribution
Equities	190 943	197 677	100,0 %
STATE STREET INDEX FUNDS			
Canada	6 341	6 024	3,0 %
Europe	32 952	33 507	17,0 %
Japan	9 738	10 362	5,2 %
Pacific ex. Japan	5 618	5 768	2,9 %
USA	49 915	52 831	26,7 %
World	50 431	52 845	26,7 %
Equity index funds	**154 995**	**161 337**	**81,6 %**
OTHER EQUITY FUNDS			
Nordea Stable equities, global	22 500	23 959	12,1 %
Arctic Norwegian Equities	11 491	11 311	5,7 %
Private equities	**1 956**	**1 070**	**0,5 %**
Total equities	**190 943**	**197 677**	**100,0 %**

2014 - Investment portfolio in equities and mutual funds

Amounts in USD 1000	Value at cost	Fair value	Distribution
Equities	147 167	199 075	100,0 %
STATE STREET INDEX FUNDS			
Australia	3 706	3 756	1,9 %
Canada	5 777	6 452	3,2 %
Europe	28 130	34 377	17,3 %
Hong Kong	685	858	0,4 %
Japan	8 380	10 314	5,2 %
Singapore	889	1 103	0,6 %
USA	30 445	53 928	27,1 %
World	35 198	53 968	27,1 %
Equity index funds	**113 211**	**164 756**	**82,8 %**
OTHER EQUITY FUNDS			
Nordea Stable equities, global	32 000	33 248	16,7 %
Private equities	**1 956**	**1 070**	**0,5 %**
Total equities	**147 167**	**199 075**	**100,0 %**

NOTE 12 cont.

NOTE 12 cont.

The equity portfolio is primarily managed passively. The risk and return profile of the portfolio is thus similar to that of the global equity market of OECD-countries. The global equity exposure is achieved through regional index funds. The mixture of funds is changed when necessary to best track the performance of the benchmark. The global equity benchmark is delivered by MSCI and is expressed in USD. The portfolio of index funds is hedged to the USD. The equity portfolio is well diversified and consists of easily traded fund units.

NOTE 13: Specification of bond portfolio

DNK's fixed income portfolio consists of two bond funds, and two discretionary managed bond portfolios. One of these portfolios is invested in NOK in the Norwegian bond market, while the other portfolio is invested in global bonds hedged to the USD. The benchmark for the Norwegian mandate is ST4X, a government bond index with a fixed duration of 3 years. The benchmark for the global mandate is Barclays Global Aggregate Index with a duration of 1-3 years, hedged to the USD. The weighted benchmark duration for the bond portfolio was 2.2 years, while the duration of the portfolio was 2.4 (2.2) at the end of 2015.

	2015	2014
Amounts in USD 1000	Book value	Book value
Bonds and other fixed income securities	528 332	547 281
Accrued interest income	-809	4 288
Settlement, broker	0	0
Loans and accounts receivable	62 711	41 086
Fixed income derivatives	-4 523	4 600
Fixed income portfolio	**585 711**	**597 255**

Amounts in USD 1000	Value at cost	Book value	Value at cost	Book value
DISCREATIONARY MANDATES				
Norwegian bonds	116 418	87 805	86 574	93 178
Global bonds, USD hedged	398 385	429 144	354 461	387 450
BOND FUNDS				
Forte	3 980	3 389	-	-
Franklin Templeton	-	-	39 121	51 843
Pimco	54 749	65 372	54 749	64 784

The table below shows the credit quality of the bond portfolio, its duration, yield and interest rate risk. The interest rate risk gives the expected loss as a result of a one percentage point upward shift in the yield curve. The interest rate risk is primarily driven by the portfolio's duration.

2015

Amounts in USD 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, NOK	15 %	AA	2,6	1,9 %	-2 267
Bonds, global, USD hedged	73 %	AA-	1,8	1,1 %	-7 639
Bond funds	12 %	AA-	5,9	2,9 %	-3 974
Total fixed income	**100 %**	**AA-**	**2,4**	**1,4 %**	**-13 880**

2014

Amounts in USD 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, NOK	16 %	AA	2,7	1,6 %	-2 504
Bonds, global, USD hedged	65 %	AA-	1,6	0,7 %	-6 160
Bond funds	20 %	A	3,7	3,4 %	-4 227
Total fixed income	**100 %**	**AA-**	**2,2**	**1,4 %**	**-12 892**

The currency split in the bond portfolio is shown in the table to the right.

The average credit quality (rating) of the bond portfolio is AA-. The table below shows how the portfolio is distributed by credit quality. The credit rating of Norwegian bonds is based on S&P and DNB.

	2015	2014
NOK	16 %	16 %
USD	85 %	82 %
Other	-1 %	2 %

2015 - Rating

Amounts in USD 1000	NOK	Global	Fond	Total	Distribution
AAA	24 881	173 259	27 382	225 522	38,5 %
AA	23 070	51 269	6 537	80 876	13,8 %
A	24 307	116 840	15 689	156 837	26,8 %
BBB	15 379	63 634	12 541	91 554	15,6 %
BB	0	24 269	3 269	27 538	4,7 %
B	0	380	1 961	2 341	0,4 %
CCC, lower	0	0	1 307	1 307	0,2 %
No rating	168	-507	75	-264	0,0 %
Total	**87 805**	**429 144**	**68 761**	**585 711**	**100 %**

2014 - Rating

Amounts in USD 1000	NOK	Global	Fond	Total	Distribution
AAA	48 876	168 037	22 469	239 382	40,1 %
AA	0	65 440	23 081	88 522	14,8 %
A	40 918	91 516	32 917	165 350	27,7 %
BBB	2 893	51 182	24 086	78 162	13,1 %
BB	0	9 299	9 072	18 370	3,1 %
B	0	775	2 830	3 605	0,6 %
CCC, lower	0	0	2 162	2 162	0,4 %
No rating	491	1 201	10	1 703	0,3 %
Total	**93 178**	**387 450**	**116 627**	**597 255**	**100 %**

Government, government guaranteed, and municipal bonds, amount to 58 % (55 %) of the bond portfolio's fair value. Non-government bonds have an average credit rating of AA- (A+).

NOTE 14: Risk management

Prudent risk management and internal control is an integral part of DNK's business operations.

The Board receives reports on a regular basis, showing the level of, and trend in, the risk factors DNK is exposed to.

Risks

The Association is mainly exposed to insurance risk, market risk (financial risk), counterparty risk, liquidity risk and operational risk. A loss potential is calculated for each risk, and the aggregate risk is measured and managed in relation to available capital. With a well-diversified reinsurance programme, a moderate investment risk, and a low operational risk, the Board has set a goal to maintain a moderate to low risk profile for DNK.

DNK's capital requirement at the end of 2015 was USD 458 million (471). The capital requirement reflects the aggregate risk exposure, which again can be broken down into the major risk components in DNK. In the case of a war between major powers, the capital requirement was USD 827 million (842). The decreased capital required for this catastrophe scenario is mainly explained by lower market risk.

INSURANCE RISK relates to DNK's insurance products. This is the Association's most significant risk, which is reinsured through an extensive programme. This risk constituted 47 % (46 %) of DNK's ordinary capital requirement, and 85 % (83 %) of the capital requirement applicable to a catastrophe scenario that entails a war between major powers.

MARKET RISK arises from the Association's investment activity. Equity risk, interest rate risk, credit risk, concentration risk, and currency risk are controlled through a set of limits. Financial derivatives are mainly used to achieve the desired currency exposure. Market risk is measured by stress testing, value-at-risk and relative volatility. This risk constituted 18 % (21 %) of DNK's ordinary capital requirement, and 10 % (12 %) of the capital requirement applicable to a catastrophe scenario that entails a war between major powers.

COUNTERPARTY RISK relates mainly to the potential lack of payout on a reinsurance contract. The risk is managed by setting credit quality standards and concentration limits for participating reinsurers. This risk constituted 34 % (32 %) of DNK's ordinary capital requirement, and 5 % (5 %) of the capital requirement applicable to a catastrophe scenario that entails a war between major powers.

OPERATIONAL RISK, which includes legal risk, arises from the Association's activities, outsourced assignments and its cooperation with external parties. The risk is managed through a framework designed to ensure an on-going risk assessment of business operations and controls. This risk is a minor part of the aggregate capital requirement for DNK.

LIQUIDITY RISK relates to the Association's ability to meet its claims and liabilities on time. Financial investments are limited to liquid securities and fund units. The members' mutual liability represents an important part of DNK's liquidity reserve. This risk is measured and controlled by conducting tests for different catastrophe scenarios.

DNK is also exposed to geopolitical risk. The Association's members operate beyond traditional waters and transport routes. Changes in external conditions may affect the insurance market, political power balances and legal provisions in a manner that may hinder DNK's ability to comply with agreements entered into. Geopolitical risk is monitored in close cooperation with external parties.

Market risk

The investment portfolio consists of equities and bonds. The financial risk in the portfolio can be decomposed into interest rate risk, equity risk, spread risk, concentration risk and currency risk. The Association has no exposure to real estate. The investments are limited to highly liquid securities and mutual funds. The degree of active risk is fairly low. The portfolios financial risk is therefore adequately expressed by using market indices. The stress test module of the Financial Supervisory Authority of Norway is used to calculate the market risk expressed below.

- The interest risk shows how much the bond portfolio will fall in value by an upward shift in the yield curve of approximately 0.7 percentage points.
- The equity risk is calculated by assuming a 38 % fall in the equity portfolio.
- Currency risk comes into play when the investment portfolio has a currency composition that deviates from the currency mix of the Association's insurance liabilities. If a deviation occurs, usually for tactical reasons, the amount at risk is assumed to fall 25 % in value.

- Concentration risk is based on the combined exposure to an individual issuer. The major factor in determining the level of risk for any issuer is its credit rating. The risk factor for AAA-bonds is 12%, increasing to 27% for BBB-bonds.
- The spread risk is a measure of a potential increase in the risk premium for non-government bonds over sovereign bonds. This risk is calculated by allocating bonds with credit risk to different rating categories. The spread increase varies by credit quality. The spread for AAA-bonds is increased by 0.9 percentage points, while the spread for BBB-bonds is widened by 2.5 percentage points.

The Association's investment strategy and agreements with external managers govern risk taking and reporting requirements. The strategy also takes into account the characteristics of the Association's insurance activities and the corresponding liabilities.

Market risk is estimated both by a stress test and by a statistical model. The statistical model calculates the volatility of the portfolio and its benchmark. These volatilities are used to estimate the loss potential, expressed as "value at risk" (VaR), both in per cent and as an amount. The portfolio's relative risk is also calculated, estimating the risk-taking in the portfolio relative to the benchmark. The relative risk may also be used to describe the characteristics of the portfolio, and quality assessment of the asset management. At the end of 2015, the relative volatility was 0.5 %, which indicates that the portfolio's overall risk profile is close to its benchmark.

At year-end 2015, the portfolio's risk profile was as indicated in the table below.

	2015		2014	
Amounts in USD 1000	**Portfolio**	**Benchmark**	**Portfolio**	**Benchmark**
Interest rate risk	14,4	12,9	15,1	12,9
Equity risk	75,5	75,2	90,1	89,5
Currency risk	0,0	0,0	3,6	0,0
Spread risk	8,7	8,7	10,4	10,4
Concentration risk	0,0	0,0	0,0	0,0
Gain from diversification	-15,2	-13,9	-18,8	-14,4
Market risk	**83,5**	**83,0**	**100,3**	**98,4**
Market risk % of portfolio	10,7 %	10,6 %	12,6 %	12,4 %
Value-at-risk	75,1	73,9	97,6	82,3
Volatility	3,7 %	3,7 %	4,8 %	4,0 %
Relative volatility	0,5 %	--	1,0 %	--

While the stress test models a financial crisis, the estimated VaR reflects the current level of market volatility. The statistical model reflects the changing volatility in the portfolio's asset mix, and the expected co-movements between these assets. Given the level of confidence applied by DNK, one would normally expect the VaR based loss estimate to remain above that of the stress test. When market volatility declines, the VaR based loss estimate will also be lower, for the same nominal exposures.

Using the risk limits in the investment strategy to maximise market risk implies a loss potential of USD 107 million. This is also an expression of the degree of risk tolerated in the investment strategy. Based on the table above, about 78 % of this risk tolerance was used at the end of 2015.

The market risk varies most with changes in the portfolio's allocation to equities, bond duration, the USD and NOK exposure, and credit quality. The table below lists changes in the loss potential given changes in the exposures to the above mentioned risk factors.

NOTE 14 cont.

NOTE 14 cont.

Amounts in USD 1000		Sensitivity 2015		2014	
Risk factor	**Change in exposure**	+	-	+	-
Duration, bonds	+/- 1 unit duration	1	0	1	-1
Equities	+/- 5 percentage points	15	-15	17	-17
Currency exposure	+/- 5 percentage points	3	3	4	1
Share of non-sovereign bonds	+/- 5 percentage points	0	0	0	0
Duration, non-sovereign bonds	+/- 1 unit duration	2	-1	2	-2
Rating, non-sovereign bonds	Down one letter designation	--	3	--	5
Concentration, issuer rating	Down one letter designation	--	--	--	--

In asset management, counterparty risk is primarily related to the use of derivatives. DNK has outsourced most of its investment management through three discretionary mandates. The external managers can use derivatives related to currency, alternatively to fixed income. Foreign exchange related derivatives are used to secure the desired exposure to USD. Fixed income related derivatives are used to reduce risk, or to make the management process more efficient. Qualitative limits on counterparties and the type of derivatives permitted is regulated in the investment mandates. The counterparty risk that relates to asset management is marginal relative to the overall potential loss indicated by the stress test.

Liquidity risk

The liquidity requirement is stated in the investment strategy and in external investment mandates. DNK is required to invest in assets that are easily divestible. The purpose of a stringent liquidity requirement is to be able to meet large potential claims, including the possible failure of reinsurers' to meet their obligations. Based on this, and the low utilisation of DNK's liquidity reserves, the liquidity risk is considered low. DNK's holdings of securities are valued using official exchange prices, while fund holdings are valued using official unit prices provided by the fund manager or its pricing agent.

Photo: IStockphoto

NOTE 15: Financial derivatives

The major part of DNK's bond portfolio is managed externally by two investment managers. An investment agreement with each manager regulates the ability to use derivatives related to fixed income instruments. The asset manager for the global bond portfolio is required to hedge the portfolio to the USD. The passively managed equity portfolio is also hedged to the USD.

The table below shows the financial derivatives on the balance sheet at year-end 2015 and 2014.

Amounts in USD 1000	2015	2014
FINANCIAL DERIVATIVES		
+ Assets	2 042	86 239
- Liabilities	-5 996	-80 690
Net financial derivatives	**-3 955**	**5 548**
Interest rate risk; futures	-298	-349
Currency hedging, bonds, forwards	-4 225	4 949
Currency hedging, equities, forwards	568	948
Net financial derivatives	**-3 955**	**5 548**

The currency derivatives are rolled over monthly or quarterly. The derivatives are mainly related to hedging of currencies. For this reason there is no major change in exposure during the year. The fixed income derivatives are more commonly used for tactical purposes to implement changes so that the portfolio is in line with the manager's current market outlook.

NOTE 16: Equity, solvency margin and insurance reserves

The Association is exempt from the equity requirement in the Insurance Companies' Act. Equity at year-end 2015 and 2014 was USD 0 million.

The solvency capital margin satisfies the minimum requirements of the Financial Supervisory Authority of Norway, and the Association's insurance reserves satisfy the minimum requirements established in consultation with public supervisory bodies.

The minimum insurance reserve requirement was USD 458 million (470) at year-end 2015. The decrease in the requirement is mainly explained by a lower stress factor for equities.

The members' mutual liability was USD 336 million (370) in 2015, while the insurance reserves was USD 766 million (774) at year-end 2015. This amounts to a total buffer capital of USD 1,102 million in case of a major power war. The Association's coverage limit in such a war scenario is USD 1,000 million.

Auditor's Report - USD

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To the Annual Shareholders' Meeting of Den Norske Krigsforsikring for Skib Gjensidig Forening

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of Den Norske Krigsforsikring for Skib Gjensidig Forening, which comprise the balance sheet as at 31 December 2015, and the income statement, showing a profit of USD 0 and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Den Norske Krigsforsikring for Skib Gjensidig Forening as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 15 March 2016
PricewaterhouseCoopers AS

Magne Sem

Magne Sem
State Authorised Public Accountant (Norway)

Supervisory Committee's Report

The Supervisory Committee of Den Norske Krigsforsikring for Skib, Gjensidig Forening consists of Rolf Sæther, Henrik Aass, Ivar Alvik and Salve Sandvik (deputy). The Committee held 3 meetings during 2015.

The Managing Director has attended all meetings and the Committee has received reports about the essential business activities of the Association. The Association's auditor participated in the meeting where i.a. the Board of Directors' report and the financial statements were discussed.

The members of the Committee and the deputy receive board documentation, including minutes, as part of their task.

The Committee has received the Controller's report to the Board in relation to the Association's risk management and internal control, as well as confirmation by the auditor, and has noted the issues raised and recommended actions to be taken.

The Supervisory Committee has reviewed the Board of Directors' proposed financial statements for 2015.

With reference to the auditor's report dated the 15th of March 2016, the Committee recommends that the income statement, the balance sheet and the cash flow statement be adopted as Den Norske Krigsforsikring for Skib's financial statements for 2015.

The Committee states that, to its knowledge, the Association conducts its business in accordance with the law, regulations and directions by the Financial Supervisory Authority of Norway.

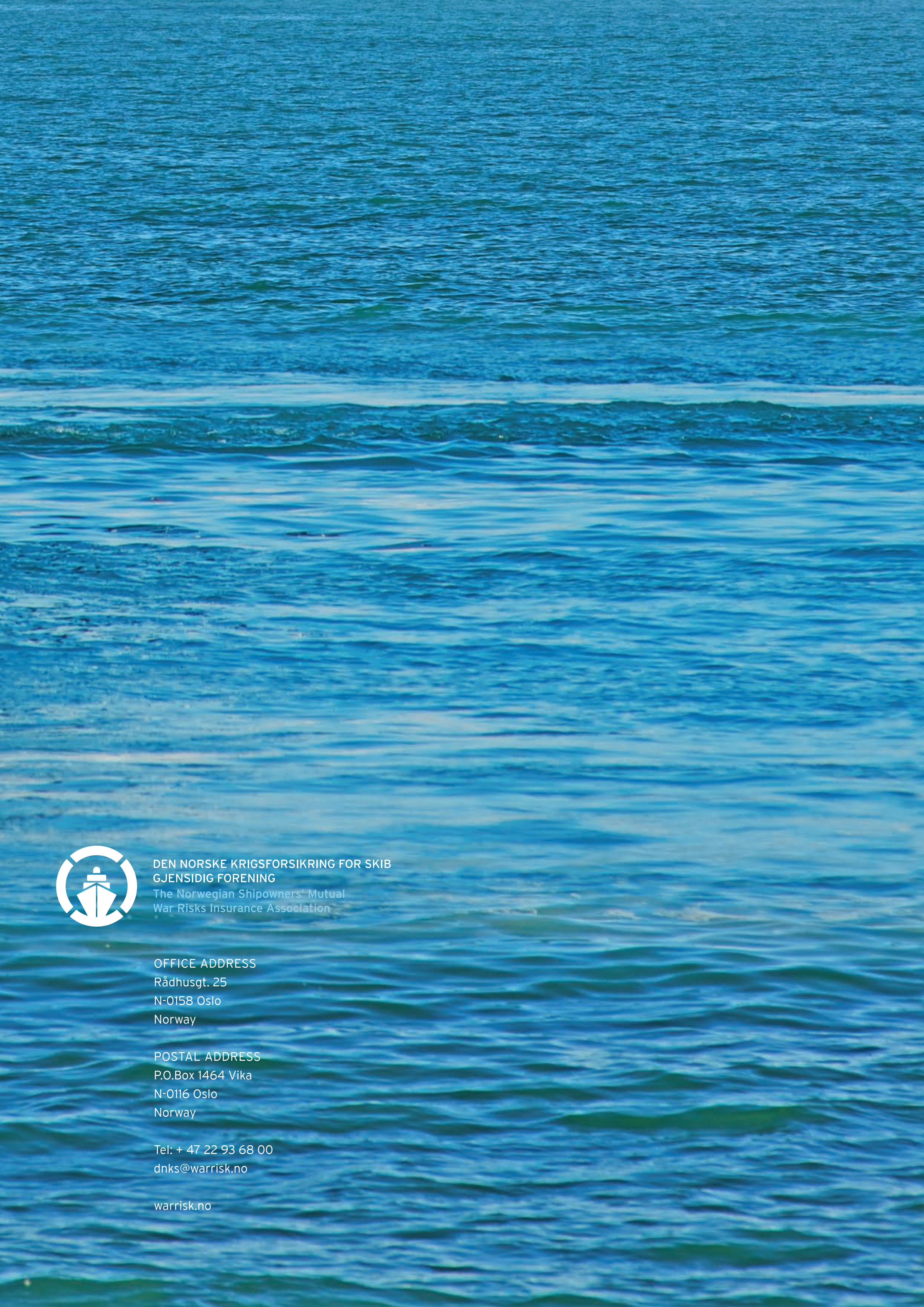
Oslo, 16th of March 2016

Rolf Sæther
Chairman

Henrik Aas

Ivar Alvik

Photo: DOF ASA, John M. Burnham



DEN NORSKE KRIGSFORSIKRING FOR SKIB
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