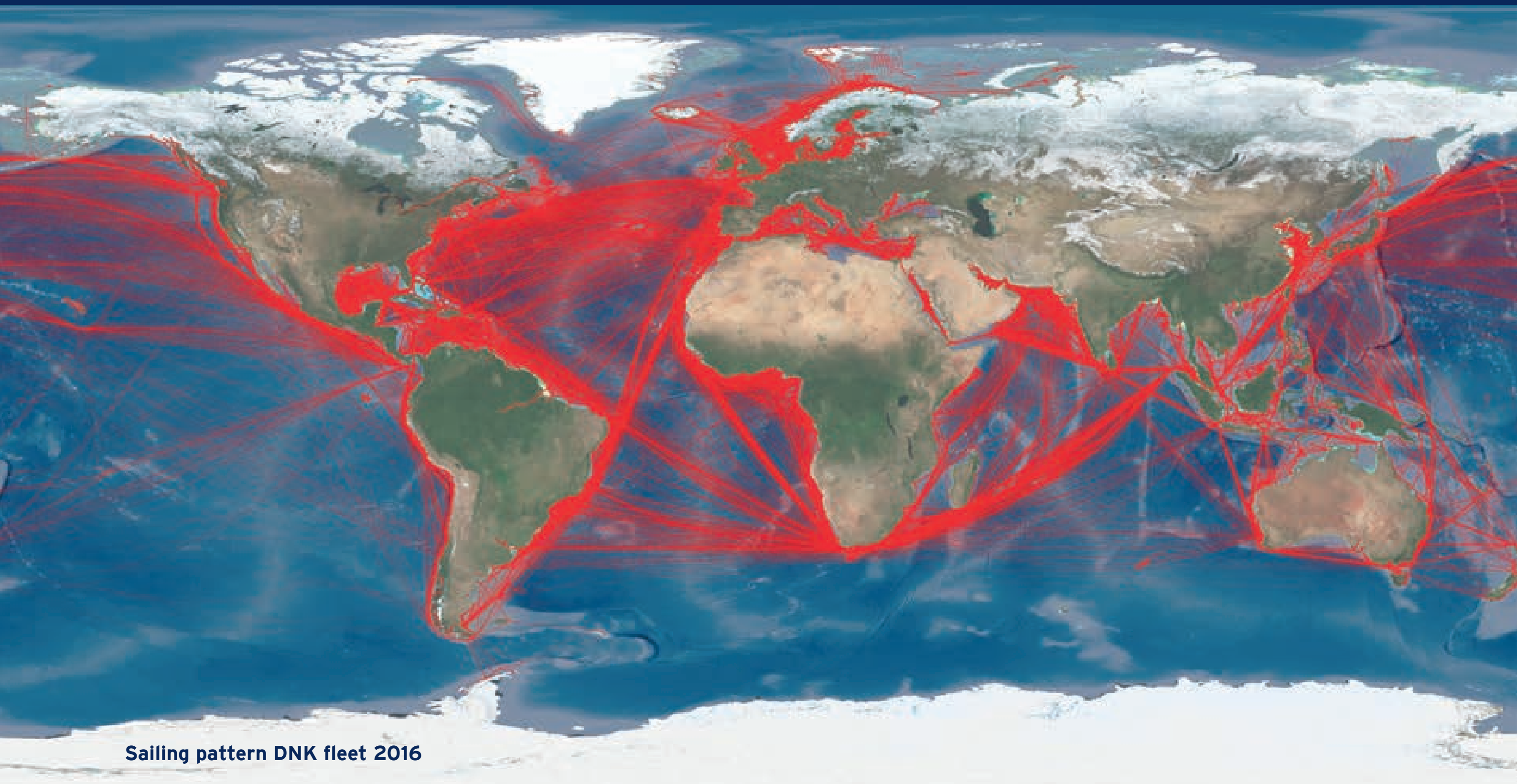
DEN NORSKE KRIGSFORSIKRING FOR SKIB
GJENSIDIG FORENING
The Norwegian Shipowners' Mutual
War Risks Insurance Association



Sailing pattern DNK fleet 2016

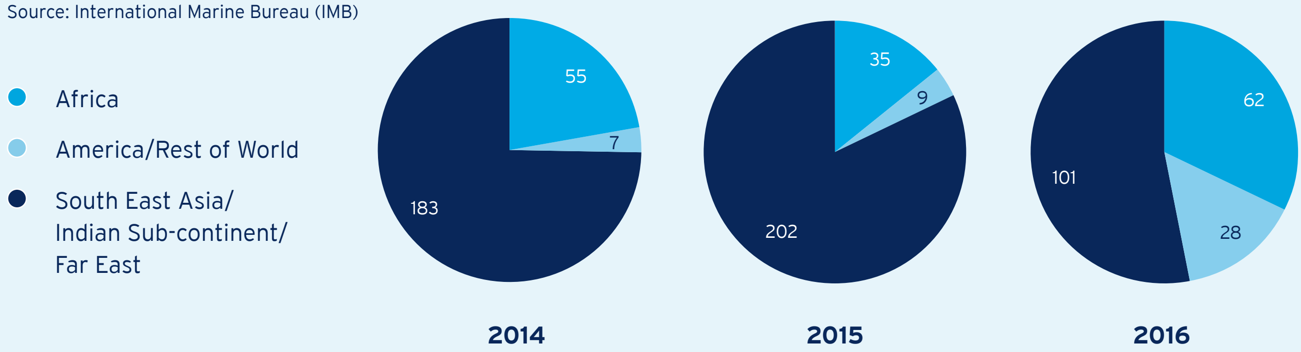
ANNUAL REPORT 2016

Areas of Risk

Photo: iStock

Global Piracy Incidents

Source: International Marine Bureau (IMB)



CONTENTS

Governing Bodies	**4**
Key Figures	**5**
Annual Report	**7**
Financial statements in USD	**15**
Income statement	16
Balance sheet	17
Statement of changes in equity	19
Cash flow statement	19
Notes	20
Auditor's Report	**38**

81st 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

Synnøve Seglem

Knutsen OAS Shipping AS

Olav Eikrem
Vice-Chairman

Frontline Management AS

Eli Vassenden

Grieg Star AS

Mons Aase

DOF ASA

Eric Jacobs

Awilco AS

Vanessa Chapman

Odfjell Drilling AS

DEPUTIES
Harald Fotland, Odfjell Tankers AS
Rune Olav Pedersen, Petroleum Geo-Services ASA
Odd Christian Krohn, Fred Olsen Insurance Services AS

Nomination Committee

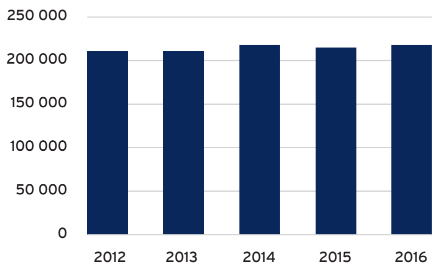
MEMBERS
Johan Hvide, Seatrans AS
Trond Kleivdal, Color Line AS
Hans Olav Lindal, The president of the Norwegian Shipowners' Association

External Auditor

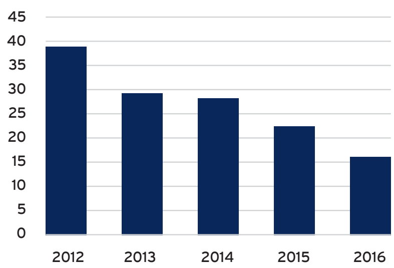
PricewaterhouseCoopers AS

KEY FIGURES Amounts in USD million

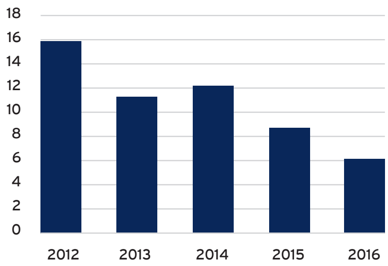
Insured values



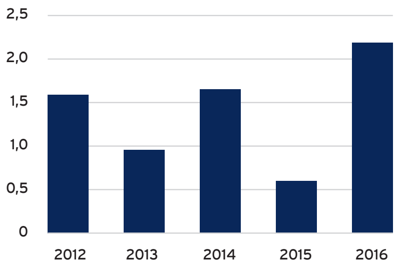
Gross premiums



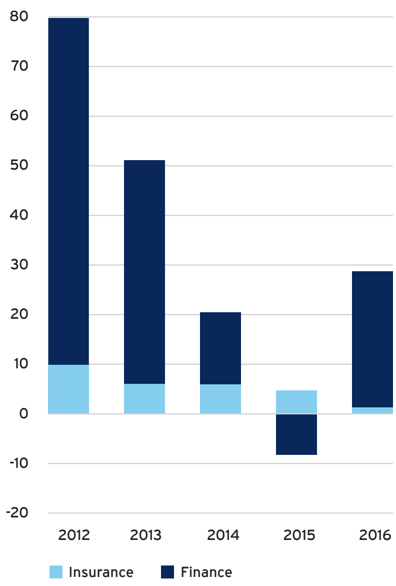
Premium for own account



Gross claims



Operating result



Insurance reserves (Equity and deferred tax from 2015)

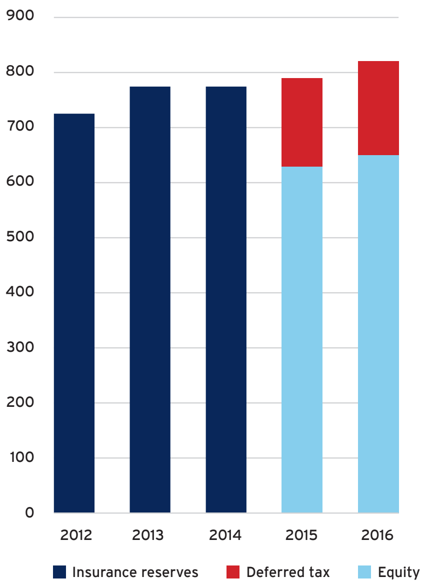


Photo: iStock

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 Oslo.

Highlights 2016

- At the end of 2016 DNK insured 3,370 ships and movable offshore units (3,250 in the previous year), with an aggregate insured value of USD 217 billion (216). An additional 10 (17) newbuildings were covered.
- There have been no successful attacks on member vessels in 2016. Low-scale attacks, with the main purpose of kidnapping crew-members for ransom, continued outside Nigeria.
- Kidnappings in the Sulu Sea conducted by the UN terror-listed group Abu Sayyaf Group (ASG), changed character through the year as larger and faster merchant vessels were targeted.
- It is assessed that that pirates in the Indian Ocean/ Gulf of Aden, still have the capability to attack despite no successful attempts during 2016.
- DNK has further developed its loss prevention capability in 2016, including contingency preparedness, crisis response and the establishment of the Intelligence & Operations Centre (IOC).
- In 2016, the number of calls at/transits through conditional trading areas increased marginally versus 2015. Premium rates were notably lower, but low claims allowed for an adjustment of both annual and additional premiums before year-end.
- The return on DNK's investment portfolio was 4.1 % in USD (-1.4 %).
- 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 offer competitive rates into 2017.
- In 2015 the Ministry of Finance presented a notice of proposed rulemaking for taxing insurance reserves that would have had a considerable negative impact on DNK. The Ministry of Finance received a massive response in the hearing process and decided not to implement the proposal until further considerations had been undertaken.
- DNK's solvency capital at year-end 2016 was USD 904 million (877), consisting of USD 758 million as Tier-1 capital (715), and USD 146 million (161) as Tier-2 capital (mutual liability). The calculated Tier-1 capital excludes deduction for deferred taxes. Please refer to note 16.
- The estimated solvency capital requirement (SCR) at year-end 2016 was USD 813 million (823). Under Solvency II, DNK is subject to an additional capital requirement as the standard model does not fully capture the unsystematic risks inherent in war-related insurance cover. The SCR excludes the loss absorbing capacity of estimated deferred tax.

Results 2016

Gross premium income in 2016 amounted to USD 16.8 million (22.1) after a USD 6.0 million (10.4) payment of premium adjustment, or no-claims bonus ("NCB"), to members. Before such NCB, overall gross premiums declined 32 % in 2016. While annual premiums were reduced 26 %, gross premiums for calls in conditional trading areas fell 35 %. The number of transits through these areas increased 1 % versus 2015. Annual premiums represented 38 % of gross premium income in 2016 (35 %) before premium adjustment.

Reinsurance costs fell USD 3.5 million.

Premiums for own account amounted to USD 6.8 million in 2016 (8.7).

Gross claims costs of USD 1.8 million (0.6) were related to an act of piracy and by adaptation to Solvency II regulations. Claims for own account was USD 1.4 million (0.1).

The operating result from DNK's insurance activities amounted to USD 1.2 million (4.6) after administration costs.

The operating income from investment management was USD 28.9 million (-12.2), which corresponds to a return of 4.1 % in 2016 (-1.4 %). On average, equities made up 26 % of the portfolio, with the balance allocated to domestic and global bonds.

DNK thus incurred an overall operating profit of USD 30.1 million in 2016 (-7.6). After taxes, the total result for 2016 was USD 30.7 million. Total result for 2015 was USD 11.2 million.

With the introduction of Solvency II, general insurance reserves are no longer itemized on the balance sheet as an obligation but rather reclassified as equity. As the insurance reserves still are tax deductible, the reclassification of the insurance reserves to equity creates a temporary difference between the measurement in the financial statements and the measurement for tax purposes. According to accounting regulations for taxes, deferred tax must be calculated based on temporary differences. Insurance reserves of USD 806 million has been reclassified of which USD 650 million of equity.

It should be noted that the reclassification does not influence the amount available to cover future obligations in the case of damage or loss covered by the insurance program offered by DNK. The whole amount previously classified as general insurance reserves is still available to cover future obligations, including the amount now classified as deferred tax. Thus, DNK's Board is of the opinion that the reclassification of a part of the former insurance reserve to deferred tax, does not provide an accurate statement of the Association's ability to cover future obligations towards the insured.

Photo: iStock

Still, the Board has chosen to follow the Norwegian accounting regulations in reclassifying the insurance reserves into equity and deferred taxes. The methodology is shown in the Statement of changes in equity on page 19.

Cash flow from insurance activities was USD 2.9 million in 2016 (3.2). Premium income, reinsurance expences and administrative costs were the main cash items. Cash flow from finance activities was USD -0.4 million (-0.9). 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 0.3 million (0.1). Net cash flow for the period was USD 2.2 million (2.2). At the end of 2016 bank deposits amounted to USD 7.4 million (5.2).

The Board confirms that the presentation of DNK's financial statements is based on a going-concern assumption. The Board is not aware of any incidents occurring after the balance sheet day that may have any bearing on the presented accounts for 2016.

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 Intelligence & Operations Centre (IOC) was implemented during 2016 to support DNK's work in terms of loss prevention and emergency response.

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 the members' perspective. DNK will continuously develop products and offer competitive premium rates to maintain its position in the market.

Threats to maritime security

Piracy off Nigeria increased in number and became more focused in 2016 compared with previous years. From traditionally targeting cargo theft, the Nigerian pirates changed their operational tempo, area of operation, and aimed for more frequent, low-scale attacks in connection with the offshore terminals, with the main purpose of kidnapping crew-members for ransom.

In the Indian Ocean – Gulf of Aden, numerous root causes for piracy are still in place within most parts of Somalia. Throughout 2016 there have been some suspicious or real pirate attempts in these waters, indicating that intentions and to a certain extent also capabilities are still intact.

The internal war onshore in Yemen has developed to also include combat operations in the Southern Red Sea in 2016. Several vessels involved in logistical operations in support of one of the warring parties, were attacked by the end of the year.

In the Sulu Sea - South East Asia, the terror-listed Abu Sayyaf Group (ASG) has developed their tactics by targeting larger, merchant vessels in 2016 compared to smaller, local fishing vessels and tugs the previous years.

Loss prevention and contingency measures

DNK has supported members in the handling of several incidents in 2016: 15 related to piracy in the Gulf of Guinea, 1 related to the failed military coupe in Turkey, 1 related to a failed pirate attack in the Indian Ocean, 4 related to Yemen insurgency in Southern Red Sea and 7 related to terrorism in the Sulu Sea.

DNK has been handling one situation resulting in a claim in 2016. This incident related to an immigrant rescue operation in the Mediterranean.

By the end of 2016, the DNK Intelligence & Operations Centre (IOC) was finalized. The Duty Officer in the IOC is now monitoring the threat situation at sea and at land globally and provdes warnings to members with units potentially at risk. The Duty Officer is also monitoring the

Return/ change in value %	2016	2015	2014	3 years
Global equities, MSCI, USD	9.4	2.0	9.7	22.4
Global bonds, Barclays, 1-3 years, USD	1.6	0.8	1.2	3.6
Norwegian government bonds, 3 years, NOK	0.4	1.6	5.1	7.2
USD vs. NOK	-2.5	18.3	23.4	42.4

DNK Emergency Response telephone on a 24/7 basis. DNK has developed a Training- and exercise concept in 2016, which will be the basis for support to members from 2017.

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 such services.

Insurance conditions, premium adjustments and reinsurance

Based on positive premiums, low claims, and an established insurance cover, reinsurance costs for 2016 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 applied to DNK policies, and amendments were 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 2016

The financial markets were volatile through the first half of 2016. Interest rates continued to slide, and equity markets fell. Weak raw material prices and lack of economic growth were in part to blame. Key central banks expanded on already loose monetary policies, while the U.S. tightened rates by year-end. This divergence in policies may continue in 2017. The discrepancy between a brighter economic outlook in the U.S. and continued weakness in other major economies still makes USD a "safe haven" for many investors. Notable political events in 2016 were the presidential election in the U.S., and the U.K.'s decision to step out of the European Union. The only casualty was a weaker GBP, while equity markets and interest rates rose in anticipation of stronger economic growth in the U.S. Economic growth forecast for 2017 points towards a moderate global increase versus 2016. Market volatility in 2017 may be driven by political events, notably elections in EU member countries and policymaking in the U.S.

Key market indices 2014-2016

The table above 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 22.4 % over the last three years, while medium term global bonds only returned 3.6 %. Norwegian government

Risk measures	2016	2015
Stress test, USD million	-123.9	-114.9
Value at Risk (VaR), USD million	-77.3	-75.1
Relative volatility	0.6 %	0.5 %

bonds generated a return of 7.2 % in 2014-2016, while the U.S. dollar rose a hefty 42.4 % versus NOK in these three years.

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 in excess of 2 years. Part of the portfolio may periodically deviate from the benchmark within set guidelines. Both assets and liabilities have a similar currency mix; 85 % USD and 15 % NOK.

Measured in USD, the portfolio return was 4.1 % in 2016 (-1.4 %). Equities returned 9.4 % while bonds rose 2.3 % in value. DNK's portfolio return was somewhat higher than its benchmark. The benchmark consists of indices that mirror the asset allocation and market exposure in DNK's investment strategy. It is used to objectively monitor the performance of the portfolio versus the investment strategy.

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 (under Solvency II) and by Value at Risk. Relative volatility is the degree of active risk in the portfolio versus the benchmark. The table on the previous page shows these risk measures at the end of the past two years. The stress test value for 2016 is based on estimates.

The stress factor for equities was 38 % in both 2016 and 2015. The higher loss potential in 2016 is explained by higher interest rates and a higher market value. Multiple factors explain the marginal increase in relative volatility, of which one is a higher allocation to equities.

Governance

The governing bodies are the general meeting, the Board of Directors and the Election Committee. The Board of Directors constitute, as a whole, the Risk- and Audit Committee and the Remuneration Committee.

The Articles state the objectives and membership conditions for DNK and 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 regulate payment of premiums, premium adjustments, additional calls and include provisions for specific measures in times of crisis. The Board's functions have been expanded in the Articles with a strengthening of the system of governance requirements to comply with the new Norwegian Financial Institution Act.

The Board sets the overall objectives, strategies and policies to ensure sound management of the business, including requirements concerning a transparent organization structure with clear areas of responsibility and authority, reporting lines, transmission of information, risk management and internal control.

Independent control functions are established for risk management, compliance, actuarial tasks and internal audit tasks. DNK's controller report directly to the managing director and to the Board. The external selected actuary function and internal audit function also report directly to the Board.

The governance components take into account the nature, scale and complexity of DNK's risk profile and the Association's structure.

DNK is subject to supervision by the Financial Supervisory Authority of Norway.

Risk management

Risk management and internal control are integrated into DNKs system of governance. The Board reviews at least yearly DNK's risk strategies and sets the risk profile and risk limits for the various operations and risks. Managers at all levels are responsible for risk management and sound internal control within their own area of responsibility. The risk management system comprises strategies and procedures to identify, measure, monitor, manage and report risks to which DNK are or could be exposed to.

The new European solvency regulations, Solvency II, entered into force on 1 January 2016. The risk management framework is refined to comply with the Solvency II requirement, including the conduction of an own forward looking risk- and solvency assessment (ORSA).

DNK is subject to an additional capital requirement under Solvency II to capture the unsystematic nature of potential war risk insurance losses.

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.

For further details on main risks and their management, please see the notes to the financial statements.

Capital requirements

In 2008, DNK introduced a limit of USD 1 billion for cover of war between major powers. The Association's solvency capital was USD 904 million at the end of 2016, where tier 1 capital was USD 758 million and tier 2 capital amounted to USD 146 million. At the start of the year, the solvency capital was USD 877 million.
The solvency capital requirement was USD 813 million by year-end 2016, versus USD 823 million at the start of the year.

The notes to the annual accounts include further details on DNK's solvency capital.

Administration

The Association had 16 employees at the end of 2016.

Sick leave in 2016 totalled 278 days (62), which represented 7.9 % of overall working hours (2.0 %). Excluding long-term absence due to illness, the sick leave for 2016 was 3.4 %.

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 three women and four men, while the administration consisted of eight women and eight men at the end of 2016.

Outlook

The main factors affecting DNK's financial performance relate to geopolitical risk and volatility in financial markets. More volatility in 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 are influenced by geopolitical risk and by more local factors such as piracy or other violent or criminal attacks against ships and offshore units. Although the level of pirate activity outside Somalia was virtually negligible through 2016, 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 members' vessels and crews.

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 2017 implies lower rates, and a likely decline in profitability versus 2016. Additional premiums are also expected to decline. Even with stability in the number of transits, rates are falling and the geographical size of the conditional trading areas are dwindeling. While the risk in some areas is of concern, its potential impact on shipping is unclear. A major conflict could, however, in an abrupt way, cause monumental losses in respect of insured ships and movable offshore units. High capacity in the war risk insurance market is also driving rates lower, 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 complied with the regulatory requirements of Solvency II, as they come into effect from 2016. DNK will also be compliant through 2017.

DNK's solvency capital at the end of 2017 is expected to remain at the 2016-level. A reduction in ancilliary own-funds (member's mutual liability) is anticipated due to the overall decline in war risk insurance premiums. The decline is expected to be offset by DNK's estimated operating profit for 2017.

The Ministry of Finance may propose changes to the existing tax regime for insurance reserves. An adverse change leading to a tax on existing reserves may weaken DNKs solvency capital. DNK will continue to address any potential adverse effect through dialogues with relevant regulatory authorities.

The Norwegian Shipowners' Mutual War Risks Insurance Association. Oslo, 31st of March 2017.

Jan Pedersen
(Chairman)

Olav Eikrem
(Vice-Chairman)

Mons Aase

Vanessa Chapman

Eli Vassenden

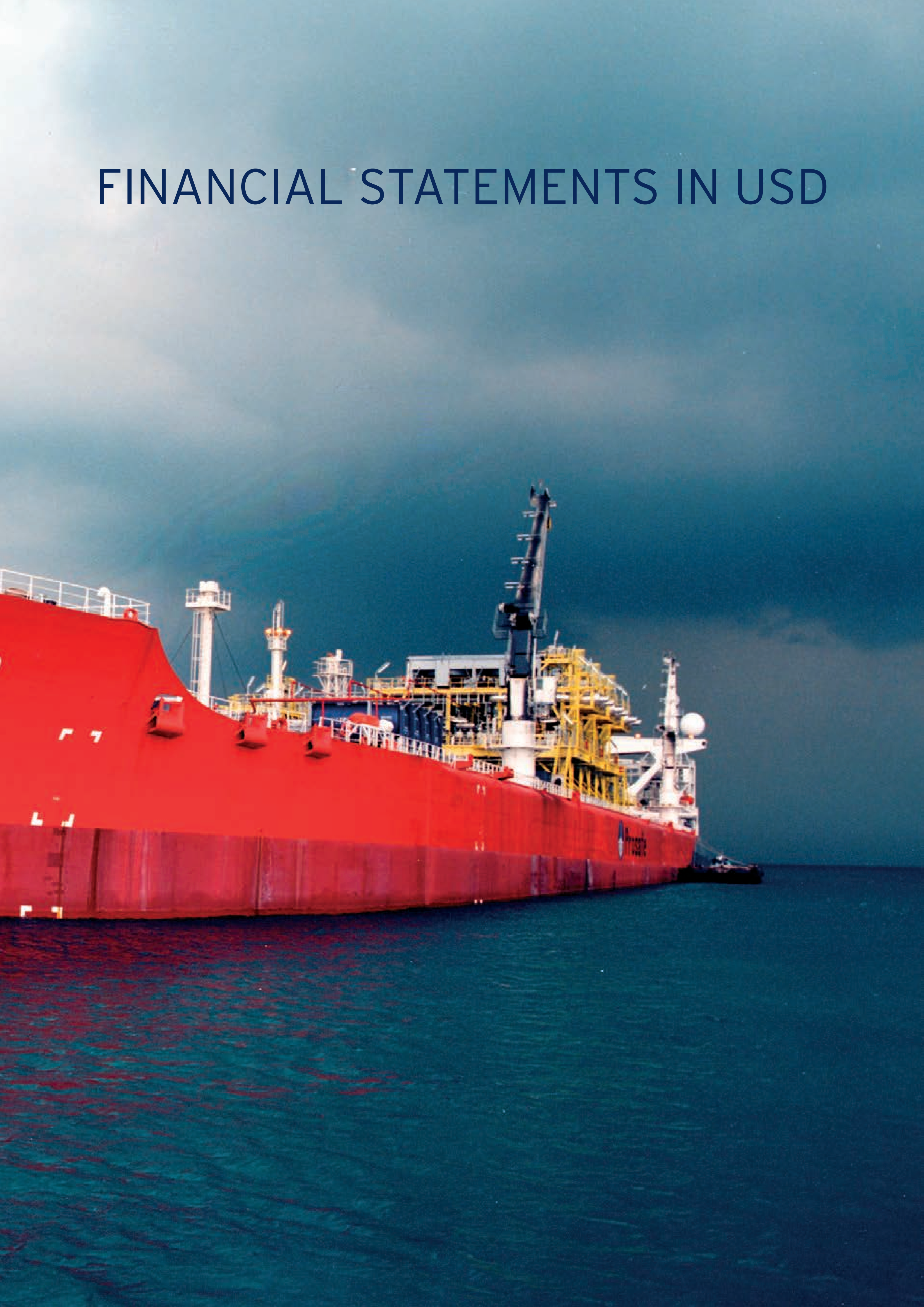
Synnøve Seglem

Eric Jacobs

Svein Ringbakken
(Managing Director)

Photo: BW Offshore

FINANCIAL STATEMENTS IN USD



INCOME STATEMENT

Amounts in USD 1000	Note	2016	2015
TECHNICAL ACCOUNTS			
PREMIUMS			
Gross earned premiums		16 754	22 141
Ceded reinsurance on gross earned premiums		(9 998)	(13 441)
Premiums for own account		**6 756**	**8 700**
CLAIMS			
Gross claims expenses	8	(1 848)	(641)
Reinsurers' share of gross claim expenses	8	425	499
Claims for own account		**(1 423)**	**(142)**
Insurance related administrative expenses	2, 3, 4, 5, 10	**(4 163)**	**(3 994)**
OPERATING RESULT OF TECHNICAL ACCOUNTS		**1 170**	**4 564**
NON-TECHNICAL ACCOUNTS			
Net income from financial assets			
Interest and dividend from financial assets	9	8 990	10 580
Change in fair value of financial assets	9	42 457	(89 779)
Realised gains from financial assets	9	(18 300)	71 083
Administrative expenses related to financial assets	2, 3, 4, 5, 9, 10	(4 264)	(4 097)
Total net income from financial assets		**28 882**	**(12 213)**
OPERATING RESULT OF NON-TECHNICAL ACCOUNTS		**28 882**	**(12 213)**
PRE-TAX RESULT		**30 052**	**(7 649)**
Tax expenses	6	627	18 818
PROFIT FOR THE YEAR		**30 679**	**11 169**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**30 679**	**11 169**
TOTAL RESULT		**30 679**	**11 169**

BALANCE SHEET

Amounts in USD 1000	Note	2016	2015
ASSETS			
Owner occupied properties	5	212	212
Bank deposits investment portfolio	11	16 655	63 426
Shares and other equity investments	11, 12, 14	215 627	197 677
Bonds and other fixed income securities	11, 12, 13, 14	578 726	528 332
Financial derivatives	14, 15	7 027	2 042
Total investments		**818 247**	**791 688**
Reinsurers' share of gross claims provisions	**8**	**1 000**	**538**
Insurance related receivables		1 080	1 864
Reinsurers receivables		0	0
Other receivables		307	112
Total receivables		**1 388**	**1 976**
Equipment and fixtures	5	1 392	1 220
Cash and bank deposits	7	7 356	5 189
Other assets	4	309	254
Total other assets		**9 057**	**6 663**
Total prepaid expenses and accrued income		**196**	**286**
TOTAL ASSETS		**829 888**	**801 151**
EQUITY & LIABILITIES			
Other equity	16	650 473	623 473
Total equity		**650 473**	**623 473**
Provision for unearned gross premiums		0	0
Gross claims provisions	8	2 219	710
Total insurance reserves		**2 219**	**710**
Pension liability provisions	4	477	475
Taxes payable	6	0	28
Deferred tax liability	6	167 919	164 308
Other provisions		14	0
Total provisions		**168 410**	**164 811**
Reinsurance liabilities		805	924
Financial derivatives	14, 15	2 320	5 996
Other liabilities		2 591	1 968
Total liabilities		**5 716**	**8 888**
Other accrued expenses and prepaid income		**3 069**	**3 268**
TOTAL EQUITY AND LIABILITIES		**829 888**	**801 151**

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

Oslo, 31st of March 2017

The Norwegian Shipowners' Mutual War Risks Insurance Association

Jan Pedersen
(Chairman)

Olav Eikrem
(Vice-Chairman)

Mons Aase

Vanessa Chapman

Eli Vassenden

Synnøve Seglem

Eric Jacobs

Svein Ringbakken
(Managing Director)

Photo: DNK Intelligence & Operations Centre (IOC)

STATEMENT OF CHANGES IN EQUITY

Amounts in USD 1000	2016	2015
RECLASSIFICATION OF INSURANCE RESERVES TO OTHER EQUITY		
Other equity 31.12.2014		0
Reclassification of insurance reserves		774 221
Deferred tax effect (27 %) of temporary differences relating to equity and ins. reserves		(209 040)
Deferred tax benefit effect (27 %) of recognising loss-carry forwards		50 575
Other equity 01.01.2015		**615 756**

Amounts in USD 1000	2016	2015
OTHER EQUITY		
Other equity 01.01.	623 473	615 756
Total result	30 679	11 169
Translation effects	(3 680)	(3 452)
Other equity 31.12.	**650 473**	**623 473**

CASH FLOW STATEMENT

Amounts in USD 1000	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	17 342	22 441
Cash paid to re-insurers	(10 117)	(14 045)
Net cash flows related to claims expenses	(376)	315
Paid insurance related administrative expenses	(3 961)	(5 555)
Net cash flows from the technical accounts	**2 888**	**3 155**
Net cash flows from interest, dividends and realised gains/losses on financial assets	(4 594)	62 204
Net cash flows from acquisition/disposal of financial assets	8 252	(57 402)
Paid administrative expenses related to financial assets	(4 062)	(5 658)
Net cash flows from the non-technical accounts	**(405)**	**(856)**
Net cash flows from operating activities	**2 483**	**2 299**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows from acquisition/disposal of fixtures and fixed assets	(316)	(71)
Net cash flows from investing activities	**(316)**	**(71)**
Net cash flows in the period	**2 167**	**2 229**
Net changes in cash and bank	2 167	2 229
Cash and bank 01.01.	5 189	2 960
Cash and bank 31.12.	**7 356**	**5 189**

NOTES

NOTE 1: Accounting principles

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

Financial assets

The Association apply the fair value option in IAS 39 point 9 to measure equities, units, bonds and claims on credit institutions at fair value through profit or loss.

Financial derivatives are classified in the trade category in accordance with IAS 39 and 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 expenses 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 of losses arising from changes in the fair value, including dividends and interest income, is 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 listed marked price.

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.

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, are recognised in the income statement.

Fixed assets

Fixed assets are recognised at historical cost in the balance sheet and depreciated on a straight line basis 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 and depreciated along with the asset.

Pensions

Pension costs are accounted for in accordance with the IAS 19 for pensions.

The Association converted from a defined benefit plan to a defined contribution plan for its employees in 2016. There is an additional scheme for salaries surpassing 12 G.

The pension assets/liabilities from the defined benefit plan were estimated by an actuary at the time of the conversion to the defined contribution plan, and the gain was recognised in the income statement. The payments to the defined contribution plan are expensed.

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.

Allocated investment returns
Allocated investment return is not calculated for 2016. This is in accordance with the new "regulations for annual accounts for non-life insurance companies". The comparable figures (2015) have been reclassified accordingly.

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. The claims reserves are calculated by an actuary as the best estimate of these future claims payments and includes actuarial judgement. The calculations are in accordance with regulations for annual accounts for non-life insurance companies § 3-5 (3). The reserves comprise provisions for losses reported to the Association but not settled (RBNS) and losses incurred but not reported (IBNR). Provisions for reported losses are assessed individually.

Equity
The insurance reserves are reclassified to equity and deferred tax according to changes in the accounting regulation. Comparable figures (2015) are revised to reflect this change.

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.

NOTE 2: Payroll costs, number of employees and other benefits

On average there were 16 people employed by the Association in 2016. The following amounts are expensed as salary, fees and other benefits, and the following loans were outstanding:

2016

Amounts in USD 1000	Salary/ fees	Bonus	Pension costs	Other benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	443	111	87	55	**696**	0
Sverre Huse, Finance Director	359	92	240	31	**723**	0
Göran Skuncke, Insurance Director	225	22	38	10	**295**	0
Helena Brudvik, Controller	180	31	27	3	**241**	0
BOARD OF DIRECTORS						
Jan Pedersen, Chairman	24	0	0	0	**24**	0
Garup Meidell, Vice Chairman	17	0	0	0	**17**	0
Benedicte Bakke Agerup, Board member	13	0	0	0	**13**	0
Olav Eikrem, Board member	14	0	0	0	**15**	0
Harald Fotland, Board member	14	0	0	0	**14**	0
Mons Aase, Board member	13	0	0	0	**13**	0
Roar Flom, Board member	16	0	0	0	**16**	0
SUPERVISORY COMMITTEE						
Rolf Sæther, Chairman	2	0	0	0	**2**	0
Henrik Aass, Committee member	1	0	0	0	**1**	0
Ivar Alvik, Committee member	1	0	0	0	**1**	0

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

No loans/guarantees have been extended to the Board of Directors, Supervisory Committee or other related parties.

Holiday-pay accrued in 2015 is included under salary for 2016.

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, 20 or 30 % 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 38,695, tax related services of USD 15,478 and other audit related services of USD 11,881. 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

The Association's pension schemes meet the requirements of the Act relating to mandatory occupational pensions. The collective pension scheme cover pensions from the age of 67. 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 schemes. 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.

Until 1 March 2016, the Association had a defined benefit plan for all employees. The Association's defined benefit plan was discontinued at 1 March 2016 and all employees were from the same date included in the defined contribution plan for salaries up to 12 G. The defined contribution plan (previously the defined benefit plan) includes all 16 employees. There is in addition a non-funded pension scheme for salaries surpassing 12 G.

The pension assets/liabilities from the defined benefit plan were estimated by an actuary at the time of the conversion to the defined contribution plan, and the gain was recognised in the income statement. The payments to the defined contribution plan are expensed.

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

The cost of the defined contribution plans in 2016 was USD 284 594.

Amounts in USD 1000	Defined benefit plan (to 01.03.2016)	2015 Total
Present value of the year's pension accruals	143	729
Net interest cost and expected return on pensions	1	17
Management fee	53	56
Administration costs	7	11
Actuarial gain/(loss)	211	120
Net pension costs (incl. social security taxes)	**415**	**933**
Calculated pension obligations as at 31.12	0	6 287
Pension assets (at market value) as at 31.12	0	(3 760)
Effect of estimated deviations	0	(2 306)
Net pension assets/(liabilities)	**0**	**(221)**
FINANCIAL ASSUMPTIONS		
Discount rate	2,50 %	2,50 %
Expected return on pension fund assets	3,30 %	3,30 %
Expected payroll adjustment	2,50 %	2,50 %
Expected pension increase	1,50 %	1,50 %
Expected G-adjustment	2,25 %	2,25 %

NOTE 5: FIXED ASSETS

Amounts in USD 1000		Machinery/ Fixtures and vehicles	Works of art (paintings)	Real estate
Acquisition cost as at 01.01		1 531	145	212
+ Additions during year		327	0	0
- Disposals during year		(44)	0	0
+ Exchange rate effects		(20)	0	0
Acquisition cost as at 31.12	**A**	**1 794**	**145**	**212**
Accumulated ord. depr. as at 01.01		455	0	0
+ Ordinary depreciation		144	0	0
- Disposals at acquisition cost		(44)	0	0
+ Exchange rate effects		(9)	0	0
Accumulated ord. depr. as at 31.12	**B**	**546**	**0**	**0**
Book value as at 31.12	**A-B**	**1 248**	**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	2016	2015
THE YEAR'S TAX COSTS ARE CLASSIFIED AS FOLLOWS:		
Payable tax (deficit)	0	(9 940)
Part of deficit not included in deferred tax	0	9 940
Adjustment to historic tax	(0)	0
Change in deferred tax	(627)	490
Net worth tax	0	28
Total	**(627)**	**518**
CALCULATION OF TAXES:		
Profit/(loss) before tax	10 415	518
Permanent differences, non-deductible	133	108
Accounting related gain on realisation of securities	(105 904)	(178 113)
Accounting related loss on realisation of securities	62 819	58 970
Tax related gain/loss on realisation of securities	35 894	40 953
Reversal of change in marketable securities	35 098	40 887
Use of loss carryforward	(27 737)	0
Change in temporary differences	230	(139)
Change in temporary differences relating to too high tax value on fixed assets	77	0
Change in temporary differences relating to equity and insurance reserves (ordinary)	(11 025)	0
This year's taxable result	**0**	**(36 816)**
Taxes payable	**(0)**	**(9 940)**
OVERVIEW OF TEMPORARY DIFFERENCES AND TAX LOSS CARRY FORWARD		
Fixed asset investments	(80)	
Diff. between market and book value of trading portfolio	48 502	
Pension obligations	(477)	
Tax loss carryforward	(172 459)	
Equity (before tax effect) and insurance reserves	796 190	
Total	**671 677**	
25% deferred tax (tax benefit) before the effect of equity and insurance reserves	(31 128)	
25% deferred tax (tax benefit) relating to the effect of equity and insurance reserves	199 048	
25 % deferred tax (tax benefit)	**167 919**	
OVERVIEW OF TEMPORARY DIFFERENCES		
Fixed asset investments		(98)
Diff. between market and book value of trading portfolio		87 233
Pension obligations		(221)
Total		**86 914**
25 % deferred tax (tax benefit)		**21 728**

WHY TAX COST DIFFERS FROM 25 % (27 %) OF PROFIT/LOSS BEFORE TAX:		
25 % (27 %) tax of the profit/loss before tax	2 604	140
Tax effects of permanent differences 25 % (27 %)	(1 782)	(21 082)
Change in tax effects of unrealised gain/loss on shares	(1 468)	13 230
Change in tax provisions for previous years	(0)	0
Net worth tax	0	28
Tax effect of reduced tax rate	0	(1 738)
Deferred tax deficit not shown on balance sheet	0	9 940
Tax effect of change in temporary differences relating to too high tax value on fixed assets	19	0
Calculated tax costs	**(627)**	**518**

The 2015 table above shows the tax figures as they were presented in the annual report 2015.

The table below shows the effect on the 2015 tax expenses of the reclassification of the former insurance reserves to equity. It is deducted for deferred taxes, according to changes in the accounting regulations. Deferred tax benefit on loss-carry forward is recognised on the assumption that deferred tax could by offset by tax loss-carry forward.

The numbers are revised as of 01.01.2015 (see the "Statement of changes in equity"). Comparable figures in the accounts (2015) are revised to reflect the changes.

Deferred tax/tax benefit is presented net in the balance sheet.

Amounts in USD 1000	2016	2015 (revised)
THE YEAR'S TAX EXPENSES		
Tax expenses annual report 2015		518
Deferred tax effect (25 %) total result 2015 of temporary differences relating to equity and insurance reserves		(2 042)
Deferred tax benefit effect (25 %) of loss carry forwards		(1 967)
Deferred tax effect of reduced tax rate (27 % to 25 %)		(15 327)
Tax expenses after reclassification		**(18 818)**

Tax loss carry forwards in 2016 was estimated at USD 172 million (195).

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 396,737 of unpaid tax withholdings as at 31.12.16.

NOTE 8: Claims expenses

Claims reserves are intended to cover anticipated future claims payments for losses incurred but not yet settled at the end of the fiscal year. The claims reserves are calculated by an actuary as the best estimate of these future claims payments and includes actuarial judgement. The calculations are in accordance with regulations for annual accounts for non-life insurance companies § 3-5 (3). The reserves comprise provisions for losses reported to the Association but not settled (RBNS) and losses incurred but not reported (IBNR). Provisions for reported losses are assessed individually by the claims department.

Amounts in USD 1000	2016	2015
PROFIT & LOSS		
Gross paid claims	340	990
- Deducted claims provisions	(328)	(975)
Expensed gross claims	**12**	**16**
New gross claims provisions	1 837	625
Gross expensed claims, total	**1 848**	**641**
Reinsurers' share of gross paid claims	(37)	1 306
- Deducted reinsurers' share of claims provisions	0	0
Expensed reinsurers' share of gross claims provisions	**(37)**	**1 306**
Change in reinsurers' share of gross claims provisions	462	(807)
Reinsurers' share of expensed gross claims	**425**	**499**
Claims for own account	**1 423**	**142**
BALANCE SHEET		
Gross claims provisions 01.01	710	1 060
- Paid claims deducted from claims provisions	(328)	(975)
New claims provisions	1 837	625
Change in gross claims provisions	**1 509**	**(350)**
Exchange rate effects	0	0
Gross claims provisions 31.12	**2 219**	**710**
Reinsurers' share of gross claims provisions 01.01	538	1 345
- Deducted reinsurers' share from gross claims provisions	0	0
Change in reinsurers' share of gross claims provisions	462	(807)
Change in gross claims provisions	**462**	**(807)**
Exchange rate effects	0	0
Reinsurers' share of gross claims provisions 31.12	**1 000**	**538**
Claims provision for own account 31.12	**1 219**	**172**

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

Amounts in USD 1000	2016	2015
Interest income from bank deposits	(140)	(13)
Interest income from domestic loans	0	0
Interest income on bonds	9 130	10 273
Dividends on equities	0	319
Interest and dividend from financial assets	**8 990**	**10 580**
Unrealised gains/losses on financial current assets	**42 457**	**(89 779)**
Exchange rate gains	1 583	28 206
Exchange rate losses	(6 299)	(8 747)
Realised gains/losses on equities	12 273	44 496
Realised gains/losses on bonds	(20 067)	(3 434)
Realised gains/losses on derivatives	(5 790)	10 563
Realised gains from financial assets	**(18 300)**	**71 083**
Administrative expenses associated with financial assets	**(4 257)**	**(4 097)**
Total income/loss from financial assets	**28 889**	**(12 213)**

NOTE 10: Administrative expenses

Amounts in USD 1000	Insurance 2016	Finance 2016	Total 2016	2015
Salary and holiday pay, employees	1 386	1 386	2 773	2 726
Social security taxes	258	258	515	345
Pension cost	335	335	671	789
Other personell costs	95	78	173	177
Fees	360	360	720	714
Rental costs, office and machinery	174	174	348	369
Ordinary depreciation	72	72	144	147
Other administrative expenses	1 482	1 601	3 083	2 826
Total administrative expenses	**4 163**	**4 264**	**8 427**	**8 091**

The Association's administrative expenses are allocated between its insurance and finance activities as far as practically possible. Common costs are allocated according to the distribution of personnel expenses between the two operating activities, which for 2016 were split 50/50.

NOTE 11: Financial assets – fair value hierarchy

Amounts in USD 1000	2016	2015
Equities	215 627	197 677
Bonds and fixed income securities	578 726	528 332
Financial derivatives, assets - liabilities	4 707	-3 955
Loans and accounts receivable	16 655	63 426
Total financial assets*	**815 715**	**785 480**

2016 - Financial assets measured at fair value over the income statement

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Equities	215 627	0	0	215 627
Bonds	416 959	161 767	0	578 726
Financial derivatives, net	0	4 707	0	4 707
Total	**632 587**	**166 474**	**0**	**799 061**
Distribution	79,2 %	20,8 %	0,0 %	100,0 %

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 %

* Total fair value equals book value.

The reduction in level 3 from 2015 to 2016 is explained by the sale of Scala in 2016.

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

2016 - Investment portfolio in equities and mutual funds

Amounts in USD 1000	Value at cost	Fair value	Distribution
Equities	202 181	215 627	100,0 %
STATE STREET INDEX FUNDS			
Canada	3 000	3 173	1,5 %
Europe	19 673	20 073	9,3 %
Japan	7 559	7 732	3,6 %
Pacific ex. Japan	3 965	3 944	1,8 %
USA	50 617	52 986	24,6 %
World	83 375	88 601	41,1 %
Equity index funds	**168 190**	**176 511**	**81,9 %**
OTHER EQUITY FUNDS			
Nordea Stable equities, global	22 500	26 140	12,1 %
Arctic Norwegian Equities	11 491	12 976	6,0 %
Private equities	**0**	**0**	**0,0 %**
Total equities	**202 181**	**215 627**	**100,0 %**

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 %**

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 2.5 (2.4) at the end of 2016.

	2016	2015
Amounts in USD 1000	Book value	Book value
Bonds and other fixed income securities	578 726	528 332
Accrued interest income	-1 617	-809
Settlement, broker	0	0
Loans and accounts receivable	16 373	62 711
Fixed income derivatives	4 266	-4 523
Fixed income portfolio	**597 747**	**585 711**

Amounts in USD 1000	Value at cost	Book value	Value at cost	Book value
DISCREATIONARY MANDATES				
Norwegian bonds	109 406	97 335	116 418	87 805
Global bonds, USD hedged	434 493	434 664	398 385	429 144
BOND FUNDS				
Forte	3 980	3 632	3 980	3 389
Pimco	49 612	62 116	54 749	65 372

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.

2016

Amounts in USD 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, NOK	16 %	AA-	3,3	1,8 %	-3 126
Bonds, global, USD hedged	73 %	AA-	1,8	0,8 %	-7 607
Bond funds	11 %	AA-	6,3	2,4 %	-4 028
Total fixed income	**100 %**	**AA-**	**2,5**	**1,1 %**	**-14 760**

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**

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.

	2016	2015
NOK	17 %	16 %
USD	84 %	85 %
Other	0 %	-1 %

2016 - Rating

Amounts in USD 1000	NOK	Global	Fond	Total	Distribution
AAA	27 993	225 469	27 331	280 794	47,0 %
AA	24 390	61 552	13 665	99 608	16,7 %
A	24 322	100 451	9 939	134 711	22,5 %
BBB	20 225	31 344	8 601	60 169	10,1 %
BB	0	11 317	2 485	13 801	2,3 %
B	0	0	1 242	1 242	0,2 %
CCC, lower	0	0	2 485	2 485	0,4 %
No rating	405	4 532	0	4 937	0,8 %
Total	**97 335**	**434 664**	**65 747**	**597 747**	**100 %**

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 %**

Government, government guaranteed, and municipal bonds, amount to 65 % (58 %) of the bond portfolio's fair value. Non-government bonds have an average credit rating of A (AA-).

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. The aggregate risk is managed in relation to available capital, and is subject to frequent assessment – with reporting to the authorities minimum annually. 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 solvency capital requirement at the end of 2016 including details on sub-risks, will be finalised by the reporting deadline in May. However, the solvency capital requirement is estimated at USD 813 million (823). An ongoing effort to further improve risk reporting is expected to materialize in future reports.

The solvency capital requirement reflects the aggregate risk exposure, consisting of several individual sub risks.

INSURANCE RISK relates to DNK's insurance products. This is the Association's most significant risk, which is reinsured through an extensive programme.

MARKET RISK arises from the Association's investment activity. Financial derivatives are mainly used to achieve the desired currency exposure. Market risk is measured by value-at-risk and relative volatility.

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.

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.

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 stress test module under Solvency II 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.
- 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 spread risk is a measure of a potential increase in the risk premium for non-government bonds over sovereign bonds.

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 the stress test under Solvency II 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 2016, the relative volatility was 0.6 %, which indicates that the portfolio's overall risk profile is fairly close to its benchmark.

At year-end 2016, the portfolio's risk profile was as indicated in the table below.

	2016	2015
Amounts in USD million	**Portfolio**	**Portfolio**
Market risk	123,9 (*)	114,8
Value-at-risk	77,3	75,1
Volatility	3,7 %	3,7 %
Relative volatility	0,6 %	0,5 %

* Estimated

While the stress test models a financial crisis, the estimated VaR reflects the current level of market volatility with a confidence level of 99,5%. The statistical model reflects the volatility in the portfolio, and the relative volatility against its benchmark (also called tracking error). VaR and volatility is based on historical data over a period of 42 months.

The market risk varies most with changes in the portfolio's allocation to equities, bond duration, the USD and NOK exposure, and credit quality.

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.

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.

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 2016 and 2015.

Amounts in USD 1000	2016	2015
FINANCIAL DERIVATIVES		
+ Assets	7 027	2 042
- Liabilities	-2 320	-5 996
Net financial derivatives	**4 707**	**-3 955**
Interest rate risk; futures	-228	-298
Currency hedging, bonds, forwards	4 493	-4 225
Currency hedging, equities, forwards	442	568
Net financial derivatives	**4 707**	**-3 955**

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 and solvency capital

The Association is exempt from the equity requirement in the Insurance Companies' Act. With the introduction of Solvency II, general insurance reserves are no longer itemized on the balance sheet as an obligation but rather reclassified as equity. As the insurance reserves still are tax deductible, the reclassification of the insurance reserves to equity creates a temporary difference between the measurement in the financial statements and the measurement for tax purposes. According to accounting regulations for taxes, deferred tax must be calculated based on temporary differences. It should be noted that the reclassification does not influence the amount available to cover future obligations in the case of damage and loss covered by the insurance program offered by DNK. The whole amount previously classified as general insurance reserves is still available to cover future obligations, including the amount now classified as deferred tax. Thus, DNK's Board is of the opinion that the reclassification of a part of the former insurance reserve to deferred tax, does not provide an accurate impression of the Association's ability to cover future obligations towards the insured. Still, the Board has chosen to follow the Norwegian Accounting regulations in reclassifying the insurance reserves into equity and deferred taxes. Below is a summary of the reported amounts and the amounts without reclassifying a part of the reserves to deferred tax.

Amounts in USD 1000	Reported	Without estimated deferred tax
Total result	30 679	40 353
Equity	650 473	806 406
Deferred tax from reclassification of insurance reserves	155 933	0
Other deferred taxes	11 986	11 986

The authorities are considering a change in the tax treatment of insurance reserves. The outcome of this process is unknown.

The Solvency Capital Requirement at year-end 2016 is estimated to be as follows:

CAPITAL REQUIREMENT	
Solvency Capital Requirement (SRC)	812 816
Minimum Capital Requirement (MRC)	203 204

The Solvency Capital Requirement at year-end 2016 is estimated to be as follows:

SOLVENCY CAPITAL	
Basic own funds, Tier 1	757 651
Ancillary own funds, Tier 2	146 127
Total eligible own funds to meet the SCR	**903 778**

AUDITOR'S REPORT - USD

To the General Meeting of Den Norske Krigsforsikring for Skib Gjensidig Forening

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Den Norske Krigsforsikring for Skib Gjensidig Forening showing a profit of USD 30 679 thousand. The financial statements comprise the balance sheet as at 31 December 2016, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Association as at 31 December 2016, 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.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Association as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

pwc

Responsibilities of The Board of Directors and the Managing Director for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Association's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the

pwc

audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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, 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 Association's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 31 March 2017
PricewaterhouseCoopers AS

Magne Sem

Magne Sem
State Authorised Public Accountant

(3)

DEN NORSKE KRIGSFORSIKRING FOR SKIB
GJENSIDIG FORENING
The Norwegian Shipowners' Mutual
War Risks Insurance Association

OFFICE ADDRESS
Rådhusgt. 25
N-0158 Oslo
Norway

POSTAL ADDRESS
P.O.Box 1464 Vika
N-0116 Oslo
Norway

Tel: + 47 22 93 68 00
dnks@warrisk.no

warrisk.no