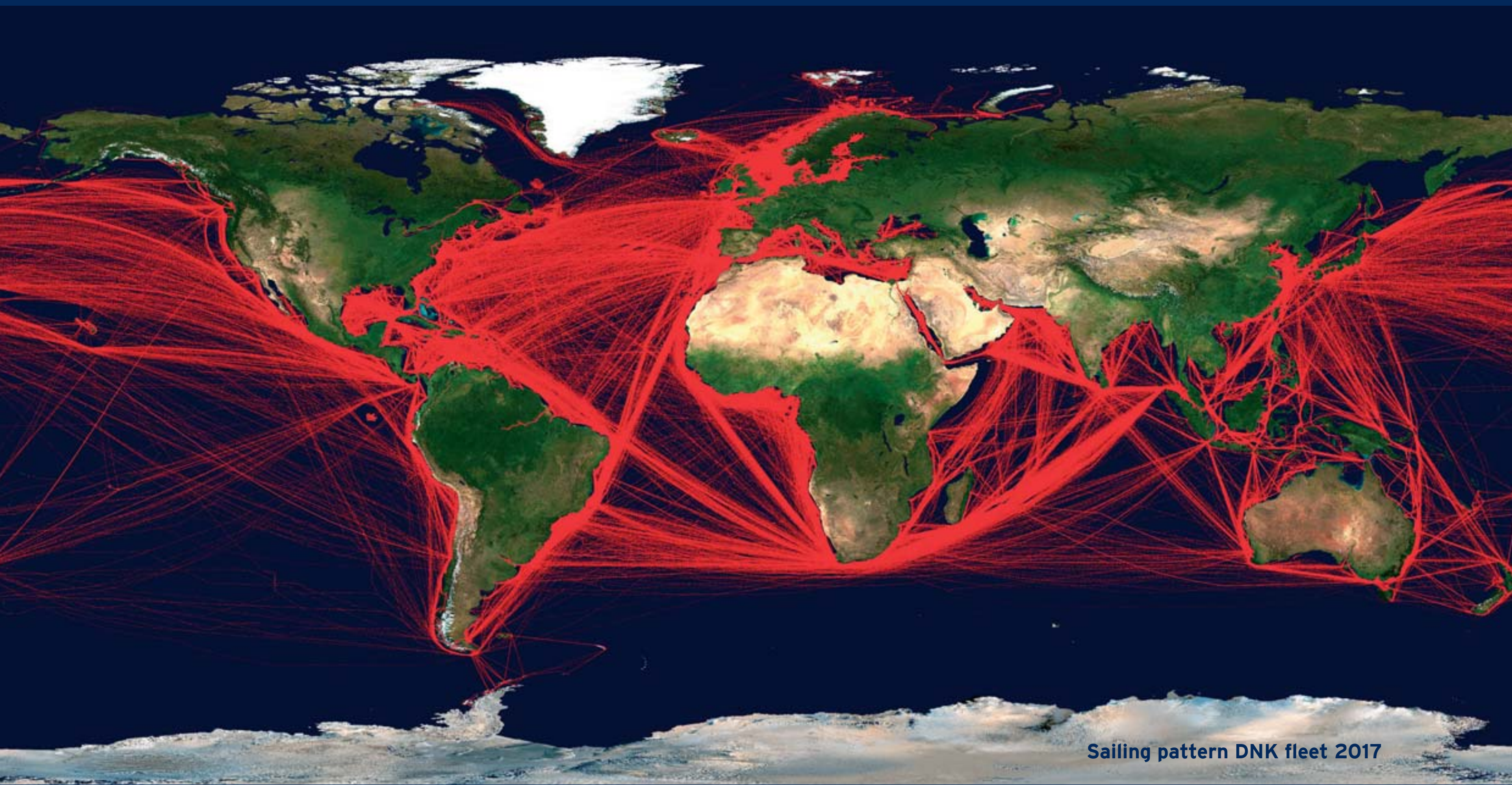
DEN NORSKE KRIGSFORSIKRING FOR SKIB
GJENSIDIG FORENING
The Norwegian Shipowners' Mutual
War Risks Insurance Association

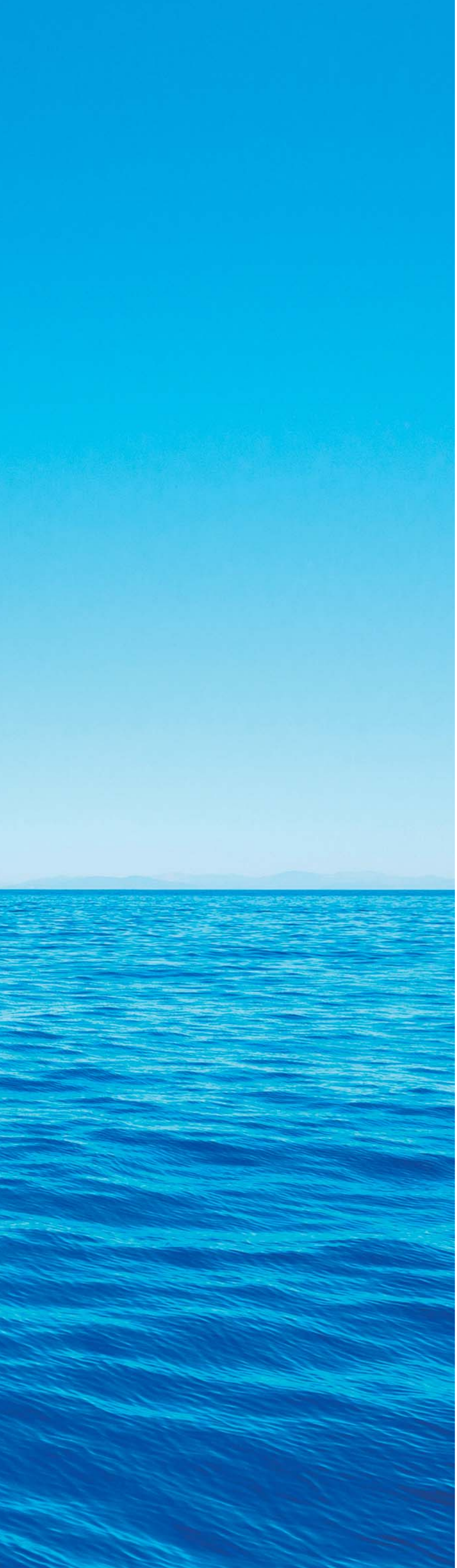


Sailing pattern DNK fleet 2017

ANNUAL REPORT 2017

Areas of Risk

Photo: iStock



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82nd 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

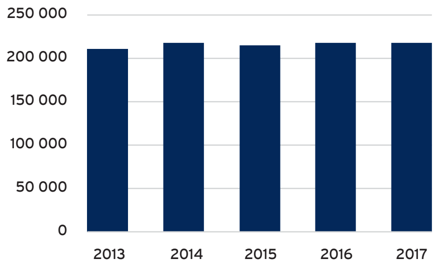
External Auditor

PricewaterhouseCoopers AS

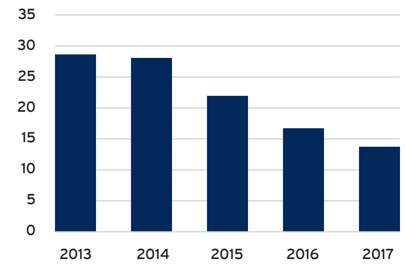
KEY FIGURES

Amounts in USD million

Insured values



Gross premiums



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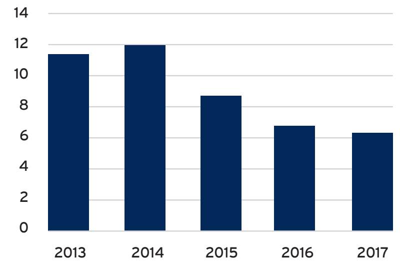

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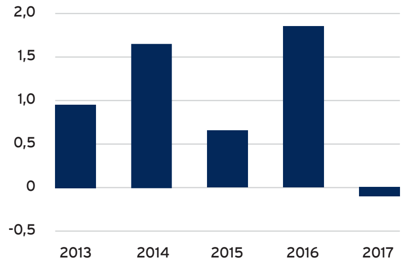
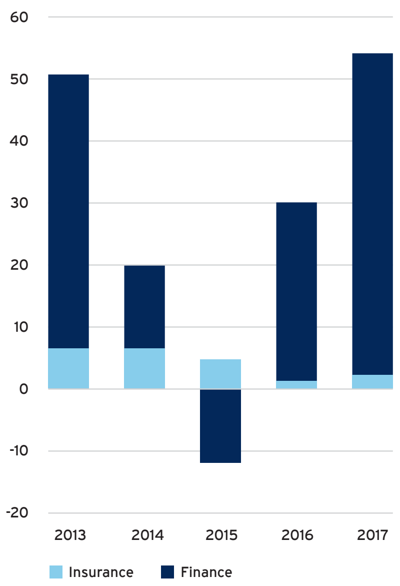


Operating result



Insurance reserves (Equity and deferred tax from 2015)

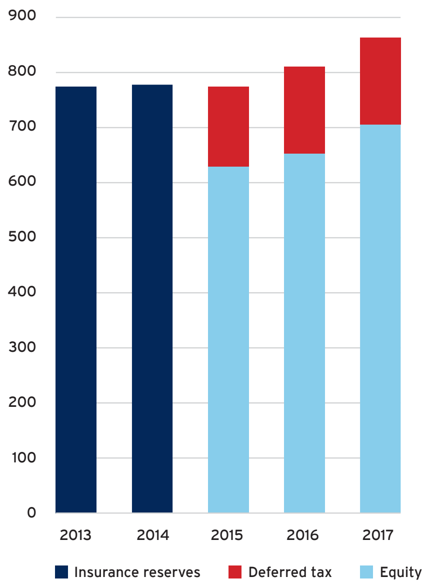


Photo: KGJS

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 2017

- At year-end 2017 DNK insured 3,391 ships and movable offshore units (versus 3,370 in the previous year), with an aggregate insured value of USD 217 billion (217). An additional 11 newbuildings were covered (10).

- In 2017 there were nineteen incidents of piracy, terrorism, activism, and other threats, involving member vessels. These incidents took place in the Gulf of Guinea, the Indian Ocean, the Gulf of Aden, the Arabian Sea, the South Red Sea, and the Sulu Sea.

- There was one piracy attempt of a member vessel in the Gulf og Guinea that mobilized DNK's Crisis Management Team. The crisis was successfully solved shortly after DNK was notified by the member.

- In 2017, the number of calls or transits in the conditional trading areas increased marginally versus 2016. Premium rates were lower. So were also claims and reinsurance cost, thus making room for an adjustment of both annual and additional premiums before year-end.

- The return on DNK's investment portfolio was 6.9 % in USD (4.1 %).

- 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 maintain competitive rates in 2018.

- DNK's solvency capital at year-end 2017 was USD 956 million (904), consisting of USD 815 million as tier-1 capital (758), and USD 141 million (146) as tier-2 capital (mutual liability). The calculated tier-1 capital excludes deduction for deferred taxes arising from the reclassification of insurance reserves (see note 16 for further details).

- The estimated solvency capital requirement (SCR) at year-end 2017 was USD 830 million (824). 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 arising from the reclassification of insurance reserves.

- In 2015 the Ministry of Finance proposed to introduce full taxation of insurance reserves with retroactive effect. In the balance sheet, insurance reserves are currently presented as a combination of other equity and deferred tax. The original notice of proposed rulemaking was amended in a new hearing in February 2018. The Norwegian insurance companies may comment on the revised proposal by May 2018. The mutual marine insurance companies are, from 2018, facing a proposal where 25 % of insurance reserves at year end 2017 will be subject to tax at the current tax rate. This is however subject to final approval by ESA (EFTA Surveillance Authority). The calculated tax will then be payable over ten years in equal installments. For DNK, the proposal implies a tax cost of around USD 50 million. From 2018 premium income will not be taxed, and provisions for insurance reserves will not be tax deductible. It is also proposed that other income, such as investment income, will be taxable. The possibility of further amendments to the proposal cannot be excluded, but may be marginal at this stage in the legal process. The proposal is expected to be ratified later this year. Due to changes in the reinsurance program as from 2018, DNK's insurance cover is not expected to be disrupted by the proposed taxation of insurance reserves.

Financial performance 2017

Gross premium income in 2017 amounted to USD 13.8 million (16.8) after a USD 7.3 million (6.0) payment of premium adjustment, or no-claims bonus ("NCB"), to members. Before such NCB, overall gross premiums declined 7 % in 2017. While annual premiums declined 12 %, gross premiums for calls in conditional trading areas fell 4 %. The number of transits through these areas increased 5 % versus 2016. Annual premiums represented 37 % of gross premium income in 2017 (38 %) before premium adjustment.

Reinsurance costs fell USD 2.5 million. The reduction was explained by a combination of lower rates and an amended cost structure. Premiums for own account amounted to USD 6.3 million in 2017 (6.8). Both gross and net claims costs were negligible in 2017, versus USD 1.8 million gross in 2016 and net USD 1.4 million.

The operating result from DNK's insurance activities amounted to USD 2.1 million (1.2) after administration costs.

The operating income from investment management was USD 52.4 million (28.9), which corresponds to a return of 6.9 % in 2017 (4.1 %). On average, equities made up 26.6 % of the portfolio, with the balance allocated to domestic and global bonds.

DNK had an overall operating profit of USD 54.5 million in 2017 (30.1). After taxes, the total result for 2017 was USD 59.0 million (30.7). The positive tax effect, both in 2017 and 2016, is explained by a reversal in deferred tax.

With the introduction of Solvency II, general insurance reserves are no longer itemized on the balance sheet but rather reclassified as equity and deferred tax. Insurance reserves are deductible for tax purposes. In the financial statements, however, deferred taxes are calculated and posted separately when reclassifying insurance reserves. This practice complies with the current accounting regulations for taxes. Insurance reserves of USD 865.4 million has been reclassified, of which USD 701.0 million as equity.

The reclassification of insurance reserves does not influence the amount available to cover future obligations in the case of damages or losses covered by DNK's insurance program. The amount reclassified as deferred tax is thus also available to cover future obligations. DNK's Board does not believe that the reclassification provides an accurate statement of the Association's ability to cover future obligations towards the insured.

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.

Cash flow from insurance activities was USD 4.9 million in 2017 (2.9). Premium income, reinsurance expenses and administrative costs were the main cash items.

Cash flow from finance activities was USD -5.1 million (-0.4). 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 (0.3). Net cash flow for the period was USD -0.2 million (2.2). At the end of 2017 bank deposits amounted to USD 7.1 million (7.3).

The Board confirms that the presentation of DNK's financial statements is based on the assumptions of business continuity. The Board is not aware of any incidents occurring after the balance sheet day that may have any bearing on the presented financial statements for 2017.

Insurance activities

DNK maintains its position as one of the world's leading marine war risk underwriters. The united base of members, competitive rates, and wide cover still serve as a benchmark for competing insurers. However, with the current low cost of capital, competitive rates can be found in the market from time to time. There have in 2017 been many attempts to outperform DNK's rates for excluded areas, and this pressure is expected to persist. 2017 proved to be a stable year for premium volume and rate levels. However, DNK introduced some reductions in AP rates, and a few relaxations in geographical limits.

The reinsurance renewal for the policy year 2017 resulted in reductions over the various business segments, which made it possible to offer competitive annual premiums for members. Good overriding discounts linked to reinsurance programs enables DNK to run a sustainable insurance operation.

Members of the insurance department has through the period assumed an active role through contributions to the contingency support team. Exercises and live cases have linked insurance aspects with security challenges. The dialogue with the security & preparedness team has given DNK the opportunity to link the dynamic nature of maritime security challenges with its insurance terms and conditions.

DNK has through the year started developing digital solutions for its insurance operation and members. The incentives for seeking digital improvements are high, due to the nature of the business. It is DNK's ambition to utilize sensor technology in combination with insurance production systems, to simplify and secure reporting and collection of additional premium. The solution that is sought also introduces a positive security element, and the opportunity for DNK's members to capture vessel performance optimization effects.

Security & Contingency Preparedness

The Loss Prevention concept in DNK

The loss prevention capability at DNK is facilitated by a new Intelligence & Operations Centre (IOC). The IOC builds the global Intelligence picture to support decision making for members in the short to long term. This is done through a professional structure consisting of an extended source-network and skilled intelligence analysts. Training is also provided to members through the IOC. The IOC also supports members with Crisis Management if necessary. The IOC offers a 24/7 member support service through its Duty Officer function.

Threat-summary and DNK IOC response in 2017

Piracy is still posing the main threat towards shipping off Niger Delta in the Gulf of Guinea. Throughout 2017 the DNK IOC has defined the waters off Niger Delta as a HIGH threat area for Kidnap-for-Ransom (K/R) attacks. Also, land-based insurgency has had the potential for spill-over into the maritime domain in the same area. Compared to 2016, the reported number of incidents in 2017 were lower before the annual monsoon-period, while it was higher post the monsoon.

There were six security incidents involving member vessels in the Gulf of Guinea in 2017, and one crisis involving a member vessel causing DNK to mobilize its Crisis Management Team. The crisis was successfully solved thirteen hours after the Duty Officer at DNK IOC was notified by the member.

In the Indian Ocean/Gulf of Aden/Arabian Sea, numerous root causes for piracy and criminal networks prone for piracy involvement are still in place in Somalia. Before the monsoon-period two merchant vessels and two large fishing vessels (Dhows) were hijacked close to the Somali coastline, while one merchant vessel was attacked 300 nm off the coast post the monsoon in 2017. All incidents involving the merchant vessels were solved due to naval interdiction, while the Dhows are still not accounted for. Compared to 2016, the number of reported attacks increased substantially in these waters during 2017.

There were three security incidents involving member vessels in the Indian Ocean/Gulf of Aden/Arabian Sea in 2017.

Within the Yemen Territorial waters and the South Red Sea area, the Houthi insurgents have continued to launch attacks towards the Saudi Coalition warships and their supply-vessels in 2017. Compared to 2016, where advanced anti-ship missiles were used, the attacks in 2017 have to a large extent involved the use of Water-Borne Improvised Explosive Devices (WBIED) on remote-controlled speed boats (drone-boats). A Saudi Coalition advance towards the strategic important city of Hodeidah could potentially also lead to deliberate attacks towards merchant vessels in general.

South of Bab-el-Mandeb a merchant vessel experienced a failed WBIED attack in May 2017. The location, target-type and method used is similar to an attack in October 2016. These incidents can likely be associated with failed terrorist attacks conducted by either Al Qaida on the Arabian Peninsula (AQAP) or the so-called Islamic State elements in either Southern Yemen or Northern Somalia.

There has been one security incident involving member vessels in the Yemen Territorial waters and the South Red Sea area in 2017.

In South East Asia, the UN terror-listed Abu Sayyaf Group (ASG) posed the main threat towards shipping in the Sulu Sea in 2017. These waters were defined by DNK IOC as a HIGH threat area for K/R attacks throughout the first six months of 2017, while it was downgraded to MODERATE threat in the second part due to successful Malaysian, Indonesian and Philippine joint Counter-Terrorist operations. It is however too early to declare that Islamic State East Asia (ISEA), including Abu Sayyaf Group (ASG), is beaten in Southern Philippines, including on the Sulu archipelago as DNK IOC see it.

In addition, numerous illegal boardings and armed robberies have been reported in the Singapore Strait with adjacent waters in 2017. Both vessels at anchorage and steaming vessels have experienced these attacks. The number of reported incidents has increased compared to 2016.

There were two security incidents involving member vessels in the Sulu Sea in 2017.

In the adjacent waters of the Middle East and North Africa, the highly volatile threat situation caused by the internal conflict in Libya, has caused security concerns also in 2017. Both the Western Libya based Libyan Coast Guard and the Eastern Libya based LNA have attacked or detained vessels offshore Libya that have been accused of smuggling or other violations in 2017.

There have been four security incidents involving member vessels in the adjacent waters of the Middle East and North Africa in 2017.

In addition to the above mentioned, there have been two security incidents related to activism and one related to the blockade of Qatar involving member vessels in 2017.

Investment management

Financial markets through 2017

Overall, the equity markets delivered robust returns in 2017. The emerging markets outperformed the developed economies for the second year in a row.

Signs of tighter monetary policies have emerged, at least in the U.S. Economic growth was stable and earnings followed suit. Periods of geopolitical turbulence did not destabilise the financial markets, and feared political headwinds were overrated. Inflation was benign. The USD lost some ground in 2017, while raw material prices showed selective strength.
The cyclical rally in equity markets may continue into 2018. Economic growth may persist and inflation could finally emerge, thus forcing interest rates to rise.

Key market indices 2015-2017

The table below shows the annual and aggregate return over the past three years for market indices that are relevant for DNK's investment strategy. The global equity index for developed markets increased 32.9 % over the last three years, while medium term global bonds only returned 3.8 %. Norwegian government bonds generated a return of 3.5 % in 2015-2017, while the U.S. dollar rose 9.4 % versus NOK in this period.

Investment strategy

The investment portfolio is globally diversified in tradeable securities and fund units. There is a 25 % strategic allocation to equities, while the remaining 75 % is placed in investment-grade bonds with an average maturity around 2 years. Part of the portfolio may periodically deviate from the benchmark within set guidelines. The currency mix of DNK's investments matches that of its liabilities; 85 % USD and 15 % NOK.

Measured in USD, the portfolio return was 6.9 % in 2017 (4.1 %). Equities returned 18.5 % while bonds rose 3.0 % in value. DNK's portfolio return was 0.4 percentage points above 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.

Return/ change in value %	2017	2016	2015	3 years
Global equities, MSCI, USD	19.1	9.4	2.0	32.9
Global bonds, Barclays, 1-3 years, USD	1.4	1.6	0.8	3.8
Norwegian government bonds, 3 years, NOK	1.4	0.4	1.6	3.5
USD vs. NOK	-5.2	-2.5	18.3	9.4

Risk measures	2017	2016
Stress test, USD million	-140.6	-115.5
Value at Risk (VaR), USD million	-75.2	-77.3
Relative volatility	0.5 %	0.6 %

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 in accordance with Solvency II, and by DNK's own Value at Risk model. 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 two years. The stress test value for 2017 is estimated. No material change is anticipated once the calculations are finalized.

The higher stress test amount in 2017 is explained by three factors. First, the stress factor for equities increased to 41 % (38 %). Second, average assets under management increased by around USD 50 million in 2017. Third, there was an increase in the allocation to global corporate bonds with a lesser credit quality. VaR is slightly lower due to a marginal decrease in the allocation to equities. This is also the principal reason for a decrease in relative volatility.

Corporate governance

DNK is subject to supervision by the Financial Supervisory Authority of Norway. Corporate Governance issues and requirements are stated in the Associations Articles. The Board has also approved policies to further support corporate governance in DNK.

Governance structure

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. Responsibilities and functions of the Board in relation to corporate governance issues are also outlined in the Articles.

The Board sets the overall objectives, strategies and policies to ensure sound management of the business, including requirements to facilitate a transparent organizational 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, all with periodic reporting to the Board. The actuary function and the internal audit function are both outsorced to external providers.

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

Risk management

Risk management and internal control are integrated into DNK's system of governance. The Board reviews at least annually 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.

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, market risk, counterparty risk, operational risk and liquidity risk. With the exception of the latter, the loss potential for these risks is individually calculated, aggregated and aligned with available solvency capital. The Association is organized 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 standardized products. The parties to any hedging contract must 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, equity risk, currency risk and credit risk.

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 follow-up of incidents, and updated contingency plans for business-critical processes.

While not appearing as a standard quantifiable risk, liquidity risk is taken into consideration as part of the investment strategy. 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.

Other risks

DNK is also exposed to certain risks that cannot be fully quantified. For these risks DNK also performs analysis, risk assessments, monitoring and steering.

Strategic risks are evaluated, analyzed and discussed as part of the regular strategy process.

Business risk is primarily handled through the strategic process and controlled by monitoring market-, product- and competitive conditions, capital market requirements and developments, regulatory conditions, changes in the geopolitical landscape etc.

Reputational risk is identified and evaluated as part of the periodic risk assessments. The risk is managed through quality controls, analysis of financial performance, corporate governance, member services and support, etc.

Geopolitical risk is monitored in close cooperation with external parties. 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.

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 956 million at the end of 2017 (904), where tier 1 capital was USD 815 million (758) and tier 2 capital amounted to USD 141 million (146).

The solvency capital requirement was USD 830 million by year-end 2017 (824).

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

Administration

The Association had 16 employees at the end of 2017 (17).

Sick leave in 2017 totalled 84 days (278), which represented 2.3 % of overall working hours (7.9 %). 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 seven women and nine men at year's end.

Outlook

The two main factors affecting DNK's future earnings relate to changes in geopolitical risk and financial markets. More volatility in the political arena, or in the financial markets, may result in insurance claims or investment losses – or both. In more details, changes in the following factors may impact DNK's profitability: Insured values, the number and size of conditional trading areas, overall market conditions including the price and availability of reinsurance, return on financial investments, and claims.

Premiums for war risk insurance are influenced by geopolitical risk, and by more local events 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 2017, maritime crime and piracy attempts 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 remained stable. Reinsurance costs have declined with the overall softness in these markets. The reinsurance renewal for 2018 implies lower rates for members. A broader reinsurance program will increase overall reinsurance costs in 2018, but the diversity and quality of DNK's risk mitigation program is improved.

The extended reinsurance program is expected to lower DNK's solvency capital requirement in 2018.

Additional premiums may decline if the conditional trading areas become fewer and/or smaller. It is difficult, however, to foresee changes in geopolitical risks and any potential impact on marine war risks.

A major conflict could abruptly cause monumental losses in respect of insured ships and movable offshore units. High capacity in the war risk insurance market may drive 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. Moderate economic growth and low yields are likely to result in below average investment returns. Tighter monetary policies may push interest rates up. Inflation is subdued, so far, while earings momentum is positive.

DNK's solvency capital at the end of 2018 is expected to increase moderately before the proposed taxation of insurance reserves. A slight reduction in ancillary own-funds (member's mutual liability) is anticipated due to the overall decline in war risk insurance premiums. The reclassification of insurance reserves to equity in 2018 is expected to result in a tax cost in excess of USD 50 million, which will be payable over ten equal annual instalments. The overall reduction

Photo: Seadrill

in DNK's solvency capital in 2018 will consequently be manageable. The introduction of a broader reinsurance program from 2018 will ensure a sound solvency capital margin in spite of the proposed taxation of insurance reserves.

The Norwegian Shipowners' Mutual War Risks Insurance Association. Oslo, 19 March 2018.

Jan Pedersen
(Chairman)

Olav Eikrem
(Vice-Chairman)

Mons Aase

Vanessa Chapman

Eli Vassenden

Synnøve Seglem

Eric Jacobs

Svein Ringbakken
(Managing Director)

Photo: Höegh

FINANCIAL STATEMENTS IN USD

INCOME STATEMENT

Amounts in USD 1000	Note	2017	2016
TECHNICAL ACCOUNT			
PREMIUMS			
Gross earned premiums		13 798	16 754
Ceded reinsurance on gross earned premiums		(7 478)	(9 998)
Premiums for own account		**6 320**	**6 756**
CLAIMS			
Gross claims expenses	8	104	(1 848)
Reinsurers' share of gross claim expenses	8	(119)	425
Claims for own account		**(15)**	**(1 423)**
Insurance related administrative expenses	2, 3, 4, 5, 10	**(4 182)**	**(4 163)**
OPERATING RESULT OF TECHNICAL ACCOUNT		**2 124**	**1 170**
NON-TECHNICAL ACCOUNT			
Net income from financial assets			
Interest and dividend from financial assets	9	9 359	8 990
Change in fair value of financial assets	9	33 453	42 457
Realised gains from financial assets	9	13 956	(18 300)
Administrative expenses related to financial assets	2, 3, 4, 5, 9, 10	(4 428)	(4 264)
Total net income from financial assets		**52 339**	**28 882**
OPERATING RESULT OF NON-TECHNICAL ACCOUNT		**52 339**	**28 882**
PRE-TAX RESULT		**54 463**	**30 052**
Tax expenses	6	4 578	627
PROFIT FOR THE YEAR		**59 041**	**30 679**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**59 041**	**30 679**
TOTAL RESULT		**59 041**	**30 679**

BALANCE SHEET

Amounts in USD 1000	Note	2017	2016
ASSETS			
Owner occupied properties	5	212	212
Bank deposits investment portfolio	11	13 997	16 655
Shares and other equity investments	11, 12, 14	225 057	215 627
Bonds and other fixed income securities	11, 12, 13, 14	640 610	578 726
Financial derivatives	14, 15	2 364	7 027
Total investments		**882 240**	**818 247**
Reinsurers' share of gross claims provisions	**8**	**592**	**1 000**
Insurance related receivables		1 317	1 080
Reinsurers receivables		0	0
Other receivables		353	307
Total receivables		**1 669**	**1 388**
Equipment and fixtures	5	1 320	1 392
Cash and bank deposits	7	7 144	7 356
Other assets		151	309
Total other assets		**8 615**	**9 057**
Total prepaid expenses and accrued income		**327**	**196**
TOTAL ASSETS		**893 443**	**829 888**
EQUITY & LIABILITIES			
Other equity	16	701 030	650 473
Total equity		**701 030**	**650 473**
Provision for unearned gross premiums		0	0
Gross claims provisions	8	2 061	2 219
Total insurance reserves		**2 061**	**2 219**
Pension liability provisions	4	481	477
Taxes payable	6	0	0
Deferred tax liability	6	172 477	167 919
Other provisions		31	14
Total provisions		**172 989**	**168 410**
Reinsurance liabilities		705	805
Financial derivatives	14, 15	3 639	2 320
Other liabilities		7 267	2 591
Total liabilities		**11 611**	**5 716**
Other accrued expenses and prepaid income		**5 753**	**3 069**
TOTAL EQUITY AND LIABILITIES		**893 443**	**829 888**

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

Oslo, 19 March 2018

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)

STATEMENT OF CHANGES IN EQUITY

Amounts in USD 1000	2017	2016
OTHER EQUITY		
Other equity 01.01.	650 473	623 473
Total result	59 041	30 679
Translation effects	(8 484)	(3 680)
Other equity 31.12.	**701 030**	**650 473**

CASH FLOW STATEMENT

Amounts in USD 1000	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	16 137	17 342
Cash paid to re-insurers	(7 578)	(10 117)
Net cash flows related to claims expenses	235	(376)
Paid insurance related administrative expenses	(3 865)	(3 961)
Net cash flows from the technical account	**4 929**	**2 888**
Net cash flows from interest, dividends and realised gains/losses on financial assets	22 596	(4 594)
Net cash flows from acquisition/disposal of financial assets	(23 562)	8 252
Paid administrative expenses related to financial assets	(4 111)	(4 062)
Net cash flows from the non-technical account	**(5 077)**	**(405)**
Net cash flows from operating activities	**(148)**	**2 483**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows from acquisition/disposal of fixtures and fixed assets	(64)	(316)
Net cash flows from investing activities	**(64)**	**(316)**
Net cash flows in the period	**(212)**	**2 167**
Net changes in cash and bank	(212)	2 167
Cash and bank 01.01.	7 356	5 189
Cash and bank 31.12.	**7 144**	**7 356**

NOTES

NOTE 1: Accounting principle

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 the income statement.

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 and 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 listed market 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 has a defined contribution plan for its employees, and there is an additional scheme for salaries surpassing 12 G. The payments to the defined contribution plan are expensed.

Deferred tax
Tax costs in the income statement 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 % 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.

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 account.

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 by the claims department.

Equity
The insurance reserves are reclassified to equity according to changes in the accounting regulation.

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 2017. The following amounts are expensed as salary, fees and other benefits, and the following loans were outstanding:

2017

Amounts in USD 1000	Salary/ fees	Bonus	Pension costs	Other benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	469	114	118	43	**744**	0
Sverre Huse, Finance Director	384	80	82	31	**578**	0
Anders Hovelsrud, Insurance Director	164	0	9	10	**184**	0
Helena Brudvik, Controller	193	28	10	3	**234**	0
Freddy Furulund, Head of Department for Security & Contingency Preparedness	190	16	12	3	**222**	0
BOARD OF DIRECTORS						
Jan Pedersen, Chairman	23	0	0	0	**24**	0
Olav Eikrem, Vice Chairman	16	0	0	0	**16**	0
Mons Aase, Board member	13	0	0	0	**14**	0
Vanessa Chapman, Board member	13	0	0	0	**14**	0
Eli Karin Vassenden, Board member	15	0	0	0	**15**	0
Synnøve Seglem, Board member	13	0	0	0	**14**	0
Eric Jacobs, Board member	15	0	0	0	**15**	0

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

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

Holiday-pay accrued in 2016 is included under salary for 2017.

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.

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. All employees are included in the defined contribution plan for salaries up to 12 G. There is in addition a non-funded pension scheme for salaries surpassing 12 G. The payments to the defined contribution plan are expensed.

The cost of the defined contribution plans in 2017 was USD 286 569.

NOTE 5: FIXED ASSETS

Amounts in USD 1000		Machinery/ Fixtures and vehicles	Works of art (paintings)	Real estate
Acquisition cost as at 01.01		1 794	145	212
+ Additions during year		182	0	0
- Disposals during year		(153)	0	0
+ Exchange rate effects		(61)	0	0
Acquisition cost as at 31.12	**A**	**1 762**	**145**	**212**
Accumulated ord. depr. as at 01.01		546	0	0
+ Ordinary depreciation		174	0	0
- Disposals at acquisition cost		(115)	0	0
+ Exchange rate effects		(19)	0	0
Accumulated ord. depr. as at 31.12	**B**	**586**	**0**	**0**
Book value as at 31.12	**A-B**	**1 175**	**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	2017	2016
THE YEAR'S TAX COSTS ARE CLASSIFIED AS FOLLOWS:		
Payable tax (deficit)	0	0
Part of deficit not included in deferred tax	0	0
Adjustment to historic tax	0	0
Change in deferred tax	(4 578)	(627)
Net worth tax	0	0
Total	**(4 578)**	**(627)**
CALCULATION OF TAXES:		
Profit/(loss) before tax	10 753	10 415
Permanent differences, non-deductible	166	133
Accounting related gain on realisation of securities	(86 701)	(105 904)
Accounting related loss on realisation of securities	51 107	62 819
Tax related gain/loss on realisation of securities	6 515	35 894
Reversal of change in marketable securities	31 808	35 098
Use of loss carryforward	(2 774)	(27 737)
Change in temporary differences	(100)	230
Change in temporary differences relating to too high tax value on fixed assets	0	77
Change in temporary differences relating to equity and insurance reserves (ordinary)	(10 774)	(11 025)
This year's taxable result	**0**	**0**
Taxes payable	**0**	**0**
OVERVIEW OF TEMPORARY DIFFERENCES AND TAX LOSS CARRY FORWARD		
Fixed asset investments	98	(80)
Diff. between market and book value of trading portfolio	19 181	48 502
Pension obligations	(481)	(477)
Temporary differences between equity and deferred tax	22 378	
Tax loss carryforward	(179 150)	(172 459)
Equity (before tax effect) and insurance reserves	827 885	796 190
Total	**689 910**	**671 677**
25% deferred tax (tax benefit) before the effect of equity and insurance reserves	0	(31 128)
25% deferred tax (tax benefit) relating to the effect of equity and insurance reserves	0	199 048
Translation effects	9 136	0
25 % deferred tax (tax benefit)	**172 477**	**167 919**

WHY TAX COST DIFFERS FROM 25 % OF PROFIT/LOSS BEFORE TAX:		
25 % tax of the profit/loss before tax	2 688	2 604
Tax effects of permanent differences 25 %	724	(1 782)
Change in tax effects of unrealised gain/loss on shares	(7 990)	(1 468)
Change in tax provisions for previous years	0	0
Net worth tax	0	0
Tax effect of reduced tax rate	0	0
Deferred tax deficit not shown on balance sheet	0	0
Tax effect of change in temporary differences relating to too high tax value on fixed assets	0	19
Calculated tax costs	**(4 578)**	**(627)**

Tax loss carryforward in 2017 was estimated at USD 179 million (172).

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 189,637 of unpaid tax withholdings as at 31.12.17.

Photo: Höegh

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	2017	2016
PROFIT & LOSS		
Gross paid claims	(54)	(340)
- Deducted claims provisions	45	328
Expensed gross claims	**(9)**	**(12)**
New gross claims provisions	113	(1 837)
Exchange rate effects	0	0
Gross expensed claims, total	**104**	**(1 848)**
Reinsurers' share of gross paid claims	289	(37)
- Deducted reinsurers' share of claims provisions	(317)	0
Expensed reinsurers' share of gross claims provisions	**(27)**	**(37)**
Change in reinsurers' share of gross claims provisions	(91)	462
Exchange rate effects	0	0
Reinsurers' share of expensed gross claims	**(119)**	**425**
Claims for own account	**(15)**	**(1 423)**
BALANCE SHEET		
Gross claims provisions 01.01	2 219	710
- Paid claims deducted from claims provisions	(45)	(328)
New claims provisions	(113)	1 837
Change in gross claims provisions	**(158)**	**1 509**
Exchange rate effects	0	0
Gross claims provisions 31.12	**2 061**	**2 219**
Reinsurers' share of gross claims provisions 01.01	1 000	538
- Deducted reinsurers' share from gross claims provisions	(317)	0
Change in reinsurers' share of gross claims provisions	(91)	462
Change in gross claims provisions	**(408)**	**462**
Exchange rate effects	0	0
Reinsurers' share of gross claims provisions 31.12	**592**	**1 000**
Claims provision for own account 31.12	**1 469**	**1 219**

NOTE 9: Items that have been combined in the accounts

Amounts in USD 1000	2017	2016
Interest income from bank deposits	(16)	(140)
Interest income from domestic loans	0	0
Interest income on bonds	9 365	9 130
Dividends on equities	10	0
Interest and dividend from financial assets	**9 359**	**8 990**
Unrealised gains/losses on financial current assets	**33 453**	**42 457**
Exchange rate gains	1 557	1 583
Exchange rate losses	(838)	(6 299)
Realised gains/losses on equities	27 672	12 273
Realised gains/losses on bonds	(1 445)	(20 067)
Realised gains/losses on derivatives	(12 990)	(5 790)
Realised gains from financial assets	**13 956**	**(18 300)**
Administrative expenses associated with financial assets	**(4 428)**	**(4 264)**
Total income/loss from financial assets	**52 339**	**28 882**

NOTE 10: Administrative expenses

Amounts in USD 1000	Insurance 2017	Finance 2017	Total 2017	2016
Salary and holiday pay, employees	1 426	1 426	2 851	2 773
Social security taxes	309	309	619	515
Pension cost	147	147	294	671
Other personell costs	107	87	194	173
Fees	324	324	648	720
Rental costs, office and machinery	202	202	405	348
Ordinary depreciation	87	87	174	144
Other administrative expenses	1 580	1 845	3 425	3 083
Total administrative expenses	**4 182**	**4 428**	**8 610**	**8 427**

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 2017 were split 50/50.

NOTE 11: Financial assets – fair value hierarchy

Amounts in USD 1000	2017	2016
Equities	225 057	215 627
Bonds and fixed income securities	640 610	578 726
Financial derivatives, assets - liabilities	-1 275	4 707
Loans and accounts receivable	14 148	16 655
Total financial assets*	**878 541**	**815 715**

2017 - Financial assets measured at fair value over the income statement

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Equities	225 057	0	0	225 057
Bonds	441 160	199 450	0	640 610
Financial derivatives, net	0	-1 275	0	-1 275
Total	**666 217**	**198 176**	**0**	**864 393**
Distribution	77.1 %	22.9 %	0.0 %	100.0 %

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 %

* 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 market 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

2017 - Investment portfolio in equities and mutual funds

Amounts in USD 1000	Value at cost	Fair value	Distribution
Equities	199 003	225 057	100.0 %
STATE STREET INDEX FUNDS			
Canada	0	0	0.0 %
Europe	0	0	0.0 %
Japan	0	0	0.0 %
Pacific ex. Japan	0	0	0.0 %
USA	0	0	0.0 %
World	86 616	109 770	48.8 %
Equity index funds	**86 616**	**109 770**	**48.8 %**
OTHER EQUITY FUNDS			
Mercer Passive Global Equity	107 387	108 695	48.3 %
Nordea Stable equities, Global	4 999	6 592	2.9 %
Arctic Norwegian Equities	0	0	0.0 %
Total equities	**199 003**	**225 057**	**100.0 %**

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 %
Total equities	**202 181**	**215 627**	**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 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 three 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 2.2 (2.5) at the end of 2017.

	2017		2016	
Amounts in USD 1000		Market value		Market value
Bonds and other fixed income securities		637 206		575 795
Accrued interest income		3 404		2 931
Settlement, broker		-6 625		-1 617
Loans and accounts receivable		13 997		16 373
Fixed income derivatives		-1 275		4 266
Fixed income portfolio		**646 707**		**597 747**

Amounts in USD 1000	Value at cost	Market value	Value at cost	Market value
DISCREATIONARY MANDATES				
Norwegian bonds	128 576	128 639	109 406	97 335
Global bonds, USD hedged	438 337	445 785	434 493	434 664
BOND FUNDS				
Forte	7 538	7 790	3 980	3 632
Mercer ARFI	30 010	34 268	0	0
Pimco	27 542	30 225	49 612	62 116

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.

2017

Amounts in USD 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, NOK	20 %	AA-	3.5	1.7 %	-4 402
Bonds, global, USD hedged	69 %	AA-	1.6	1.3 %	-7 133
Bond funds	11 %	A	2.8	2.0 %	-1 999
Total fixed income	**100 %**	**AA-**	**2.2**	**1.4 %**	**-13 533**

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**

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.

	2017	2016
NOK	16 %	17 %
USD	84 %	84 %
Other	0 %	0 %

2017 - Rating

Amounts in USD 1000	NOK	Global	Fond	Total	Distribution
AAA	24 800	192 182	26 163	243 144	37.6 %
AA	44 918	59 680	7 943	112 540	17.4 %
A	36 281	117 775	15 347	169 404	26.2 %
BBB	22 172	59 200	10 875	92 247	14.3 %
BB	0	17 515	4 100	21 615	3.3 %
B	0	728	1 022	1 750	0.3 %
CCC, lower	0	0	1 187	1 187	0.2 %
No rating	469	-1 295	5 647	4 820	0.7 %
Total	**128 639**	**445 785**	**72 283**	**646 707**	**100 %**

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 %**

Government, government guaranteed, and municipal bonds, amount to 59 % (65 %) of the bond portfolio's fair value. Non-government bonds have an average credit rating of A (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. The aggregate risk is managed in relation to available capital, and is subject to frequent assessment – with reporting to the authorities minimum annually and monthly estimates to the Board. 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 2017 including details on sub-risks, will be finalised by the reporting deadline in May. However, the solvency capital requirement is estimated at USD 830 million (824).

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 stresstesting.

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.

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 investments. 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 41 % fall in the equity portfolio.
- Currency risk comes into play when the investment portfolio has a currency exposure to currencies other than the reporting currency in USD. 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 2017, the relative volatility was 0.5 %, which indicates that the portfolio's overall risk profile is fairly close to its benchmark.

At year-end 2017, the portfolio's risk profile was as indicated in the table below.

	2017	2016
Amounts in USD million	**Portfolio**	**Portfolio**
Market risk	140.6	115.5
Equity	93.4	81.0
Spread	41.8	27.7
Currency	32.6	29.8
Interest	14.6	14.4
Concentration	5.5	7.2
Property risk	0.1	0.1
Diversification	-47.3	-44.6
Value-at-risk	75.2	77.3
Volatility	3.4 %	3.7 %
Relative volatility	0.5 %	0.6 %

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 two 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 table below shows the financial derivatives on the balance sheet at year-end 2017 and 2016.

Amounts in USD 1000	2017	2016
FINANCIAL DERIVATIVES		
+ Assets	2 364	7 027
- Liabilities	-3 639	-2 320
Net financial derivatives	**-1 275**	**4 707**
Interest rate risk; futures	-85	-228
Currency hedging, bonds, forwards	-1 190	4 493
Currency hedging, equities, forwards	0	442
Net financial derivatives	**-1 275**	**4 707**

The currency derivatives are rolled over monthly or quarterly. The derivatives are mainly related to hedging of currencies. 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 and deferred tax. 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.

Based on the current proposal, 25 % of the insurance reserves may be taxed at the current tax rate (25 %). With reserves at USD 865.4 million the potential tax cost is USD 54.1 million, which will be payable over ten years in equal installments. The current proposal may be subject to further amendments, and it is also subject to ESA approval. It is nontheless reasonable to expect that the proposed change will be made into law in 2018.

DNK has introduced changes in its reinsurance program in 2018 to ensure that the potential taxation of insurance reserves will not disrupt its capacity to maintain its currrent coverage and competitiveness.

The Solvency Capital Requirement at year-end 2017:

CAPITAL REQUIREMENT	
Solvency Capital Requirement (SCR)	829 564
Minimum Capital Requirement (MCR)	207 391

SOLVENCY CAPITAL	
Basic own funds, Tier 1	815 673
Ancillary own funds, Tier 2	140 713
Total eligible own funds to meet the SCR	956 386

Photo: KGJS

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 59 041 thousand. The financial statements comprise the balance sheet as at 31 December 2017, 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 2017, 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, including 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.

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

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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 in accordance with law and regulations, including 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, including 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 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, 19 March 2018
PricewaterhouseCoopers AS

Magne Sem

Magne Sem
State Authorised Public Accountant

(3)

Photo: KGJS

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