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

ANNUAL REPORT 2018

AREAS OF RISK

Photo: Istock

CONTENTS

83RD FINANCIAL YEAR

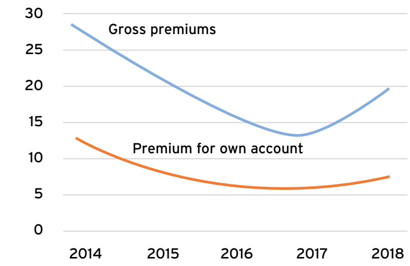
The annual report of The Norwegian Shipowners' Mutual War Risks Insurance Association ("the Association" or "DNK") is presented in English, with audited financial statements in USD.

Photo: KGJS

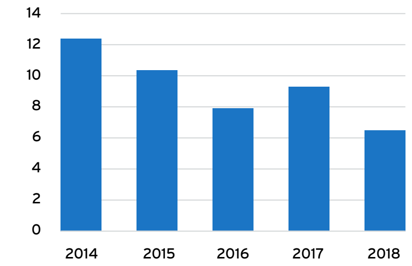
KEY FIGURES

Amounts in USD million

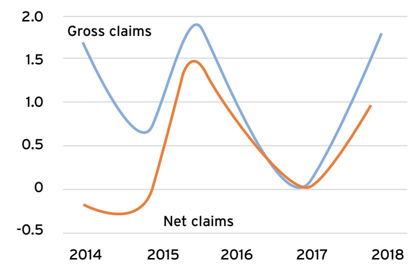
Gross/net premiums



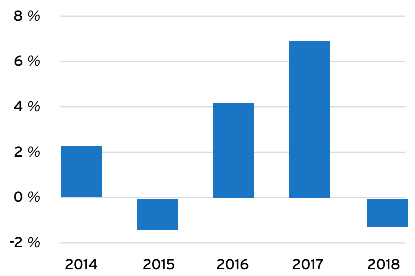
Premium adjustment (NCB)



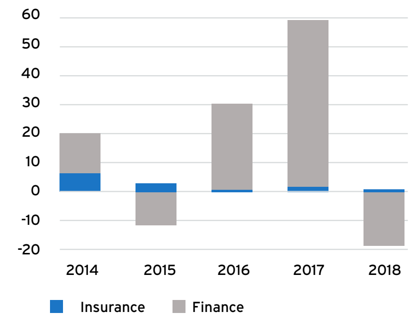
Gross/net claims



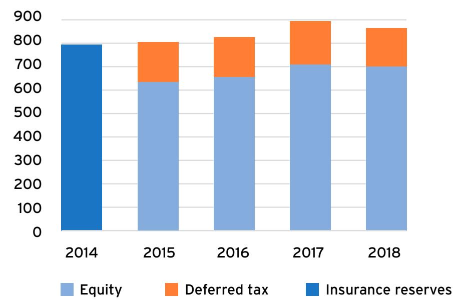
Investment returns

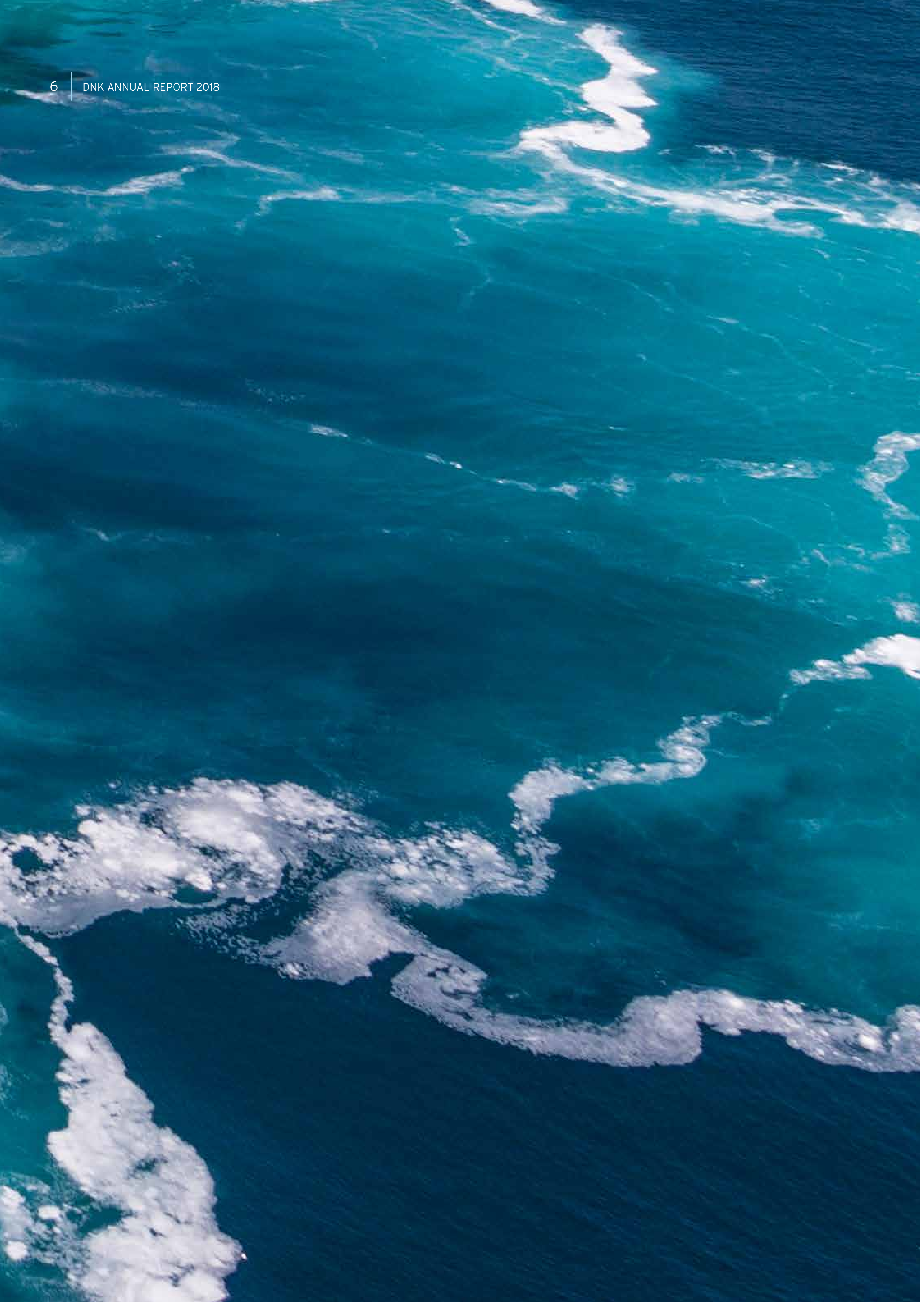


Operating result



Insurance reserves (Equity and deferred tax from 2015)





GOVERNING BODIES

THE BOARD OF DIRECTORS

Jan Pedersen
Chairman

Kristian Gerhard Jebsen Skibsrederi AS

Eli Vassenden

Grieg Star AS

Mons Aase
Vice-Chairman

DOF ASA

Eric Jacobs

Awilco AS

Vanessa Chapman

Odfjell Drilling AS

Christopher Walker

Frontline Management AS

Synnøve Seglem

Knutsen OAS Shipping AS

Ivar Myklebust

Höegh Autoliners AS

DEPUTIES TO THE BOARD
Harald Fotland, Odfjell Tankers AS
Odd Christian Krohn, Fred Olsen Insurance Services AS
Marthe Romskoug, Wilh. Wilhelmsen Holding AS

NOMINATION COMMITTEE
Johan Hvide, Seatrans AS
Trond Kleivdal, Color Line AS
Lasse Kristoffersen, President of the Norwegian Shipowners' Association

Photo: Frontline

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 2018

- At year-end 2018 DNK insured 3,430 ships and movable offshore units (versus 3,391 in the previous year), with an aggregate insured value of USD 222 billion (217). An additional 8 newbuildings were covered (11).

- There were 16 incidents involving member vessels in 2018. The incidents were related to piracy, terrorism, activism and other threats.

- There were 4 crises involving member vessels in the Black Sea, the Mediterranean, Gulf of Guinea and the Americas in 2018, causing DNK to mobilize its Crisis Management Team. The crises were related to cyber, activism, piracy and other threats.

- In 2018 premium and reinsurance rates were lower, but total reinsurance cost increased due to the introduction of a more comprehensive risk mitigation program. Both premium income and reinsurance costs were impacted by the successful launch of a new cover in 2018; Security Incident Response (SIR). Claims costs increased, in part due to piracy. Administrative expenses rose with the launch of the fully digitilized vessel tracking program. The premium adjustment for annual and additional premiums before year-end was USD 4.4 million (7.3).

- The return on DNK's investment portfolio was -1.3 % in USD (6.9 %).

- The war risk insurance market is characterised by high, but reducing, capacity. Reinsurance contracts were renewed for 2019 at satisfactory terms, thus enabling the Association to maintain its competitive rates.

- DNK's solvency capital at year-end 2018 was USD 946 million (956), consisting of USD 813 million as tier-1 capital (816), and USD 133 million (141) as tier-2 capital (mutual liability). The calculated tier-1 capital excludes deduction for deferred taxes to correspond with the additional capital requirement for 2018 (see note 16 for details).

- The solvency capital requirement (SCR) at year-end 2018 was USD 600 million (830). 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. In 2018 the additional charge was USD 480 million. The SCR, and the additional capital requirement, does not take tax into consideration.

- The Ministry of Finance confirmed the new tax legislation for insurance reserves. Approximately USD 170 million of deferred taxes, net of tax loss carry-forwards, will be payable in equal instalments over ten years. The tax law has required DNK to introduce certain risk mitigation measures, primarily through increased reinsurance, to maintain its current insurance products. The Ministry of Finance may introduce an amendment to the new tax law, with the objective of offering a tax-shield to insurers, such as DNK, with more volatile and unpredictable losses. An amendment is subject to approval by ESA.

FINANCIAL PERFORMANCE 2018

Gross premium income in 2018 amounted to USD 16.6 million (13.8) after a USD 4.4 million (7.3) premium adjustment to members, or no-claims bonus ("NCB").

Before such NCB, overall gross premiums increased 2 % in 2018. While annual premiums declined 3 %, additional premiums for calls in conditional trading areas increased 4 %. The number of transits through these areas rose 8 % versus 2017. Annual premiums represented 33 % of gross premium income in 2018 (37 %) before NCB.

Reinsurance costs increased USD 2.0 million. The increase is explained by a more comprehensive risk mitigation program and the introduction of cover for SIR (Security Incident Response). Premiums for own account, after NCB, amounted to USD 7.3 million in 2018 (6.3). Gross claims were USD 1.8 million while net claims amounted to USD 1.0 million (0.0). Most of the claims were associated with a hijacking in the Gulf of Guinea.

The operating result from DNK's insurance activities amounted to USD 1.5 million (2.1) after administration costs.

The operating loss from investment management, after administrative costs, was USD 17.2 million (+52.3). The investment portfolio generated a return of -1.3 % in 2018 (6.9 %). While equities posted a loss of 6.5 %, the bond portfolio returned 0.5 %. On average, equities made up 25.9 % (26.6 %) of the portfolio, with the balance allocated to domestic and global bonds.

Administrative cost increased USD 2.4 million to USD 11.0 million. The increase can primarily be attributed to an ongoing digitilization project to facilitate vessel tracking for loss-prevention purposes, and an increase in net worth tax.

DNK had an overall operating loss of USD 15.7 million in 2018 (+54.5). After a USD 8.7 million increase in deferred taxes, the total result for 2018 was a loss of USD 24.4 million (+54.6).

Cash flow from insurance activities was USD -1.1 million in 2018 (4.9). Premium income, reinsurance expenses and administrative costs were the main cash items. Cash flow from finance activities was USD -1.4 million (-5.1). Realised gains and losses from the sale of financial assets, reinvestments and administrative expenses constitute the major cash flow items in portfolio management. Net investment in fixed assets was USD 2.3 million (0.1). Net cash flow for the period was USD -4.8 million (-0.2). At the end of 2018 bank deposits amounted to USD 2.3 million (7.1).

The presentation of DNK's financial statements is based on continuing operations. The Board is not aware of any incidents after the balance sheet day that could affect the presented income statement and balance sheet for 2018.

NEW TAX LEGISLATION FROM 2018

In 2018 the Ministry of Financed introduced new tax legislation for insurance reserves. With DNK's opening balance sheet for 2018, the law implies a tax cost of USD 216 million payable over ten years in equal instalments. With available tax loss carry-forwards, taxes payable is reduced to USD 170 million. Insurance reserves are no longer itemized in the balance sheet, but instead allocated between equity and deferred tax. The new tax law confirmed that the deferred tax will be payable over a ten-year period. The effect of the new law will from 2019 be incorporated in the calculation of DNK's solvency capital and its solvency capital requirement (SCR). The solvency capital will be reduced in proportion to the outstanding deferred tax related to the reclassification of insurance reserves, and the SCR will be reduced by the so-called loss-absorbing capacity of deferred taxes.

The tax law has required DNK to introduce certain risk mitigation measures, primarily through increased reinsurance, to maintain its current insurance products.

The Ministry of Finance may present an amendment to the new law. DNK has, in conjunction with other marine insurers, communicated that the new tax law is unsuited for insurers with liabilities that have unsystematic risk characteristics, such as war risk insurance. Insurance reserves built up to cover these types of risks will in effect be taxed. The proposed tax laws will increase the cost of capital considerably for product lines with unsystematic risks versus those with systematic risks. The potential amendment aims to offer a partial tax-shield to insurers with more volatile and unpredictable losses, such as DNK. The technical aspects of an amendment are currently being discussed with ESA (EFTA's Surveillance Authority) to clear issues relating to potential illegal state aid. After a possible clearance from ESA, the amendment will be subject to a domestic public hearing. An amendment may be passed into law by year-end 2019 – if at all. In the meantime, DNK will be fully subject to the new tax law.

DNK will consider the constitutionality of the new tax law as it is viewed as a retroactive taxation of reserves built up over past decades.

INSURANCE ACTIVITIES

2018 represents the year DNK accelerated its digitization process, by bridging vessel movements and our insurance production process by use of sensor technology. By doing so, DNK will remove its members' workload associated with manual reporting of vessels trading in high risk areas and release the legal obligation of doing so. This will strengthen our members compliance work, introduce costs savings, and reduce operational inefficiency.

As a small organization, with a large portfolio of members and risks, DNK is continuously pursuing opportunities to rationalize and digitize its processes. This will reduce key personnel risk, secure transactions, and release capacity to continue assisting members with personal service. DNK's service commitment to its members is strong, and the Association is perceived as efficient and productive. During 2018, DNK maintained its competitive rates, and strong support to members. DNK introduced an additional component to its standard cover this year, Security Incident Response (SIR). SIR enables DNK to provide members with an external, inhouse, global security department offered by Control Risks. This cover provides response to a wide array of security challenges associated with operating a vessel in international trade. DNK has activated the support of Control Risks to its members several times during 2018, and the cover will deliver value also in the future.

The reinsurance renewal for the policy year 2018 resulted in small reductions over the various business segments, again making it possible to offer competitive annual premiums for members. The insurance result for the year is satisfactory and has allowed us to offer members a year-end premium adjustment.

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

SECURITY & CONTINGENCY PREPAREDNESS

The Loss Prevention and Loss Mitigation Concept in DNK

The Loss Prevention and Loss Mitigation capability in DNK is facilitated by the Intelligence & Operations Centre (IOC) and DNK's Crisis Management Team (CMT) when mobilized. The IOC builds the global Intelligence picture on both physical threats and cyber threats, 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 offers a 24/7 member support service through its Duty Officer function. The extended IOC (mobilized CMT) also supports members with crisis management when needed.

Threat-summary and DNK IOC response in 2018

Piracy is still posing the main threat towards shipping off the Niger Delta in the Gulf of Guinea. Also throughout 2018, the DNK IOC has defined the waters off Niger Delta as a HIGH threat area for Kidnap-for-Ransom (K/R) attacks. Compared to 2017, there has been a decrease of K/R attacks off Niger Delta in 2018.

In the Wider Gulf of Guinea there has been four hijackings of vessels with the purpose of Cargo theft, primarily of refined oil products. This kind of piracy reoccurred in 2018 after several years of silence. Some of these incidents started as a Cargo theft but ended up as a K/R operation.

There have been ten security incidents involving member vessels in the Gulf of Guinea in 2018, and one crisis involving a member vessel causing DNK to mobilize its Crisis Management Team.

In Somalia, root causes for piracy still exist with two failed attacks in 2018. A Product tanker was attacked 160 nm off Somalia on 22 February 2018. The vessel was fired on by pirates, but armed guards returned fire causing the pirates to abort the attack. The second attack occurred on 16 October 2018 on a Bulk Carrier 300 nm off Somalia. Pirates managed to get close enough to the vessel to attempt securing a boarding line while being under fire from armed guards onboard. The pirates eventually aborted their attempt. The number of reported attacks (including failed attacks) decreased from 2017. In addition, there is a political crisis in Somalia between the central government in Mogadishu and five regions in Somalia. Furthermore, the US have conducted a record number of air strikes against terrorists in Somalia, illustrating the dire security situation in the country.

There has been one security incident involving a member vessel in the Indian Ocean/Gulf of Aden/Arabian Sea in 2018.

Within the Yemen TTW and the South Red Sea area, the Houthi insurgents have continued to launch attacks towards the Saudi Coalition warships and their supply-vessels in 2018. The attacks in 2018 have to a large extent involved the use of Water-Borne Improvised Explosive Devices (WBIED) on remote-controlled speed boats (drone-boats).

How a larger UN presence in and around the port of al-Hudaydah agreed as part of the Stockholm agreement, will affect maritime security is to early to assess. DNK IOC expects however, the conflict in Yemen to continue also into 2019.

Neither Al-Qaeda in the Arabian Peninsula (AQAP) nor the so-called Islamic State elements in either Southern Yemen or Northern Somalia, have conducted any attacks on shipping South of Bab-el-Mandeb as we saw in 2017. The terror networks are however, still operating in the area. There has been no security incident involving member vessels in the Yemen Territorial waters and the South Red Sea area in 2018.

In South East Asia, the UN terror-listed Abu Sayyaf Group (ASG) posed the main threat towards shipping in the Sulu Sea in 2018. The threat has been downgraded compared to 2017 due to successful Malaysian, Indonesian and Philippine joint Counter-Terrorist operations. It is however too early to declare Islamic State East Asia (ISEA), including Abu Sayyaf Group (ASG), as beaten in the 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 2018. Both vessels at anchorage and vessels underway have experienced these attacks. The number of reported incidents has decreased compared to 2017.

There have been two security incidents involving member vessels in the Sulu Sea in 2018.

Photo: DNK

In Libya, there has been a decline in incidents where the Libya National Army (LNA) and the Coast Guard have seized or attacked vessels, compared to 2017. Only two vessels were detained in 2018, one for allegedly illegally entering Libyan TTW and the other for suspected smuggling. On-land insecurity continues although there has been some political progress to hold elections in 2019. In November 2018, a Cargo vessel rescued migrants off Libya while the vessel was en route to Misrata where the migrants refused to disembark. The stand-off lasted ten days before Libyan authorities, having categorised the incident as a hijack as the vessel was obstructed from conducting normal ship operations, stormed the vessel.

There has been one security incident involving a member vessel in the adjacent waters of the Middle East and North Africa in 2018.

In addition to the above mentioned, there has been one security incident related to activism in the Norwegian Sea, and one related to harassment in the Americas involving member vessels in 2018.

Furthermore, member vessels have been involved in one crisis related to cyber in the Black Sea, another related to activism in the Mediterranean, and finally one related to other threats in the Americas.

INVESTMENT MANAGEMENT

Financial markets in 2018

The equity markets overall delivered weak returns in 2018 – most notably in the fourth quarter. Monetary policy rates have tightened in the U.S., and quantitative easening in the EU has approached its end. Economic growth was stable, and earnings grew at a record pace – at least in the U.S. The current outlook indicates a slower growth in 2019, which is a concern in financial markets. Politics and policies affect financial markets, forward-looking earnings estimates, and growth prospects in emerging economies. Inflation is benign in many countries. The USD maintained its strength through 2018 and some raw material prices were surprisingly volatile.

Key market indices 2016-2018

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 21.7 % over the last three years, while medium term global bonds returned 5.2 %. Norwegian government bonds generated a return of 2.4 % in 2016-2018, while the U.S. dollar fell 2.3 % versus NOK in those three years.

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 bonds with an average maturity of 2 years and a minimum average rating of A-. Part of the portfolio may periodically deviate from the benchmark within set guidelines. The currency mix matches DNK's liabilities; 85 % USD and 15 % NOK.

Measured in USD, the portfolio return was -1.3 % in 2018 (6.9 %). Equities fell 6,5 % while bonds rose 0.5 %. DNK's portfolio return was 0.4 percentage points behind its benchmark. The benchmark consists of indices that mirror the asset allocation and market exposure in the investment strategy. It is used to monitor the risk and return characteristics of the portfolio.

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 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.

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 approved policies to further support corporate governance in DNK.

The governing bodies are the General Meeting, the Board of Directors and the Election Committee. The Board of Directors constitute both the Risk- and Audit Committee and the Remuneration Committee.

DNKs Articles state the objectives and membership conditions for DNK and outline the scope and conduct of an ordinary general meeting. Each member has voting rights 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 key responsibilities of the Board regarding 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 organization structure with clear areas of responsibility and authority, reporting lines, transmission of information, risk management and internal controls. The Board reviews DNKs capital structure on a regular basis.

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 outsourced to external providers.

RISK MANAGEMENT

Risk management and internal control are integrated into DNKs system of governance. The Board reviews at least annually DNK's risk strategies and policies which defines the risk profile and tolerance, key principles for risk taking and control and capital structuring. Managers at all levels are responsible for risk management and sound internal control within their respective area of responsibility. Key risks are identified, managed and reported throughout the organization up to the Board of Directors.

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. Except for liquidity risk, the loss potential for the risks are individually calculated, aggregated and aligned with available solvency capital. The Association is managed 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. The guidelines cover restrictions relating to interest rate risk, active 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.

Liquidity risk is accounted for in the investment strategy to meet the nature of DNK's obligations, in the event of major insurance losses. The degree of liquidity risk is tested by stress scenarios that assume the liquidation of DNK's investment portfolio and the call of additional premiums from members.

Other significant risks

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

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 and managed by emphasizing compliance with laws and regulations, product quality, financial performance, corporate governance, member service 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

The Association's solvency capital was USD 946 million at the end of 2018 (956), where tier 1 capital was USD 813 million (816) and tier 2 capital amounted to USD 133 million (141).
The solvency capital requirement was USD 600 million by year-end 2018 (830).

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

ADMINISTRATION

The Association had 16 employees at the end of 2018 (16).

Sick leave in 2018 totalled 49 days (84), which represented 1.4 % of overall working hours (2.3 %).

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 five men, while the administration consisted of seven women and eight men at year's end.

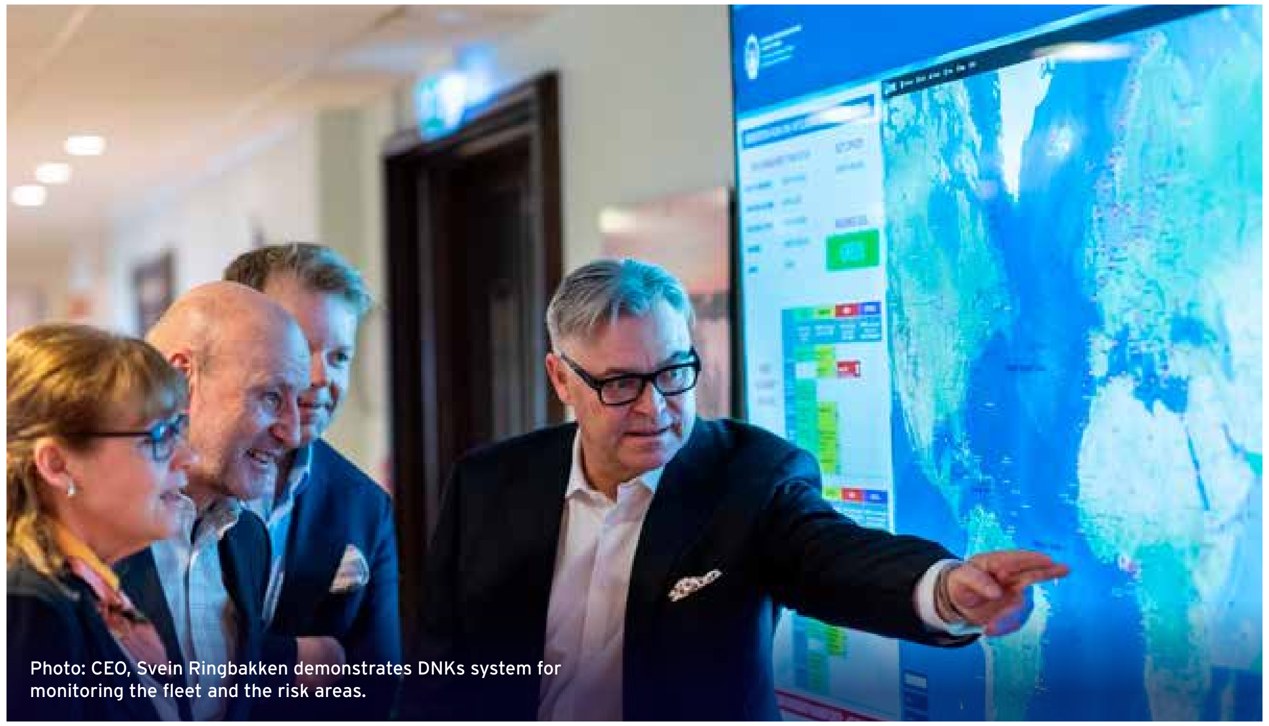


Photo: CEO, Svein Ringbakken demonstrates DNKs system for monitoring the fleet and the risk areas.

Photo: Odfjell Drilling

OUTLOOK

The two main factors affecting DNK's future earnings relate to 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: (i) Insured value, (ii) the number and size of conditional trading areas, (iii) overall market conditions including the price and availability of reinsurance, (iv) claims, and (v) investment returns.

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 2018, 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 stabilised after several years of steady decline. The gross value of insured tonnage has increased at a slow pace. Reinsurance costs are bottoming out after a prevailing softness. The reinsurance renewal for 2019 implies steady rates for DNK's members. Increased reinsurance coverage leads to a marginal increase in overall reinsurance costs. Over the past two years, DNK's risk mitigation program has increased and become more diversified. The solvency capital requirement is consequently lower. 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 its potential impact on marine war risks.

A major conflict could abruptly cause monumental losses to insured ships and movable offshore units. High capacity in the war risk insurance market have driven rates lower, but there are now early signs of a tightening trend.

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. Earnings momentum is weaker with prospects of lower economic growth in 2019 versus 2018.

DNK's solvency capital at the end of 2019 is expected to increase marginally versus 2018. Ancillary own-funds (member's mutual liability) will show a slight increase, and operating profits for 2019 are expected to be positive. This will be partially offset by the effects of the new tax law.

The Ministry of Finance has changed the tax regime for insurance reserves. The new law has a considerable negative effect on DNK's solvency capital even if it is phased in over a ten-year period. Potential alleviating amendments to the law are being considered for certain insurance companies, among them DNK, but any amendment depends on an approval process in ESA (EFTA's Surveillance Authority). DNK will continue to address any potential adverse effect through dialogue with relevant regulatory authorities.

Oslo, 26 March 2019
The Norwegian Shipowners' Mutual War Risks Insurance Association

Jan Pedersen (Chairman)

Mons Aase (Vice-Chairman)

Vanessa Chapman

Eli Vassenden

Synnøve Seglem

Eric Jacobs

Chistopher Walker

Ivar Myklebust

Svein Ringbakken (Managing Director)

Photo: Istock

FINANCIAL STATEMENTS
(IN USD)

INCOME STATEMENT

Amounts in USD 1000	Note	2018	2017
TECHNICAL ACCOUNT			
Gross earned premiums		16 637	13 798
Ceded reinsurance on gross earned premiums		(9 355)	(7 478)
Premiums for own account		**7 282**	**6 320**
Gross claims expenses	8	(1 757)	104
Reinsurers' share of gross claim expenses	8	806	(119)
Claims for own account		**(951)**	**(15)**
Insurance related administrative expenses	2, 3, 4, 5, 10	**(4 845)**	**(4 182)**
OPERATING RESULT OF TECHNICAL ACCOUNT		**1 485**	**2 124**
NON-TECHNICAL ACCOUNT			
Interest and dividend from financial assets	9	10 035	9 359
Change in fair value of financial assets	9	(28 261)	33 453
Realised gains from financial assets	9	7 217	13 956
Administrative expenses related to financial assets	2, 3, 4, 5, 9, 10	(6 182)	(4 428)
Total net income from financial assets		**(17 191)**	**52 339**
OPERATING RESULT OF NON-TECHNICAL ACCOUNT		**(17 191)**	**52 339**
PRE-TAX RESULT		**(15 706)**	**54 463**
Tax expenses	6	**(8 704)**	**4 578**
PROFIT FOR THE YEAR		**(24 410)**	**59 041**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(24 410)**	**59 041**
TOTAL RESULT		**(24 410)**	**59 041**

BALANCE SHEET

Amounts in USD 1000	Note	2018	2017
ASSETS			
Owner occupied properties	5	212	212
Bank deposits investment portfolio	11	16 432	13 997
Shares and other equity investments	11, 12, 14	209 921	225 057
Bonds and other fixed income securities	11, 12, 13, 14	645 262	640 610
Financial derivatives	14, 15	2 246	2 364
Total investments		**874 073**	**882 240**
Reinsurers' share of gross claims provisions	8	**1 472**	**592**
Insurance related receivables		1 364	1 317
Reinsurers receivables		1 625	0
Other receivables		208	353
Total receivables		**3 197**	**1 669**
Equipment and fixtures	5	3 246	1 320
Cash and bank deposits	7	2 328	7 144
Other assets		7	151
Total other assets		**5 581**	**8 615**
Total prepaid expenses and accrued income		**353**	**327**
TOTAL ASSETS		**884 675**	**893 443**
EQUITY & LIABILITIES			
Total equity		**685 362**	**701 030**
Provision for unearned gross premiums		0	0
Gross claims provisions	8	2 861	2 061
Total insurance reserves		**2 861**	**2 061**
Pension liability provisions	4	497	481
Taxes payable	6	0	0
Deferred tax liability	6	172 010	172 477
Other provisions		1 222	31
Total provisions		**173 729**	**172 989**
Insurance related liabilities		2 748	0
Reinsurance liabilities		671	705
Financial derivatives	14, 15	4 041	3 639
Other liabilities		13 808	7 267
Total liabilities		**21 269**	**11 611**
Other accrued expenses and prepaid income		**1 455**	**5 753**
TOTAL EQUITY AND LIABILITIES		**884 675**	**893 443**

Oslo, 26 mars 2019
The Norwegian Shipowners' Mutual War Risks Insurance Association

Jan Pedersen (Chairman)	Mons Aase (Vice-Chairman)	Vanessa Chapman
Eli Vassenden	Synnøve Seglem	Eric Jacobs
Chistopher Walker	Ivar Myklebust	Svein Ringbakken (Managing Director)

Photo: DNK

STATEMENT OF CHANGES IN EQUITY

Amounts in USD 1000	2018	2017
OTHER EQUITY		
Other equity 01.01.	701 030	650 473
Total result	(24 410)	59 041
Translation effects	8 742	(8 484)
Other equity 31.12.	**685 362**	**701 030**

CASH FLOW STATEMENT

Amounts in USD 1000	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	14 890	16 137
Cash paid to re-insurers	(11 014)	(7 578)
Net cash flows related to claims expenses	(1 031)	235
Paid insurance related administrative expenses	(4 581)	(3 865)
Net cash flows from the technical account	**(1 736)**	**4 929**
Net cash flows from interest, dividends and realised gains/losses on financial assets	17 386	22 596
Net cash flows from acquisition/disposal of financial assets	(13 478)	23 562
Paid administrative expenses related to financial assets	(4 727)	(4 111)
Net cash flows from the non-technical account	**(819)**	**(5 077)**
Net cash flows from operating activities	**(2 554)**	**(148)**
CASH FLOWS FROM NON-OPERATING ACTIVITIES		
Net cash flows from acquisition/disposal of fixtures and fixed assets	(2 262)	(64)
Net cash flows from non-operating activities	**(2 262)**	**(64)**
Net cash flows in the period	**(4 816)**	**(212)**
Cash and bank 01.01.	7 144	7 356
Net changes in cash and bank	(4 816)	(212)
Cash and bank 31.12.	**2 328**	**7 144**

Photo: Knutsen NYK Offshore Tankers

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 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.


Photo: Sailing pattern DNK fleet 2018

NOTE 2 PAYROLL COSTS, NUMBER OF EMPLOYEES AND OTHER BENEFITS

On average there were 16 people employed by the Association in 2018. The following amounts are expensed as salary, fees and other benefits, and the following loans were outstanding:

2018

Amounts in USD 1000	Salary/ fees	Bonus	Pension costs	Other benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	483	117	163	44	**807**	0
Sverre Huse, Finance Director	395	90	112	34	**631**	0
Anders Hovelsrud, Insurance Director	191	9	17	4	**222**	0
Helena Brudvik, Head of Risk Management & Compliance	200	28	15	4	**248**	0
Freddy Furulund, Director of Security & Contingency	213	18	21	4	**256**	0
BOARD OF DIRECTORS						
Jan Pedersen, Chairman	22	0	0	0	**23**	0
Olav Eikrem, Vice Chairman	15	0	0	0	**15**	0
Mons Aase, Board member	14	0	0	0	**14**	0
Vanessa Chapman, Board member	14	0	0	0	**14**	0
Eli Karin Vassenden, Board member	14	0	0	0	**14**	0
Synnøve Seglem, Board member	14	0	0	0	**14**	0
Eric Jacobs, Board member	14	0	0	0	**14**	0

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, Director 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

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

Holiday-pay accrued in 2017 is included under salary for 2018. 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 79 200, tax related services of USD 48 090 and other audit related services of USD 3 830. 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 2018 was USD 291 459.

NOTE 5 FIXED ASSETS

Amounts in USD 1000		Machinery/ Fixtures and vehicles	Works of art (paintings)	Real estate
Acquisition cost as at 01.01		1 762	145	212
+ Additions during year		2 263	0	0
- Disposals during year		(32)	0	0
+ Exchange rate effects		(1)	0	0
Acquisition cost as at 31.12	**A**	**3 992**	**145**	**212**
Accumulated ord. depr. as at 01.01		586	0	0
+ Ordinary depreciation		336	0	0
- Disposals at acquisition cost		(32)	0	0
+ Exchange rate effects		0	0	0
Accumulated ord. depr. as at 31.12	**B**	**890**	**0**	**0**
Book value as at 31.12	**A-B**	**3 101**	**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

USD is DNK's functional currency. Taxes are, by law, calculated in NOK and then restated in USD. Hence, the pre-tax result in this note does not correspond to the pre-tax result in the income statement. In NOK the pre-tax result was NOK 271 million.

As required by a new tax law passed in 2018, insurance reserves built up over prior years are fully taxable. Insurance reserves are to be taxed over ten years in equal installments. For 2018, the basis for tax (included in the note below under insurance reserves) was USDm 81. Due to tax-loss carry-forwards, no such tax is payable in 2018. The Ministry of Finance is considering an amendment to the tax law for certain types of insurers, amongst them DNK.

This requires notification with the ESA. If approved, a formal hearing process will be required in Norway. The taxation of insurance reserves built up over several decades raises in DNK's view legal issues relating to passing of law with retroactive effect.

Amounts in USD 1000	2018	2017
OVERVIEW OF TEMPORARY DIFFERENCES INCLUDED IN THE BASIS FOR DEFERRED TAX		
Fixed assets	(250)	(85)
Pension obligations	42	(21)
Insurance reserves	80 936	(15 300)
Gross claims provisions	819	0
Tax-exempt investments	(12 502)	31 960
Changes in temporary differences not in the basis for deferred tax (tax asset)	(80)	0
Net temporary differences	**68 965**	**16 554**
Tax loss carryforward	(70 056)	(183 597)
Basis for deferred tax (tax asset) on balance sheet	688 041	689 910
Deferred tax (tax asset)	172 010	172 477
Deferred tax benefit not shown on balance sheet	0	0
Deferred tax (tax asset) on balance sheet	**172 010**	**172 477**
BASIS FOR DEFERRED TAX (TAX ASSET), CHANGE IN DEFERRED TAX AND TAX PAYABLE		
Pre-tax result (in NOK accounts)	31 329	10 753
Changes in temporary differences not in the basis for deferred tax (tax asset)	80	0
Permanent differences	3 405	(29 064)
Basis for the year's tax expense	**34 814**	**(18 311)**
Change in temporary differences included in the basis for deferred tax (tax asset)	68 965	16 554
Change in tax loss carryforward	(103 779)	1 758
Taxable income (basis for taxes payable on balance sheet)	**0**	**0**
OVERVIEW OF TAXES PAYABLE		
Payable tax (deficit)	0	0
Adjustment to historic tax	0	0
Total tax payable	0	0
Change in deferred tax (tax Asset)	8 704	(4 578)
Change in deferred tax due to changes in tax rates	0	0
Tax expenses (tax asset)	**8 704**	**(4 578)**

RECONCILIATION OF THE YEAR'S TAX EXPENSE		
Pre-tax result (in NOK accounts)	31 329	10 753
Tax on accounting result before tax 25%	7 832	2 688
Tax expenses in the income statement	8 704	(4 578)
Difference	**871**	**(7 266)**

OVERVIEW OF DIFFERENCE		
25% av permanent differences	851	(7 266)
Change in deferred tax due to changes in tax rates	0	0
Other differences not in the basis for deferred tax	20	0
Total differences	871	(7 266)

Tax loss carryforward in 2018 is estimated at USD 70 million (184).

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 183,990 of unpaid tax withholdings as at 31.12.18.

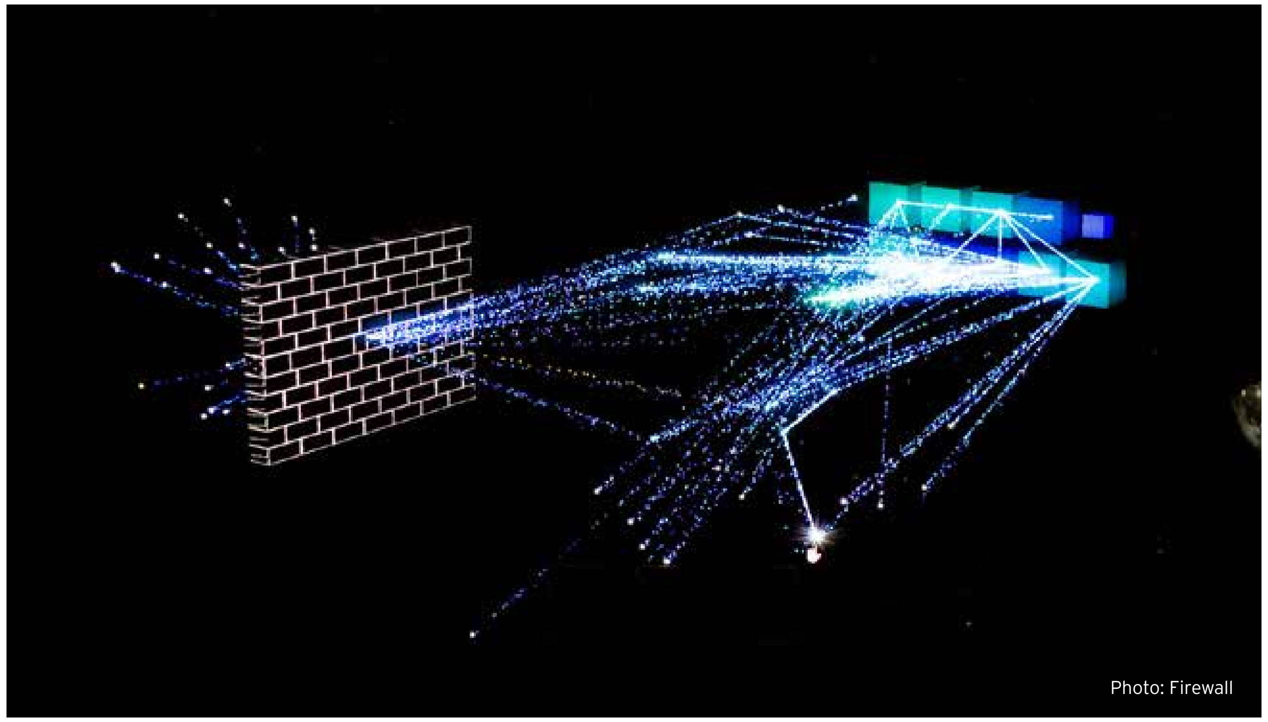


Photo: Firewall

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	2018	2017
PROFIT & LOSS		
Gross paid claims	(957)	(54)
- Deducted claims provisions	0	45
Expensed gross claims	**(957)**	**(9)**
New gross claims provisions	(800)	113
Exchange rate effects	0	0
Gross expensed claims, total	**(1 757)**	**104**
Reinsurers' share of gross paid claims	(74)	289
- Deducted reinsurers' share of claims provisions	0	(317)
Expensed reinsurers' share of gross claims provisions	**(74)**	**(27)**
Change in reinsurers' share of gross claims provisions	880	(91)
Exchange rate effects	0	0
Reinsurers' share of expensed gross claims	**806**	**(119)**
Claims for own account	**(951)**	**(15)**

BALANCE SHEET		
Gross claims provisions 01.01	2 061	2 219
- Paid claims deducted from claims provisions	0	(45)
New claims provisions	800	(113)
Change in gross claims provisions	**800**	**(158)**
Exchange rate effects	0	0
Gross claims provisions 31.12	**2 861**	**2 061**
Reinsurers' share of gross claims provisions 01.01	592	1 000
- Deducted reinsurers' share from gross claims provisions	0	(317)
Change in reinsurers' share of gross claims provisions	880	(91)
Change in gross claims provisions	**880**	**(408)**
Exchange rate effects	0	0
Reinsurers' share of gross claims provisions 31.12	**1 472**	**592**
Claims provision for own account 31.12	**1 390**	**1 469**

NOTE 9 ITEMS THAT HAVE BEEN COMBINED IN THE ACCOUNTS

Amounts in USD 1000	2018	2017
Interest income from bank deposits	70	(16)
Interest income from domestic loans	0	0
Interest income on bonds	9 462	9 365
Dividends on equities	503	10
Interest and dividend from financial assets	**10 035**	**9 359**
Unrealised gains/losses on financial current assets	**(28 261)**	**33 453**
Exchange rate gains	2 294	1 557
Exchange rate losses	(2 428)	(838)
Realised gains/losses on equities	0	27 672
Realised gains/losses on bonds	(5 551)	(1 445)
Realised gains/losses on derivatives	12 902	(12 990)
Realised gains from financial assets	**7 217**	**13 956**
Administrative expenses associated with financial assets	**(4 965)**	**(4 428)**
Total income/loss from financial assets	**(15 974)**	**52 339**

NOTE 10 ADMINISTRATIVE EXPENSES

Amounts in USD 1000	Insurance 2018	Finance 2018	Total 2018	Total 2017
Salary and holiday pay, employees	1 601	1 601	3 203	2 851
Social security taxes	345	345	691	619
Pension cost	148	148	296	294
Other personell costs	110	81	191	194
Fees	419	419	839	648
Rental costs, office and machinery	210	210	420	405
Ordinary depreciation	168	168	336	174
Other administrative expenses	1 842	3 208	5 051	3 425
Total administrative expenses	**4 845**	**6 182**	**11 027**	**8 610**

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 2018 were split 50/50.

NOTE 11 FINANCIAL ASSETS – FAIR VALUE HIERARCHY

Amounts in USD 1000	2018	2017
Equities	209 921	225 057
Bonds and fixed income securities	645 262	640 610
Financial derivatives, assets - liabilities	-1 795	-1 275
Loans and accounts receivable	16 432	14 148
Total financial assets*	**869 820**	**878 541**

2018 - Financial assets measured at fair value over the income statement

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Equities	209 921	0	0	209 921
Bonds	453 274	191 988	0	645 262
Financial derivatives, net	0	-1 795	0	-1 795
Total	**663 196**	**190 193**	**0**	**853 388**
Distribution	77.7 %	22.3 %	0.0 %	100.0 %

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 %

* Total fair value equals market 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 INVESTMENT PORTFOLIO IN EQUITIES AND MUTUAL FUNDS

2018 - Investment portfolio in equities and mutual funds

Amounts in USD 1000	Value at cost	Fair value	Distribution
Mercer Passive Global Equity	107 531	101 532	48.4 %
State Street index world index	86 616	102 137	48.7 %
Equity index funds	**194 147**	**203 668**	**97.0 %**
Nordea Stable Equities, Global	4 999	6 253	3.0 %
Other equity funds	**4 999**	**6 253**	**3.0 %**
Total equities	**199 146**	**209 921**	**100.0 %**

2017 - Investment portfolio in equities and mutual funds

Amounts in USD 1000	Value at cost	Fair value	Distribution
Mercer Passive Global Equity	107 387	108 695	48.3 %
State Street index world index	86 616	109 770	48.8 %
Equity index funds	**194 003**	**218 465**	**97.1 %**
Nordea Stable Equities, Global	4 999	6 592	2.9 %
Other equity funds	**4 999**	**6 592**	**2.9 %**
Total equities	**199 003**	**225 057**	**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 2.1 (2.2) at the end of 2018.

	2018	2017
Amounts in USD 1000	Market value	Market value
Bonds and other fixed income securities	642 123	637 206
Accrued interest income	3 139	3 404
Settlement, broker	-12 973	-6 625
Loans and accounts receivable	16 432	13 997
Fixed income derivatives	-1 795	-1 275
Fixed income portfolio	**646 925**	**646 707**

Amounts in USD 1000	Value at cost	Market value	Value at cost	Market value
DISCREATIONARY MANDATES				
Norwegian bonds	129 108	123 399	128 576	128 639
Global bonds, USD hedged	457 111	453 160	438 337	445 785
BOND FUNDS				
Forte	7 862	7 540	7 538	7 790
Mercer ARFI	30 045	31 239	30 010	34 268
Pimco	25 240	31 588	27 542	30 225

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.

2018

Amounts in USD 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, NOK	19 %	AA-	3.2	2.0 %	-3 834
Bonds, global, USD hedged	70 %	AA-	1.7	1.6 %	-7 749
Bond funds	11 %	A+	2.8	3.3 %	-1 884
Total fixed income	**100 %**	**AA-**	**2.1**	**1.9 %**	**-13 467**

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**

The currency split in the bond portfolio is shown in the table below.

	2018	2017
NOK	15 %	16 %
USD	85 %	84 %
Other	0 %	0 %

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.

2018 - Rating

Amounts in USD 1000	NOK	Global	Funds	Total	Distribution
AAA	27 444	191 950	28 196	247 590	38.3 %
AA	37 760	64 683	7 875	110 317	17.1 %
A	32 991	132 132	13 381	178 504	27.6 %
BBB	24 358	58 813	8 679	91 850	14.2 %
BB	0	4 754	3068	7 822	1.2 %
B	0	0	1 565	1 565	0.2 %
CCC, lower	0	0	1 104	1 104	0.2 %
No rating	847	828	6 498	8 172	1.3 %
Total	**123 399**	**453 160**	**70 367**	**646 926**	**100 %**

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 %**

Government, government guaranteed, and municipal bonds, amount to 58 % (59 %) 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 2018 including details on sub-risks is estimated at USD 600 million (830).

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 the stress test.

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 33 % 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 2018, the relative volatility was 0.4 %, which indicates that the portfolio's overall risk profile is fairly close to its benchmark.

At year-end 2018, the portfolio's risk profile was as indicated in the table below.

Amounts in USD million	2018 Portfolio	2017 Portfolio
Market risk	117.8	140.6
Equity	69.4	93.4
Spread	42.0	41.8
Currency	30.3	32.6
Interest	13.5	14.6
Concentration	12.8	5.5
Property risk	0.1	0.1
Diversification	-50.3	-47.3
Value-at-risk	76.0	75.2
Volatility	3.4 %	3.4 %
Relative volatility	0.4 %	0.5 %

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. The table below shows these risk measures at the end of the past two years. The lower stress test amount in 2018 is explained by two factors. First, the stress factor for equities decreased to 33 % (41 %). Second, average assets under management decreased by around USD 15 million in 2018. Changes in VaR and Relative volatility has been marginal.

Risk measures	2018	2017
Stress test, USD million	-117.8*	-140.6
Value at Risk (VaR), USD million	-76.0	-75.2
Relative volatility	0.4%	0.5%

**Estimate*

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 2018 and 2017.

Amounts in USD 1000	2018	2017
FINANCIAL DERIVATIVES		
+ Assets	2 246	2 364
- Liabilities	-4 041	-3 639
Net financial derivatives	**-1 795**	**-1 275**
Interest rate risk; futures	8	-85
Currency hedging, bonds, forwards	-1 802	-1 190
Net financial derivatives	**-1 795**	**-1 275**

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 subject to the requirements under Solvency II and the new tax regime for insurance reserves that was introduced in 2018. General insurance reserves are no longer itemized on the balance sheet but rather reclassified as equity and deferred tax. The deferred tax, excluding tax loss carry-forwards, was USD 172 million at the end of 2018, which is payable in equal installments over ten years.

DNK's solvency capital requirement (SCR) combines the capital requirement given by the standard model and the additional capital requirement set by the FSAN (Financial Regulatory Authority of Norway). The additional capital requirement covers insurance risks that cannot be captured by the standard model, not by any meaningful statistical models. This is not surprising given the unsystematic risks inherent in covering war, piracy and terrorism at sea. The additional capital requirement is set for one calendar year and changes with amendments to DNK's insurance and reinsurance program. The additional capital requirement for 2018, set at USD 480 million, was determined before the passing of the new tax law. The stated solvency capital and solvency capital requirement is currently stated before the effects of the current tax law.

The Solvency Capital Requirement at year-end 2018:

Solvency Capital Requirement (SCR)	599 713
Minimum Capital Requirement (MCR)	149 928

The Solvency Capital at year-end 2018:

Basic own funds, Tier 1	813 079
Ancillary own funds, Tier 2	133 009
Total eligible own funds to meet the SCR	946 088

DNK's solvency capital margin at year-end 2018, before tax, was thus USD 346 million corresponding to an SCR-ratio of 158 %.

DNK's recommended additional capital requirement for 2019 takes into effect the tax implications of the new law and implemented risk mitigations in the new year. The application is currently being reviewed by the FSAN. In short, the additional capital requirement is cut by USDm 194 million to USD 286 million, of which USD 95 million is explained by the loss-absorbing capacity of deferred tax, and the remaining is caused by lower insurance risk. Tier 1 capital at 1.1.2019 is reduced by USD 150 million versus year-end 2019 due to deferred tax, while tier 2 capital is increased marginally by USD 4 million. The solvency capital requirement (SCR) is reduced by USD 224 million both due to risk mitigation effects and the loss-absorbing capacity of deferred taxes.eferred taxes.

Stated as per 1.1.2019 DNK's solvency capital requirement and its solvency capital is provided below.

The Solvency Capital Requirement 1.1.2019:

Solvency Capital Requirement (SCR)	376 067
Minimum Capital Requirement (MCR)	94 017

The Solvency Capital 1.1.2019:

Basic own funds, Tier 1	662 866
Ancillary own funds, Tier 2	136 843
Total eligible own funds to meet the SCR	799 709

DNK's solvency capital margin at 1.1.2019 with the effect of the new tax law, and risk mitigation initiatives for 2019, was USD 424 million corresponding to an SCR-ratio of 213 %.

AUDITOR'S REPORT - USD

pwc

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, which comprise the balance sheet as at 31 December 2018, the income statement, statemtent of changes in equity and cash flow statement 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 2018, 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 information in the annual report, except 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.

Auditors Report - Den Norske Krigsforsikring for Skib Gjensidig forening

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

Auditors Report - Den Norske Krigsforsikring for Skib Gjensidig forening

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 and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

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

Oslo, 26 March 2019
PricewaterhouseCoopers AS

Magne Sem
State Authorised Public Accountant

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