ANNUAL REPORT 2019

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

Suriyapong Thongsaway/Getty Images

CONTENTS

84TH FINANCIAL YEAR

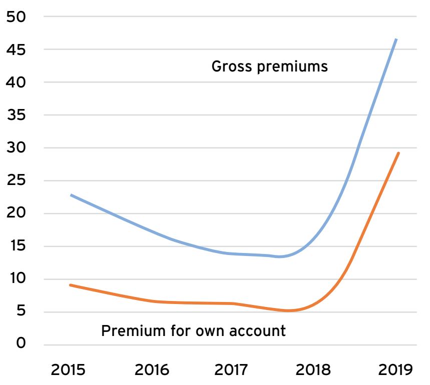
The annual report of The Norwegian Shipowners' Mutual War Risks Insurance Association ("the Association" or "DNK") is presented in English, with audited financial statements in USD.

Photo/Front page: Andrew Aitchison/Getty Images

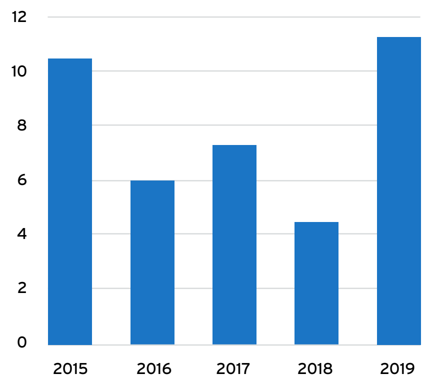
KEY FIGURES

Amounts in USD million

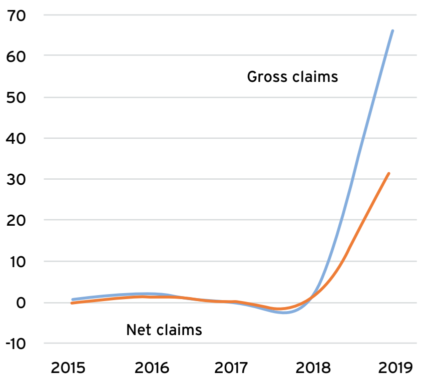
Gross/net premiums



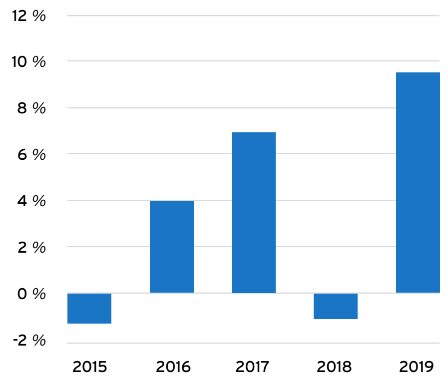
Premium adjustment (NCB)



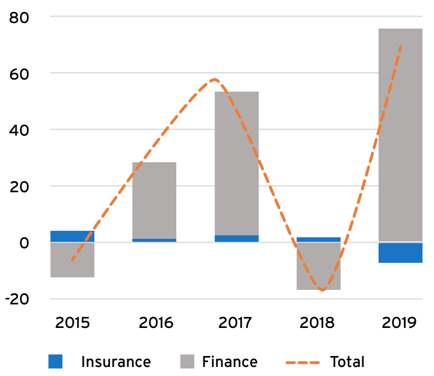
Gross/net claims



Investment returns



Operating result



Insurance reserves (Equity and deferred tax from 2015)

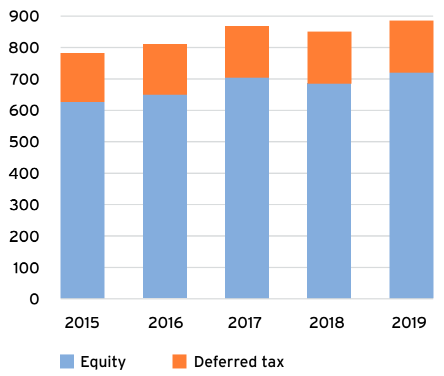


Photo: Sabine/imageBroker/NTB

GOVERNING BODIES

THE BOARD OF DIRECTORS

Mons Aase
Chair

DOF ASA

Eric Jacobs

Awilco AS

Synnøve Seglem
Vice-Chair

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Christopher Walker

Frontline Management AS

Vanessa Chapman

Odfjell Drilling AS

Ivar Myklebust

Höegh Autoliners AS

Eli Vassenden

Grieg Star AS

Harald Fotland

Odfjell Tankers AS

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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: Hamad I. Mohammed/Reuters/NTB

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.

After several years of cautioning that the geopolitical tensions could translate into increased threat against the maritime industry, the Association noted with regret that two tankers entered in DNK were attacked in the Fujiairah anchorage and the Hormuz Strait on May 12th and June 13th respectively. These and other attacks and threats put a considerable strain on the maritime industry operating in the area including DNK members. This level of violent attacks against ships had not been seen in any area since the Tanker War in the 1980's. Threats and interventions directed against ships in the area continued throughout the remainder of the year. It is expected that the geopolitical tension will continue to affect the maritime industry including marine war risks insurance in the foreseeable future. Piracy incidents and kidnapping of crews continued in the wider Gulf of Guinea and the crew of one DNK member ship was kidnapped outside Benin, but fortunately safely released after about a month in captivity.

Concerns about cyber-attacks, risk mitigation and availability of insurance capacity dominated discussions and increased in prominence throughout the year. With the increased digitalization of the maritime industry and rising sophistication and determination of the threat actors this trend is expected to escalate.

HIGHLIGHTS 2019

- At year-end 2019 DNK insured 3,447 ships and movable offshore units (versus 3,430 in the previous year), with an aggregate insured value of USD 222 billion (222). An additional 23 newbuildings were covered (8).

- There were 63 (18) incidents involving member vessels in 2019. The incidents were related to state actor activities, piracy, terrorism, activism and other threats.

- There were 3 (1) major crises involving member vessels in 2019, causing DNK to mobilize its Crisis Management Team. The crises were related to piracy and state actor attacks.

- In 2019 annual premium and reinsurance rates were unchanged. There was a considerable increase in gross premiums due to losses and heightened risks in the Persian Gulf. The premium adjustment for annual and additional premiums before year-end was USD 11.3 million (4.4).

- The return on DNK's investment portfolio was 9.5 % in USD (-1.3 %).

- The war risk insurance market is characterised by diminishingly high capacity. Reinsurance contracts were renewed for 2020 at satisfactory terms, thus enabling the Association to maintain its competitive rates.

- DNK's solvency capital at year-end 2019 was USD 832 million (946), consisting of USD 695 million as tier-1 capital (813), and USD 137 million (133) as tier-2 capital (mutual liability). Tier-1 capital in 2018 excluded deduction for deferred taxes to correspond with the calculation of the additional capital requirement for that year (see note 16 for details).

- The solvency capital requirement (SCR) at year-end 2019 was USD 412 million (600). 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. For 2019 the additional charge was USD 286 million (480). The SCR, and the additional capital requirement, for 2018 did not take tax into consideration.

- The Board proposes a dividend of USD 30 million for 2019, which is 49 % of net profit in 2019.

- The Ministry of Finance introduced in 2018 a 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 revise the new tax law, with the objective of offering a tax-shield to mutual insurers, such as DNK. Such an amendment is subject to ESA approval.

EVENTS AFTER THE REPORTING PERIOD

The Covid-19 virus has triggered a major sell-off in the financial markets, and DNK's investment portfolio lost around 7 % in the first quarter of 2020. The oil price fell dramatically, and the Norwegian currency weakened markedly versus USD.

To mitigate risk of contagion, DNK's employees are working from home. The technological infrastructure makes it possible to maintain close to normal business activity from multiple locations. The coronavirus is not expected to influence expected claims, but market conditions might tighten going forward. DNK is well capitalized to handle and sustain the negative fallout from the Covid-19 virus. The increased level of operational risk is managed through the employment of technology and preventive measures to mitigate contagion. Business continues – so far - largely as normal.

DNK is expecting a claim, originating in 2019, to be settled by arbitration, sometime in 2020. The claim relates to a situation DNK considers to be outside the realm of its war risk cover.

DNK is in a good financial position to navigate the stressing circumstances under Covid-19.

FINANCIAL PERFORMANCE 2019

Gross premium income in 2019 amounted to USD 46.7 million (16.6) after a USD 11.3 million (4.4) premium adjustment to members, or no-claims bonus ("NCB"). Before such NCB, overall gross premiums increased 176 % in 2019. While annual premiums increased 1 % before NCB, additional premiums for calls in conditional trading areas increased 263 %. The number of transits through these areas rose considerably as the Persian Gulf became subject to additional premiums in the second half of 2019. Annual premiums represented 12 % of gross premium income in 2019 (33 %) before deduction for NCB.

Reinsurance costs increased USD 8,2 million. The increase is explained by a more comprehensive risk mitigation program and the consequences of higher premiums through 2019. Premiums for own account, after NCB, amounted to USD 29.2 million in 2019 (7.3). Gross claims were USD 66.2 million (1.8) while net claims amounted to USD 31.7 million (1.0). Claims were associated with four incidents, of which two were in the Persian Gulf.

The operating result from DNK's insurance activities amounted to a loss of USD 7.9 million after administration costs, versus a gain in 2018 of USD 1.5 million.

The operating profit from investment management, after administrative costs, was USD 75.0 million (-17.2). The investment portfolio generated a return of 9.5 % in 2019 (-1.3 %). While equities posted a gain of 28.4 %, the bond portfolio returned 3.9 %. On average, equities made up 25.0 % (25.9 %) of the portfolio, with the balance allocated to domestic and global bonds.

DNK's administrative cost increased USD 0.8 million to USD 11.8 million. The increase is primarily attributed to an ongoing digitalization project to facilitate vessel tracking for loss-prevention purposes.

DNK had an overall operating profit of USD 67.0 million in 2019 (-15.7). After USD 5.9 million in taxes, the total result for 2019 was a gain of USD 61.1 million (-24.4).

DNK's Board proposes a dividend for 2019 of USD 30 million, which corresponds to a payout ratio of 49 %. This will, subject to approval by the General Assembly, be the first time DNK makes a dividend payment. Distribution of surplus for the financial year is regulated by § 3-3 in the Articles of Association. The dividend is proposed on the background of the financial result in 2019. After three years of instigating changes to reduce DNK's retention, such dividend payment is viable in spite of the recent and dramatic macroeconomic slowdown caused by the Covid-19 virus.

Cash flow from insurance activities was USD 5.9 million in 2019 (-1.7). Premium income, reinsurance expenses and administrative costs were the main cash items. Cash flow from finance activities was USD 0.5 million (-0.8). Realised gains and losses from the sale of financial assets, reinvestments and administrative expenses constitute the major cash flow items in portfolio management. Net cash flow from investment in fixed assets was USD -0.3 million (-2.3). Net cash flow for the period was USD 6.1 million (-4.8). At the end of 2019 bank deposits amounted to USD 8.5 million (2.3).

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, other than the uncertainty relating to the outcome of an anticipated arbitration relating to a claim, that could affect the presented income statement and balance sheet for 2019.

NEW TAX LEGISLATION

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 were from 2017 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 has from 2019 been 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 risk characteristics. The latter risk type is also easily subject to statistical modelling. 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 in 2020 – if at all. In the meantime, DNK will be fully subject to the new tax law.

DNK has challenged the constitutionality of the new tax law as it retrospectively taxes reserves built up over past decades.

INSURANCE ACTIVITIES

In 2019, DNK increased its digital footprint in the maritime domain significantly. By year-end, more than half of the insured units had installed a Raptor tracking device, creating a secure digital bridge between the vessel, its owner and our operational capabilities in a secure way. This has improved compliance levels, automated transactions, and improved efficiency. Further, the network of tracking devices has spawned opportunities within digitalization for all involved.

The year will be remembered for the events in the Arabian/Persian Gulf. The insurance department of DNK participated in the emergency response phase of several occurrences and managed the subsequent changes in rates and high-risk areas. In addition, the events attracted a lot of attention, and request for information, from both members and reinsurers. Even though the year has been intense in the claim dimension, DNK is relieved that no lives were lost in the various events. Further, none of the events DNK was exposed to, caused any environmental damage.

DNK's wide limits and cover structure has proven to be adequate and appreciated by the members. The insurance program is a valuable strategic resource, and DNK will continue to look for opportunities to expand cover and maintain the existing advantageous program. With increased focus on cyber risks, DNK is proud to offer the widest cover in the market. Together with the Intelligence and Operations Centre (IOC), DNK will continue its efforts to manage this risk. The Security Incident Response (SIR) cover has been widely used and has provided DNK's members with advice in challenging security situation outside the traditional scope of DNK's war cover.

In 2019, the annual premium levelled with previous years, but the additional premium in certain areas increased significantly due to geopolitical risks and deteriorating security. The reintroduction of additional premium (AP) in the Arabian/Persian Gulf has affected tanker tonnage, and other vessel types, trading there on a regular basis. DNK has followed the market developments in general. A no-claim bonus structure was established to mitigate the costs implied by higher AP's. DNK's members were consequently able to maintain their competitive advantage through volatile market 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 support service for members through its Duty Officer function. The extended IOC (mobilized CMT) also supports members with crisis management when needed.

Threat-summary 2019

Piracy is still posing the main threat towards shipping off the Niger Delta in the Gulf of Guinea. Also, throughout 2019, the DNK IOC has defined the waters off Niger Delta as a HIGH threat area for Kidnap-for-Ransom (K/R) attacks. Niger Delta based pirates have also increased their capabilities and are now to a greater extent operating further out into the wider Gulf of Guinea to conduct K/R attacks.

Shipping became exposed to a sudden and increased threat in the Arabian-/Persian Gulf, Strait of Hormuz and the Gulf of Oman, when Iran attacked six merchant vessels outside their territorial waters (TTW) in May and June 2019. DNK IOC then defined these waters as a HIGH threat area for attacks for the remaining part of 2019. In addition, merchant vessels have been exposed to cyber-attacks, been detained, harassed and aggressively approached by the Islamic Revolutionary Guard Corps Navy (IRGCN) throughout the year.

Within the Yemen TTW and the South Red Sea area, the Houthi Insurgents have not attacked shipping in 2019. The Houthi Insurgents are however, still in possession of capabilities to attack merchant vessels but has currently no apparent intentions to do so, possibly due to the prospect of reaching a political agreement in the war-torn country. On the other hand, the Houthi Insurgents still represent a proxy force for Iran, through their IRGC – Quds Forces, and a spill-over from the US-Iranian conflict into the Red Sea should not be ruled out.

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 in 2019. The terror networks are however, still operating in the area.

In Libya, major combat operations on land and in close vicinity to the port of Tripoli, caused concern when the Libyan National Army (LNA) launched an offensive to capture Tripoli in April 2019. The fighting has continued throughout the year with both parties having increased their military capabilities through foreign support. Artillery shelling and aerial attacks inside the city centre is posing an indirect threat to vessels calling Tripoli and other cities controlled by the Government of National Accord (GNA), as LNA is not by purpose expected to attack shipping. Merchant vessels being part of the military build-up of GNA loyal forces have also been exposed to detention, however the general threat to shipping has not increased significantly due to the ongoing military campaign.

In South East Asia, the threat towards shipping from the UN terror-listed Abu Sayyaf Group (ASG) has been downgraded compared to 2018 due to successful Malaysian, Indonesian and Philippine joint Counter-Terrorist operations in the Sulu Sea. ASG's K/R capabilities are currently limited to attacking fishing vessels and tugs. It is however too early to declare Islamic State East Asia (ISEA), including ASG, as beaten in the Southern Philippines, including on the Sulu archipelago.

In addition, an increasing number of armed robberies and petty thefts have been reported in the Singapore Strait and adjacent waters in 2019. The perpetrators have capabilities to board both anchored and steaming merchant vessels during night hours with the purpose of stealing ship spares and crew belongings. The perpetrators have proven highly adaptive to security measures imposed by Malaysian-, Singaporean and Indonesian security forces.

In Somalia, piracy networks are still posing a threat towards vessels steaming in the Gulf of Aden and in the Indian Ocean along the Somalian Eastern coastline. Pirate networks still have capabilities to launch attacks as far out as 300 nm from the coastline. There is still a political crisis in Somalia between the central government in Mogadishu and five regions in Somalia, and furthermore, the US have conducted several air strikes against terrorists in Somalia, illustrating the dire security situation in the country.

INVESTMENT MANAGEMENT

Financial markets in 2019

Equity markets overall delivered exceptional returns in 2019. Accommodating monetary polies, moderate economic growth, not much earnings momentum to speak of, undulating levels of geopolitical risk, and – maybe most importantly in this fragile setting – increasing hope of diminishing trade barriers between the U.S. and China. The outlook for 2020 indicated a moderate economic growth and an uptick in corporate earnings. With the Covid-19 virus, this is no longer the case. A considerable economic slowdown is more likely, and its severity depends on the damaging effect of the coronavirus. Considerable monetary and fiscal stimuli are in the process of being launched. They will likely mitigate losses and offer liquidity in distressed financial markets.

Key market indices 2017-2019

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 42.9 % over the last three years, while medium term global bonds returned 7.4 %. A bespoke aggregated index used for the domestic fixed income market generated a return of 4.7 % in 2017-2019, while the U.S. dollar increased 1.8 % versus NOK in those three years.

Investment strategy

The investment portfolio is globally diversified in tradeable securities and mutual or pooled funds. 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 og 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.

Return/change in value %	2019	2018	2017	3 years
Global equities, MSCI, USD	28.4	-6.6	19.1	42.9
Global bonds, Barclays, 1-3 years, USD	3.7	2.2	1.4	7.4
Norwegian government bonds, 3 years, NOK	1.4	1.0	2.2	4.7
USD vs. NOK	1.5	5.7	-5.1	1.8

Measured in USD, the portfolio return was 9.5 % in 2019 (-1.3 %). Equities returned 28.4 % while bonds rose 3.9 %. DNK's portfolio return was 0.5 percentage points higher than its benchmark. The benchmark consists of indices that mirror the asset allocation 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. The table below shows these risk measures at the end of the past two years.

The higher stress test amount in 2019 is explained by two factors; an increase in equity risk and spread risk. The stress factor for equities increased from 33 % to 39 %. The exposure to corporate credits and securitized instruments has increased in 2019.

Changes in the portfolio's VaR and relative volatility have been marginal.

Risk measures	2019	2018
Stress test, USD million	-155.8	-117.9
Value at Risk (VaR), USD million	-77.2	-76.0
Relative volatility	0.3 %	0.4 %

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 continually monitors and reviews DNKs financial result, asset management, insurance activities, operations and capital structure.

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.

CORPORATE SOCIAL REPSONSIBILITY

DNKs strong expertise in loss prevention contributes to reducing the risk of incidents that may have a negative effect on the surroundings and environment. The loss mitigation capabilities help minimizing the consequences in case of incidents. The association has zero tolerance towards corruption and bribes. A more efficient screening tool will be established to avoid DNK doing business with inappropriate companies and individuals. DNK seeks to apply high ethical business standards and operate in an environmentally friendly manner as possible. The organization has high focus on solid internal control procedures, managing of existing and emerging risks and compliance with internal and external regulations. In 2020 DNK will focus further on socially responsible investments.

RISK MANAGEMENT

Risk management and internal control are integrated into DNKs system of governance and daily operations. The Board reviews at least annually DNK's risk strategies and policies which defines the risk profile and tolerance, key principles for risk taking, control and capital structuring. Managers at all levels are responsible for risk management and sound internal control within their respective area of responsibility. DNK aims to have an open risk culture with risk awareness- and discussions at all levels of the organization. Key risks are identified, measured, 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 is 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.

DNK is also exposed to other significant risks that cannot be fully quantified such as strategic risk, business risk, reputational risk and geopolitical risk. For these risks DNK also performs analysis, risk assessments, monitoring and reporting.

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, equity risk, currency risk, credit risk and active risk.

Operational risk is mitigated through policies and procedures, clear strategy, responsibilities and reporting lines, robust and effective internal controls, risk assessments, procedures for follow-up of incidents, and 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.

Strategic risk is evaluated, analysed 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

Photo: Stinger/EPA/NTB

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 832 million at the end of 2019 (947), where tier 1 capital was USD 695 million (814) and tier 2 capital amounted to USD 137 million (133).

The solvency capital requirement was USD 412 million by year-end 2019 (600).

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

ADMINISTRATION

The Association had 17 employees at the end of 2019 (16).

Sick leave in 2019 totalled 43 days (49), which represented 1.2 % of overall working hours (1.4 %). 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 five men, while the administration consisted of eight women and nine men at year end.

OUTLOOK

The two main factors affecting DNK's future earnings relate to geopolitical risk and financial risk. More volatility in the political arena, or in the financial markets, may result in insurance claims or investment losses – or both. 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, (v) claims, and (iv) 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 2019, 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 also bottoming out after a prevailing softness in this market. The reinsurance renewal for 2020 offers steady rates for DNK's members. Increased reinsurance coverage leads to an increase in overall reinsurance costs. Over the past three years, DNK's risk mitigation program has become more diversified. The solvency capital requirement is consequently lower. Additional premiums will vary with the level of actual or perceived geopolitical risks and the presence of conditional trading areas. 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. The Covid-19 virus does not have any direct relation to war risks insurance, but long-term secondary effects on the insurance market cannot be ruled out. DNK is nonetheless monitoring possible security related secondary effects.

The extraordinary events caused by the outbreak of the Covid-19 virus has dramatically altered the financial outlook for 2020. By mid-March, DNK's investment return was a negative 11 % measured in USD. While a recession is likely, its depth and longevity, depends entirely on the contagious path of the corona virus.

A negative investment return for 2020 is, at this point, likely. DNK's solvency capital at the end of 2020 is thus likely to decline. Ancillary own funds (member's mutual liability) is likely to remain flat, and operating profits for 2020 are likely to be negative. The new tax law will take full effect in 2020 as tax-loss carry forwards, from prior years, have been exhausted.

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 dialogues with relevant regulatory authorities.

Oslo, 23 March 2020
The Norwegian Shipowners' Mutual War Risks Insurance Association

Mons Aase
(Chair)

Synnøve Seglem
(Vice-Chair)

Vanessa Chapman

Eli Vassenden

Eric Jacobs

Chistopher Walker

Ivar Myklebust

Harald Fotland

Svein Ringbakken
(Managing Director)

Photo: G-Valeryi/Schutterstock/NTB

FINANCIAL STATEMENTS
(IN USD)

INCOME STATEMENT

Amounts in USD 1000	Note	2019	2018
TECHNICAL ACCOUNT			
Gross earned premiums		46 741	16 637
Ceded reinsurance on gross earned premiums		(17 590)	(9 355)
Premiums for own account		**29 151**	**7 282**
Gross claims expenses	8	(66 221)	(1 757)
Reinsurers' share of gross claim expenses	8	34 541	806
Claims for own account		**(31 680)**	**(951)**
Insurance related administrative expenses	2, 3, 4, 5, 10	**(5 398)**	**(4 845)**
OPERATING RESULT OF TECHNICAL ACCOUNT		**(7 927)**	**1 485**
NON-TECHNICAL ACCOUNT			
Interest and dividend from financial assets	9	11 872	10 035
Change in fair value of financial assets	9	64 549	(28 261)
Realised gains from financial assets	9	4 957	7 217
Administrative expenses related to financial assets	2, 3, 4, 5, 9, 10	(6 417)	(6 182)
Total net income from financial assets		**74 960**	**(17 191)**
OPERATING RESULT OF NON-TECHNICAL ACCOUNT		**74 960**	**(17 191)**
PRE-TAX RESULT		**67 033**	**(15 706)**
Tax expenses	6	**(5 955)**	**(8 704)**
PROFIT FOR THE YEAR		**61 077**	**(24 410)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**61 077**	**(24 410)**
TOTAL RESULT		**61 077**	**(24 410)**
PROFIT FOR THE YEAR IS DISTRIBUTED AS FOLLOWS:			
PROPOSED DIVIDEND		**30 000**	**0**
EARNED OTHER EQUITY		**31 077**	**(24 410)**
TOTAL		**61 077**	**(24 410)**

BALANCE SHEET

Amounts in USD 1000	Note	2019	2018
ASSETS			
Owner occupied properties	5	212	212
Investments in subsidiaries	17	126	0
Receivables from subsidiaries		34	0
Bank deposits investment portfolio	11	26 192	16 432
Shares and other equity investments	11,12,14	233 883	209 921
Bonds and other fixed income securities	11,12,13,14	698 669	645 262
Financial derivatives	14,15	825	2 246
Total investments		**959 941**	**874 073**
Reinsurers' share of gross claims provisions	8	**34 813**	**1 472**
Insurance related receivables		6 146	1 364
Reinsurers receivables		813	1 625
Other receivables		980	208
Total receivables		**7 939**	**3 197**
Equipment and fixtures	5	2 952	3 246
Cash and bank deposits	7	8 464	2 328
Other assets		19	7
Total other assets		**11 435**	**5 581**
Total prepaid expenses and accrued income		**379**	**353**
TOTAL ASSETS		**1 014 508**	**884 675**

EQUITY & LIABILITIES			
Other equity	16	718 997	685 362
Total equity		**718 997**	**685 362**
Provision for unearned gross premiums		0	0
Gross claims provisions	8	47 148	2 861
Total insurance reserves		**47 148**	**2 861**
Pension liability provisions	4	598	497
Taxes payable	6	9 365	0
Deferred tax liability	6	166 042	172 010
Other provisions		1 320	1 222
Total provisions		**177 325**	**173 729**
Insurance related liabilities		6 924	2 748
Reinsurance liabilities		3 773	671
Financial derivatives	14,15	4 536	4 041
Other liabilities		54 106	13 808
Total liabilities		**69 340**	**21 269**
Other accrued expenses and prepaid income		**1 698**	**1 455**
TOTAL EQUITY AND LIABILITIES		**1 014 508**	**884 675**

Oslo, 23 March 2020
The Norwegian Shipowners' Mutual War Risks Insurance Association

Mons Aase (Chair)	Synnøve Seglem (Vice-Chair)	Vanessa Chapman
Eli Vassenden	Eric Jacobs	Chistopher Walker
Ivar Myklebust	Harald Fotland	Svein Ringbakken (Managing Director)


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STATEMENT OF CHANGES IN EQUITY

Amounts in USD 1000	2019	2018
OTHER EQUITY		
Other equity 01.01.	685 362	701 030
Total result	61 077	(24 410)
Proposed dividend	(30 000)	
Translation effects	2 558	8 742
Other equity 31.12.	**718 997**	**685 362**

CASH FLOW STATEMENT

Amounts in USD 1000	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	45 388	14 890
Cash paid to re-insurers	(13 676)	(11 014)
Net cash flows related to claims expenses	(20 734)	(1 031)
Paid insurance related administrative expenses	(5 037)	(4 581)
Net cash flows from the technical account	**5 941**	**(1 736)**
Net cash flows from interest, dividends and realised gains/losses on financial assets	16 546	17 386
Net cash flows from acquisition/disposal of financial assets	(10 071)	(13 478)
Paid administrative expenses related to financial assets	(5 957)	(4 727)
Net cash flows from the non-technical account	**517**	**(819)**
Net cash flows from operating activities	**6 459**	**(2 554)**
CASH FLOWS FROM NON-OPERATING ACTIVITIES		
Net cash flows from acquisition/disposal of fixtures and fixed assets	(322)	(2 262)
Net cash flows from non-operating activities	**(322)**	**(2 262)**
Net cash flows in the period	**6 137**	**(4 816)**
Cash and bank 01.01.	2 328	7 144
Net changes in cash and bank	6 137	(4 816)
Cash and bank 31.12.	**8 464**	**2 328**

AREAS OF RISK

Photo: Unsplash

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 price equities, fund 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. These instruments are priced 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 stated in the income statement as "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 currency and the financial 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: Joe Raedle/AFP/NTB

NOTE 2 PAYROLL COSTS, NUMBER OF EMPLOYEES AND OTHER BENEFITS

On average there were 16 people employed by the Association in 2019. The following amounts are expensed as salary, fees and other benefits, and the following loans were outstanding:

2019

Amounts in USD 1000	Salary/ fees	Bonus	Pension costs	Other benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	461	82	220	39	**803**	0
Sverre Huse, Finance Director	378	62	150	20	**609**	0
Anders Hovelsrud, Insurance Director	185	30	28	3	**246**	0
Helena Brudvik, Controller	191	25	22	3	**240**	0
Freddy Furulund, Director of Security & Contingency	211	37	33	3	**283**	0
BOARD OF DIRECTORS						
Jan Pedersen, Chair	26	0	0	1	**27**	0
Mons Aase, Vice Chair	16	0	0	0	**17**	0
Vanessa Chapman, Board member	15	0	0	0	**15**	0
Eli Karin Vassenden, Board member	15	0	0	0	**15**	0
Synnøve Seglem, Board member	15	0	0	0	**16**	0
Eric Jacobs, Board member	15	0	0	0	**15**	0
Ivar H. Myklebust, Board member	15	0	0	0	**15**	0
Christopher Walker, Board member	15	0	0	0	**15**	0

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, Controller	200	28	15	4	**248**	0
Freddy Furulund, Director of Security & Contingency	213	18	21	4	**256**	0
BOARD OF DIRECTORS						
Jan Pedersen, Chair	22	0	0	0	**23**	0
Olav Eikrem, Vice Chair	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

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

Holiday-pay accrued in 2018 is included under salary for 2019. 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 Chair 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 43 530, tax related services of USD 16 438 and other audit related services of USD 4 126. 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 70. 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 70 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 2019 was USD 356 070.

NOTE 5 FIXED ASSETS

Amounts in USD 1000		Machinery/ Fixtures and vehicles	Works of art (paintings)	Real estate
Acquisition cost as at 01.01		3 992	145	212
+ Additions during year		323	0	0
- Disposals during year		(51)	0	0
+ Exchange rate effects		(4)	0	0
Acquisition cost as at 31.12	**A**	**4 260**	**145**	**212**
Accumulated ord. depr. as at 01.01		890	0	0
+ Ordinary depreciation		616	0	0
- Disposals at acquisition cost		(51)	0	0
+ Exchange rate effects		(3)	0	0
Accumulated ord. depr. as at 31.12	**B**	**1 452**	**0**	**0**
Book value as at 31.12	**A-B**	**2 807**	**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 pretax result in this note does not correspond to the pre-tax result in the income statement. In NOK the pre-tax result was NOK 712 million (271).

As required by a new tax law passed in 2018, insurance reserves built up over prior years became fully taxable. Such insurance reserves are taxed over ten years in equal amounts. For 2019, NOK 700 million of reserves (around USD 80 million) was recognised for tax purposes (included in the note below under insurance reserves). Tax loss carry-forwards from prior years was used to reduce taxable income.

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 laws that are given retroactive effect.

Amounts in USD 1000	2019	2018
OVERVIEW OF TEMPORARY DIFFERENCES INCLUDED IN THE BASIS FOR DEFERRED TAX		
Fixed assets	79	(250)
Pension obligations	108	42
Insurance reserves	79 732	80 936
Gross claims provisions	(90)	819
Tax-exempt investments	2 824	(12 502)
Changes in temporary differences not in the basis for deferred tax (tax asset)	0	(80)
Net temporary differences	**82 654**	**68 965**
Tax loss carryforward	0	(70 056)
Basis for deferred tax (tax asset) on balance sheet	664 169	688 041
Deferred tax (tax asset)	166 042	172 010
Deferred tax benefit not shown on balance sheet	0	0
Deferred tax (tax asset) on balance sheet	**166 042**	**172 010**
BASIS FOR DEFERRED TAX (TAX ASSET), CHANGE IN DEFERRED TAX AND TAX PAYABLE		
Pre-tax result (in NOK accounts)	81 083	31 329
Changes in temporary differences not in the basis for deferred tax (tax asset)	0	80
Permanent differences	(57 261)	3 405
Basis for the year's tax expense	**23 822**	**34 814**
Change in temporary differences included in the basis for deferred tax (tax asset)	82 654	68 965
Change in tax loss carryforward	(69 014)	(103 779)
Taxable income (basis for taxes payable on balance sheet)	**37 461**	**0**
OVERVIEW OF TAXES PAYABLE		
Payable tax (deficit)	9 365	0
Adjustment to historic tax	0	0
Total tax payable	**9 365**	**0**
Change in deferred tax (tax Asset)	(3 410)	8 704
Change in deferred tax due to changes in tax rates	0	0
Tax expenses (tax asset)	**5 955**	**8 704**

RECONCILIATION OF THE YEAR'S TAX EXPENSE		
Pre-tax result (in NOK accounts)	81 083	31 329
Tax on accounting result before tax 25%	20 271	7 832
Tax expenses in the income statement	5 955	8 704
Difference	**(14 315)**	**871**

OVERVIEW OF DIFFERENCE		
25% av permanent differences	(14 315)	851
Change in deferred tax due to changes in tax rates	0	0
Other differences not in the basis for deferred tax	0	20
Total differences	**(14 315)**	**871**

There was no material tax loss carry-forward at year-end 2019 (USD 70 million at year-end 2018).

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 212 427 of unpaid tax withholdings as at 31.12.19.

Photo: Wojcieck Wrzesien/Schutterstock

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 on an individual basis.

Amounts in USD 1000	2019	2018
PROFIT & LOSS		
Gross paid claims	(21 934)	(957)
- Deducted claims provisions	14 239	0
Expensed gross claims	**(7 695)**	**(957)**
New gross claims provisions	(58 526)	(800)
Exchange rate effects	0	0
Gross expensed claims	**(66 221)**	**(1 757)**
Reinsurers' share of gross paid claims	1 200	(74)
- Deducted reinsurers' share of claims provisions	0	0
Expensed reinsurers' share of gross claims provisions	**1 200**	**(74)**
Change in reinsurers' share of gross claims provisions	33 341	880
Exchange rate effects	0	0
Reinsurers' share of expensed gross claims	**34 541**	**806**
Claims for own account	**(31 680)**	**(951)**

BALANCE SHEET		
Gross claims provisions 01.01	2 861	2 061
- Paid claims deducted from claims provisions	(14 239)	0
New claims provisions	58 526	800
Change in gross claims provisions	**44 287**	**800**
Exchange rate effects	0	0
Gross claims provisions 31.12	**47 148**	**2 861**
Reinsurers' share of gross claims provisions 01.01	**1 472**	**592**
- Deducted reinsurers' share from gross claims provisions	0	0
Change in reinsurers' share of gross claims provisions	33 341	880
Change in gross claims provisions	**33 341**	**880**
Exchange rate effects	0	0
Reinsurers' share of gross claims provisions 31.12	**34 813**	**1 472**
Claims provision for own account 31.12	**12 335**	**1 390**

NOTE 9 ITEMS THAT HAVE BEEN COMBINED IN THE ACCOUNTS

Amounts in USD 1000	2019	2018
Interest income from bank deposits	203	70
Interest income from domestic loans	0	0
Interest income on bonds	11 113	9 462
Dividends on equities	555	503
Interest and dividend from financial assets	**11 872**	**10 035**
Unrealised gains/losses on financial current assets	**64 549**	**(28 261)**
Exchange rate gains	1 568	2 294
Exchange rate losses	(1 285)	(2 428)
Realised gains/losses on equities	1 636	0
Realised gains/losses on bonds	(1 689)	(5 551)
Realised gains/losses on derivatives	4 727	12 902
Realised gains from financial assets	**4 957**	**7 217**
Administrative expenses associated with financial assets	**(6 417)**	**(6 182)**
Total income/loss from financial assets	**74 960**	**(17 191)**

NOTE 10 ADMINISTRATIVE EXPENSES

Amounts in USD 1000	Insurance 2019	Finance 2019	Total 2019	Total 2018
Salary and holiday pay, employees	1 564	1 564	3 128	3 203
Social security taxes	359	359	719	691
Pension cost	180	180	360	296
Other personell costs	96	81	178	191
Fees	362	362	723	839
Rental costs, office and machinery	206	206	413	420
Ordinary depreciation	308	308	616	336
Other administrative expenses	2 323	3 357	5 680	5 051
Total administrative expenses	**5 398**	**6 417**	**11 816**	**11 027**

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 2019 were split 50/50.

NOTE 11 FINANCIAL ASSETS – FAIR VALUE HIERARCHY

Amounts in USD 1000	2019	2018
Equities	233 883	209 921
Bonds and fixed income securities	698 669	645 262
Financial derivatives, assets - liabilities	-3 711	-1 795
Loans and accounts receivable	26 192	16 432
Total financial assets*	**955 033**	**869 820**

2019 - Financial assets measured at fair value over the income statement

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Equities	233 883	0	0	233 883
Bonds	500 614	224 247	0	724 861
Financial derivatives, net	0	-3 711	0	-3 711
Total	**734 498**	**220 536**	**0**	**955 033**
Distribution	76.9 %	23.1 %	0.0 %	100.0 %

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	469 706	191 988	0	661 694
Financial derivatives, net	0	-1 795	0	-1 795
Total	**679 628**	**190 193**	**0**	**869 820**
Distribution	78.1 %	21.9 %	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

2019 - Investment portfolio in equities and mutual funds

Amounts in USD 1000	Value at cost	Fair value	Distribution
Mercer Passive Global Equity	78 289	94 812	40.5 %
State Street index world index	86 616	131 287	56.1 %
Equity index funds	**164 905**	**226 100**	**96.7 %**
Nordea Stable Equities, Global	4 999	7 784	3.3 %
Other equity funds	**4 999**	**7 784**	**3.3 %**
Total equities	**169 904**	**233 883**	**100.0 %**

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 %**

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 a combination of ST4X (25%), NORM1D3 (45%) and NORM123D3 (30%), all bond indices with a fixed duration of 3 years. The benchmark for the global mandate is Barclays Global Aggregate Index with a duration of 1-3 years, hedged to the USD. The weighted benchmark duration for the bond portfolio was 2.2 years, while the duration of the portfolio was 2.4 (2.1) at the end of 2019.

	2019	2018
Amounts in USD 1000	Market value	Market value
Bonds and other fixed income securities	695 304	642 123
Accrued interest income	3 365	3 139
Settlement, broker	-23 444	-12 973
Loans and accounts receivable	26 192	16 432
Fixed income derivatives	-3 711	-1 795
Fixed income portfolio	**697 706**	**646 925**

Amounts in USD 1000	Value at cost	Market value	Value at cost	Market value
DISCREATIONARY MANDATES	**COST**	**VALUE**	**COST**	**VALUE**
Norwegian bonds	126 963	122 975	129 108	123 399
Global bonds, USD hedged	471 332	472 235	457 111	453 160
BOND FUNDS				
Forte	8 293	7 845	7 862	7 540
Mercer ARFI	61 047	65 508	30 045	31 239
Pimco	21 648	29 144	25 240	31 588

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.

2019

Amounts in USD 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, NOK	18 %	A+	3.3	2.3 %	-3 992
Bonds, global, USD hedged	68 %	A+	2.1	1.0 %	-9 870
Bond funds	15 %	A+	2.8	2.1 %	-2 797
Total fixed income	**100 %**	**A+**	**2.4**	**1.4 %**	**-16 659**

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**

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

	2019	2018
NOK	14 %	15 %
USD	86 %	85 %
Other	0 %	0 %

The average credit quality (rating) of the bond portfolio is A+. 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.

2019 - Rating

Amounts in USD 1000	NOK	Global	Funds	Total	Distribution
AAA	17 873	152 241	29 770	199 884	28.6 %
AA	47 824	67 334	13 861	129 019	18.5 %
A	25 547	155 214	15 672	196 433	28.2 %
BBB	31 658	84 564	16 953	133 175	19.1 %
BB	0	5 002	6 479	11 481	1.6 %
B	0	4 252	3 239	7 491	1.1 %
CCC, lower	0	0	553	553	0.1 %
No rating	72	3 628	15 970	19 670	2.8 %
Total	**122 975**	**472 235**	**102 497**	**697 706**	**100 %**

2018 - Rating

Amounts in USD 1000	NOK	Global	Fond	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	3 068	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 %**

Government, government guaranteed, and municipal bonds, amount to 55 % (58 %) 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 with respect 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 2019 including details on sub-risks was USD 412 million (600).

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 39 % 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 2019, the relative volatility was 0.3 %, which indicates that the portfolio's overall risk profile is fairly close to its benchmark.

At year-end 2019, the portfolio's risk profile was as indicated in the table below.

	2019	2018
Amounts in USD million	Portfolio	Portfolio
Market risk	**155.8**	**117.8**
Equity	91.2	69.4
Spread	59.2	42.0
Currency	32.0	30.3
Interest	21.6	13.5
Concentration	9.5	12.8
Property risk	0.1	0.1
Diversification	-57.8	-50.3
Value-at-risk	**77.2**	**76,0**
Volatility	**3.2 %**	**3.4 %**
Relative volatility	**0.3 %**	**0.4 %**

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 2019 and 2018.

Amounts in USD 1000	2019	2018
FINANCIAL DERIVATIVES		
+ Assets	825	2 246
- Liabilities	-4 536	-4 041
Net financial derivatives	**-3 711**	**-1 795**
Interest rate risk; futures	139	8
Currency hedging, bonds, forwards	-3 850	-1 802
Net financial derivatives	**-3 711**	**-1 795**

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, including tax loss carry-forwards, was USD 166,0 million at year-end 2019.

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 module in Solvency II, or 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. For 2019, the additional capital requirement was USD 286 million (USD 480 million).
The reduction in 2019 is explained by two factors: First, by incorporating the loss absorbing capacity of deferred tax. Second, by further steps in 2019 to mitigate insurance risks. DNK has for 2020 proposed an additional capital requirement of USD 270 million which currently is being considered by the FSAN.

DNK's solvency capital margin at 31.21.2019 was USD 423 million corresponding to an SCR-ratio of 203 %.

Amounts in USD 1000	2019	2018
CAPITAL REQUIREMENT AT YEAR-END		
Solvency Capital Requirement (SCR)	412 495	599 815
Minimum Capital Requirement (MCR)	103 124	149 954
Additional capital requirement (included in SCR)	285 900	479 500
SOLVENCY CAPITAL AT YEAR-END		
Basic own funds, Tier 1	695 395	813 828
Ancillary own funds, Tier 2	136 800	133 009
Total eligible own funds to meet the SCR	**832 195**	**946 837**
Tier 2 as a percent of SCR	33 %	22 %
Solvency capital margin	419 700	347 022
SCR-ratio	**202 %**	**158 %**

NOTE 17 INVESTMENT IN SUBSIDIARIES

Osprey Solutions is a maritime tech start-up founded in 2019 by DNK (51 % ownership), and UK maritime technology and intelligence company Clearwater Dynamics Ltd (49 %). Osprey develops data-driven solutions that provide actionable insights and enable automation of ineffective processes. Accurate vessel position and performance data is collected and delivered in real-time ship to shore, through secure satellite communications technology. The information can be accessed in a user portal with extensive mapping and filtering functionality, or integrated into existing operational systems.

NOTE 18 EVENTS AFTER THE BALANCE SHEET DATE

The Covid-19 virus has triggered a major sell-off in the financial markets, and DNK's investment portfolio lost around 7 % in value in the first quarter of 2020. The oil price has fallen dramatically, and the Norwegian currency weakened markedly versus USD.

To mitigate risk of contagion, DNK's employees are working from home. The technological infrastructure makes it possible to maintain close to normal business activity from multiple locations. The coronavirus is not expected to influence expected claims, but market conditions might tighten going forward. DNK is well capitalized to handle and sustain the negative fallout from the Covid-19 virus. The increased level of operational risk is managed through the employment of technology and preventive measures to mitigate contagion. Business continues – so far - largely as normal.

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, which comprise the balance sheet as at 31 December 2019, the income statement, statement 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 2019, 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.

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 pwc

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

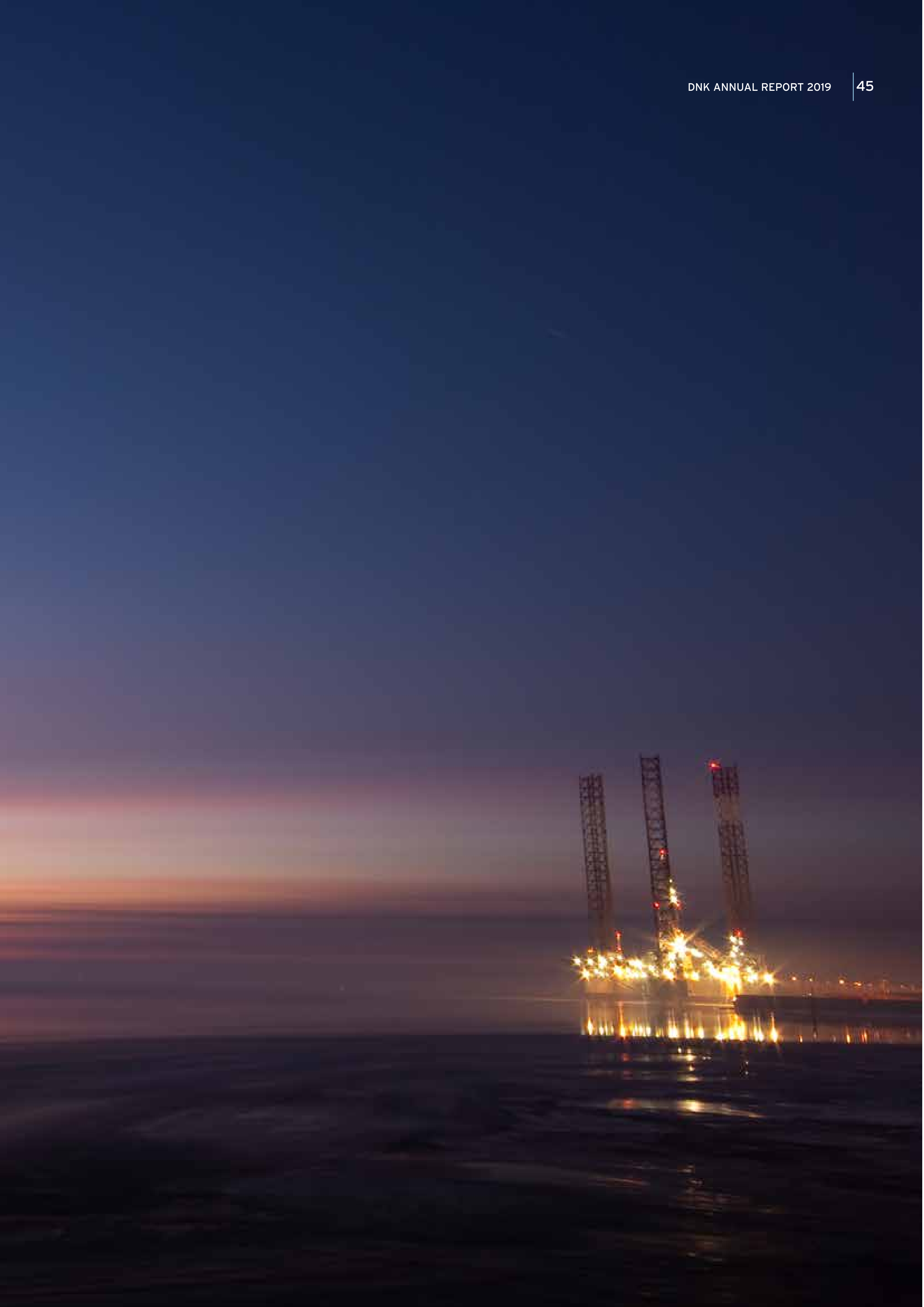
Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our 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, 2 April 2020
PricewaterhouseCoopers AS

Magne Sem

Magne Sem
State Authorised Public Accountant

Photo: Jens Auer/Getty Images



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

VISITING ADDRESS
Rådhusgt. 25
N-0158 Oslo
Norway

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

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