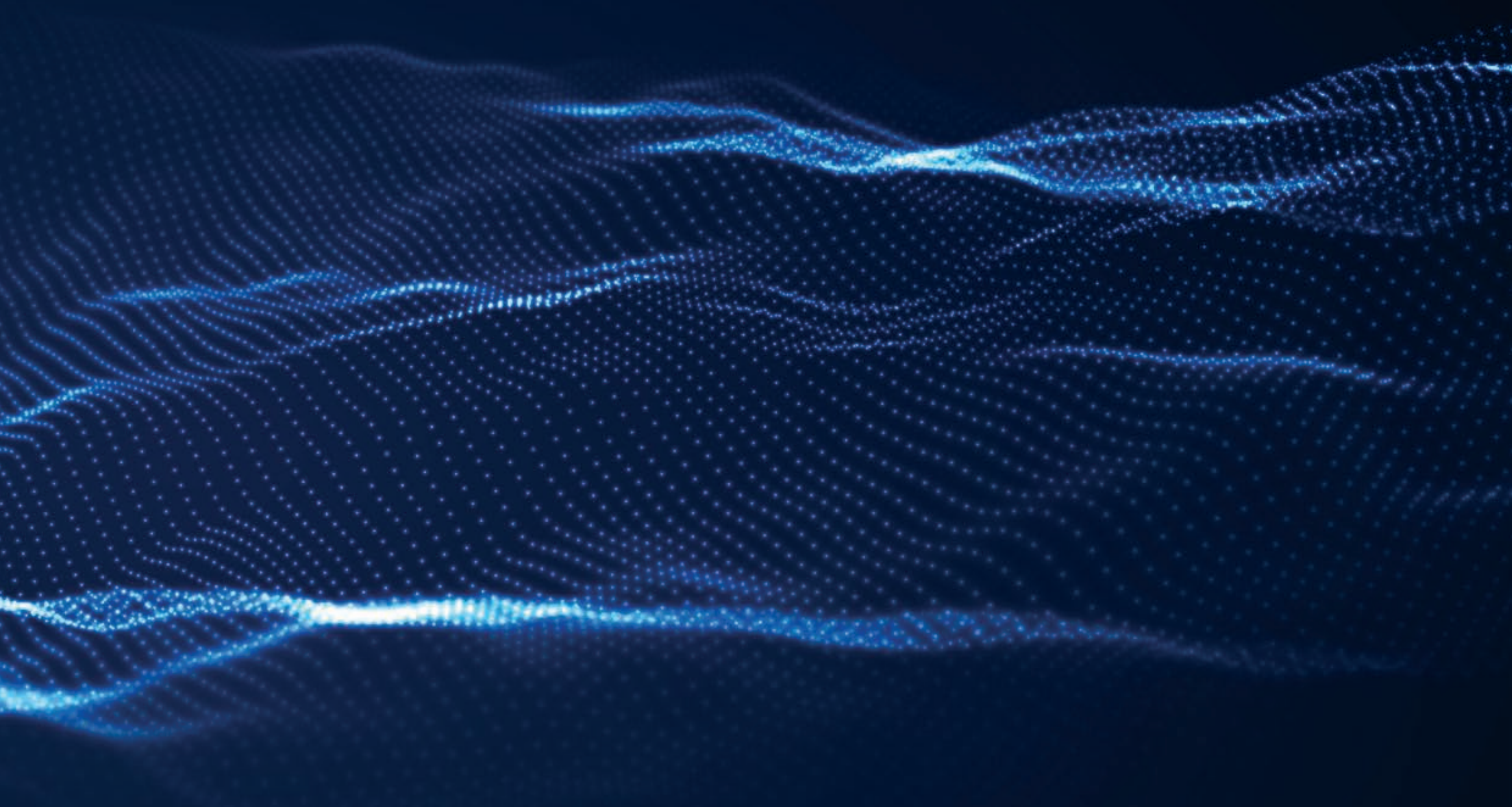
ANNUAL REPORT 2020



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

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85TH 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.

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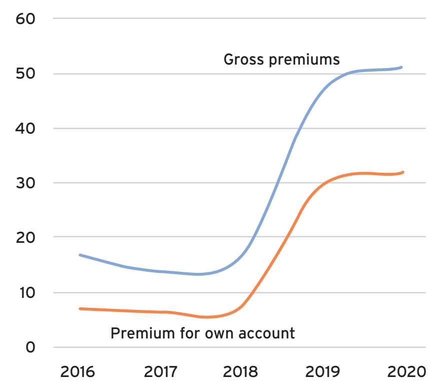

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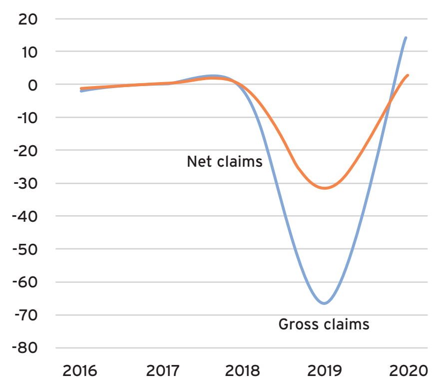

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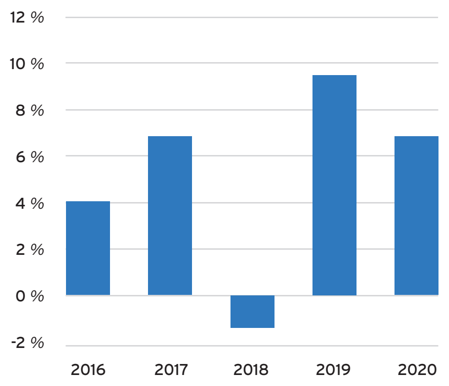

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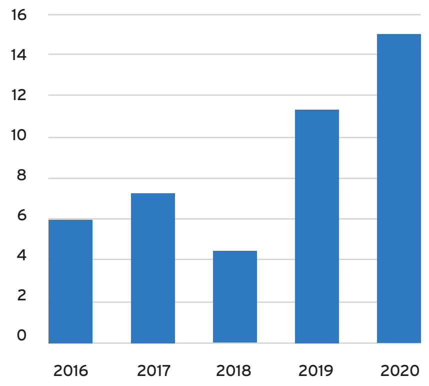

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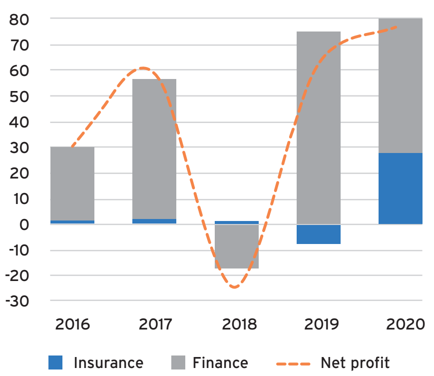

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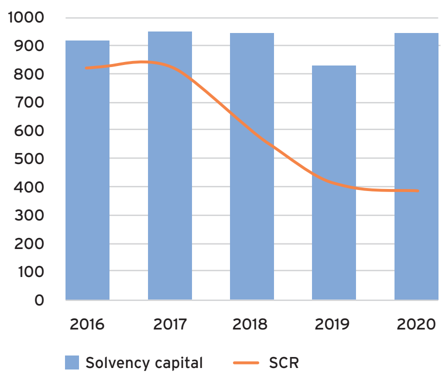

GOVERNING BODIES

BOARD OF DIRECTORS

Mons Aase
Chair

DOF ASA

Eric Jacobs

Awilco AS

Synnøve Seglem
Vice-Chair

Knutsen OAS Shipping AS

Christopher Walker

Frontline Management AS

Vanessa Chapman

Odfjell Drilling AS

Ivar Myklebust

Independent Consultant

Eli Vassenden

Grieg Star AS

Harald Fotland

Odfjell Tankers AS

DEPUTIES
Olav Eikrem, 2020 Bulkers Management AS
Odd Christian Krohn, Fred Olsen Insurance Services AS
Marthe Romskoug, Wilh. Wilhelmsen Holding AS

NOMINATION COMMITTEE
Johan Hvide, Seatrans AS
Lasse Kristoffersen, Torvald Klaveness
Paul-Christian Rieber, President of the Norwegian Shipowners' Association

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 geopolitical tensions could escalate into an increased threat to the maritime industry, the Association noted with regret that two tankers insured by DNK were attacked in the wider Middle East Gulf area in 2019. Tensions in the area continued into 2020 without any further major incidents involving ships insured by the Association.

Piracy incidents and kidnapping of crews continued in the wider Gulf of Guinea and the crew of two DNK member units were kidnapped, but fortunately released safely after a period in captivity.

Concerns about cyber-attacks, risk mitigation and availability of insurance capacity dominated discussions within DNK and increased in prominence throughout the year. With the increased digitalization of the maritime industry, and the rising sophistication and determination of the threat actors, this trend is expected to escalate. Plans and preparations for the launch of the Norwegian Maritime Cyber Resilience Centre (NORMA Cyber) continued throughout 2020. NORMA Cyber was established in co-operation with The Norwegian Shipowners' Association.

HIGHLIGHTS 2020

- At year-end 2020, DNK insured 3,543 ships and movable offshore units (compared with 3,447 in the previous year), with an aggregate insured value of USD 232 billion (222). An additional 8 newbuilds were covered (23).
- In 2020, 80 (63) incidents occurred involving member vessels. They were related to activities by state actors, pirates, insurgents, terrorists, and cyber threat actors.
- Member vessels were involved in 3 (3) major incidents in 2020, which caused DNK to mobilize its Crisis Management Team. The incidents were related to piracy and state actor attacks.
- DNK conducted and produced 27 (31) in-depth threat assessments and intelligence products for its members in 2020. Furthermore, DNK responded to 167 (230) member requests concerning specific threat assessments.
- Annual premium and reinsurance rates remained unchanged in 2020. Gross premiums increased as the Persian Gulf was a breach of warranty area throughout 2020. The premium adjustment before year-end was USD 15.0 million (11.3).
- The return on DNK's investment portfolio was 6.9 % in USD (9.5 %).
- The high capacity in the war risk insurance market is tightening gradually. Reinsurance contracts were renewed for 2021 at satisfactory terms, thus enabling the Association to maintain its competitive rates.
- DNK's solvency capital at year-end 2020 was a total of USD 948 million (832): USD 790 million as Tier 1 capital (695), and USD 158 million (137) as Tier 2 capital (mutual liability).
- The solvency capital requirement (SCR) at year-end 2020 was USD 386 million (412). 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 2020, this additional charge was USD 270 million (286).

- The Board proposed a USD 300 million distribution of equity which was approved in an extraordinary general meeting in October 2020. The payout will be made in 2021 subject to approval by Finanstilsynet (the Financial Supervisory Authority of Norway).

- In 2018, the Ministry of Finance introduced a new tax legislation for insurance reserves. Approximately USD 170 million of deferred taxes, after tax loss carry-forwards, will be payable in equal instalments over a ten-year period. 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 law in order to offer a tax-shield for mutual insurers, such as DNK. Any such amendment is subject to approval by the EFTA Surveillance Authority (ESA).

EVENTS AFTER THE REPORTING PERIOD

At an extraordinary general meeting on October 30, 2020 the Board's proposal for a capital distribution of USD 300 million to DNK's members was unanimously adopted. The equity will be distributed in proportion to premiums paid during the past ten fiscal years, cf. section 3-5 of the Articles of Association. The adopted distribution of equity is subject to regulatory approval by Finanstilsynet. Because DNK's application is pending approval, no provision for the distribution of equity was made in the financial statements for 2020.

FINANCIAL RESULT 2020

Gross premium income in 2020 amounted to USD 51.2 million (46.7) after a USD 14.9 million (11.3) premium adjustment to members, or no-claims bonus (NCB). Before such NCB, overall gross premiums increased by 14 % in 2020. While annual premiums increased by 2 %, additional premiums for calls in conditional trading areas increased by 16 % before NCB. The number of transits through these areas rose considerably as the Persian Gulf was subject to additional premiums throughout the year. Annual premiums represented 11 % of the gross premium income in 2020 (12 %) before the deduction of NCB.

Reinsurance costs increased by USD 1.9 million in proportion to the change in gross premiums in 2020. Premiums for own account, after NCB, amounted to USD 31.6 million in 2020 (29.2). Due to low claims in 2020 and reversal of claims provisions from 2019, DNK had gross and net claims income of USD 14.1 million and USD 2.4 million respectively. Gross and net claims cost in 2019 were USD 66.2 million and USD 31.7 million respectively. Claims in 2020 were primarily associated with three incidents with gross/net costs of USD 4.6/ 2.5 million.

The operating result from DNK's insurance activities amounted to a gain of USD 27.9 million after administration costs, versus a loss in 2019 of USD 7.9 million.

The operating profit from investment management, after administration costs, was USD 59.2 million (75.0). The investment portfolio generated a return of 6.9 % in 2020 (9.5 %). While equities posted a gain of 13.8 %, the bond portfolio returned 4.1 %. On average, equities made up 25.4 % (24.2 %) of the portfolio, with the balance allocated to domestic and global bonds.

DNK's administration cost increased USD 1.2 million to USD 13.0 million. The increase was primarily attributed to ongoing projects relating to digitalization, vessel tracking, and loss-prevention within the cyber threat realm.

DNK's overall operating profit for the year was USD 87.2 million in 2020 (67.1). After USD 9.9 million in taxes (6.0), the total result for 2020 was a gain of USD 77.3 million (61.1).

Cash flow from insurance activities was USD 21.3 million in 2020 (5.9). Premium income, reinsurance expenses and administrative costs were the main cash items. Cash flow from financing activities was USD -13.8 million (0.5). Realized 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 operations was therefore USD 7.5 million (6.5), while cash flow from investment in fixed assets was USD -0.4 million (-0.3). Net cash flow for the period was consequently USD 7.1 million (6.1). At the end of 2020 bank deposits amounted to USD 15.6 million (8.5).

The financial statements are prepared and presented under the assumption that DNK is operating on a going concern basis. In accordance with the Norwegian Accounting Act section 4-5, first paragraph, the Board confirms that such assumption is present.

The Board is not aware of any events, after the balance sheet date, that may affect the submitted financial statements for 2020.

COVID-19

DNK established an internal Covid-19 task force in March 2020 to monitor the development of the pandemic in order to advise senior management on company-wide preventive actions. The aim was to safeguard employees from being infected, and to minimize potential operational disruptions within DNK. Implemented actions have been continually adapted and aligned with regulatory requirements and recommendations in the combat of Covid-19. DNK operations have not been adversely affected.

NEW TAX LEGISLATION

In 2018, Finansdepartementet (The Ministry of Finance) introduced new tax legislation on insurance reserves. The law implied a tax cost of USD 216 million payable over ten years in equal instalments. With available tax loss carry-forwards, taxes payable were reduced to USD 170 million. From 2019, the effect of the new law has since been incorporated in the calculation of DNK's solvency capital and its solvency capital requirement (SCR).

This legislative change has required DNK to introduce certain risk mitigation measures, primarily through increased reinsurance.

Along with other marine insurers, DNK has communicated that the new tax law is unsuited for insurers characterised by unsystematic risk, such as war risk insurance. Insurance reserves accumulated to cover these types of risks will in effect be taxed. The proposed tax law will considerably increase the cost of capital for product lines characterised by unsystematic risks compared with those characterised by systematic risk. Finansdepartementet may present an amendment to the new law in order to provide a partial tax-shield for insurers with more volatile and unpredictable losses, such as DNK. The technical aspects of an amendment are currently being discussed with the ESA to clarify issues relating to potential illegal state aid. After a possible clearance from the ESA, an amendment may be subject to a domestic public hearing before being passed into law.

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

INSURANCE ACTIVITIES

DNK's insurance products and services in 2020 were broader and more comprehensive than ever before. Insurance cover through DNK terms and conditions and the Nordic Marine Insurance Plan gave unmatched ease of trading with assets, revenue and liabilities protected against security challenges. The presence of its Intelligence and Operations Centre (IOC) provided DNK and its members early warning against threats, and a better understanding of when to act. This in turn provided a better basis for rate adjustments and competitiveness. DNK believes that once again this year, its members had a competitive advantage compared with its peers.

Rates remained stable throughout the year. However, the Association is continuously looking for opportunities and better methods for calculating premiums that are favorable to members. In particular, the rate for Arabian/Persian Gulf has remained unchanged but some discounts were introduced for short stays and crew changes. With the Covid-19 restrictions on crew change in 2020, UAE ports have proved to be among the few favorable locations available. To support affected crew and to help overcome operational challenges among members, DNK introduced a discount for vessels making crew changes in these ports. Efficient and predictable crew changes are one of the prerequisites for the safe operation of any vessel.

Rates increased slightly in the Gulf of Guinea for the first time in a while. DNK was compelled to follow suit and to extend the geographical area concerned. With an extension to the south and east, four new countries with a GoG coastline have been included. The extension and increase have been unfortunately proven necessary. DNK has witnessed and experienced incidents which have subjected crew to the threat of ransom kidnapping. Together with the IOC, the insurance department took part in successful operations leading to the release and return of captured crew. The Association was proud to participate in this process, and nothing is more rewarding than reuniting a victim with their family and fellow crew.

In 2020, DNK continued its digital journey together with members. The distribution of Raptor antennas among its highly adaptable members has reached 70%. Nearly all the members operating in high-risk areas now have Raptor on their vessels to deliver automated reporting, compliant trading and added security. In addition to reporting breaches, the system has proven useful for casualty response and secure digitisation of vessels. Some of the Association's biggest members now have data stream from their vessels integrated directly with their operational systems. Working closely with DNK's Osprey Solutions AS subsidiary, such initiatives have created a solid foundation for further development.

SECURITY AND CONTINGENCY PREPAREDNESS

The Loss Prevention and Loss Mitigation Concept in DNK

DNK's Loss Prevention and Loss Mitigation capability is primarily facilitated by the Intelligence & Operations Centre (IOC) and by DNK's Crisis Management Team (CMT) when the latter is mobilised. The role of the IOC is to build an overall global intelligence picture to help support members in short and long-term decision-making. This is done through a professional structure comprising an extended source-network, a structured and well recognised methodology and skilled intelligence analysts. The IOC also provides training for members and offers a 24/7 support service through its Duty Officer function. In addition, the extended IOC (the mobilised CMT) supports members with crisis management when needed.

Intelligence and operations-summary 2020

Piracy and kidnap for ransom (K&R) attacks represented the main threat to shipping in the Gulf of Guinea once again during 2020. Pirates based in the Niger delta continued and extended their presence and operations further out into the wider Gulf of Guinea. DNK's CMT was mobilised on two occasions to support members experiencing K&R attacks in the Gulf of Guinea in 2020. On both occasions, all crew members were successfully released.

Shipping was again exposed to a threat from Iran in the Arabian/Persian Gulf, the Strait of Hormuz and the Gulf of Oman in 2020. Throughout the year, merchant vessels were exposed to cyber-attacks or failed limpet mine attacks, detained, harassed and aggressively approached by the Islamic Revolutionary Guard Corps Navy (IRGCN). During the year, DNK's CMT was mobilised on one occasion to support a member exposed to an unexploded limpet mine in the Arabian/Persian Gulf. The mine was successfully dismantled without harm to crew, vessel or the environment.

In the Northern and Southern Red Sea, the Yemen-based Houthi insurgents with their external state support increased their ability in 2020 to attack both naval and merchant vessels. In addition to concentrating their activities to the areas just North and South of Hudaydah, their operational reach also extended to involve Saudi territorial waters in the Northern Red Sea. The main threat to shipping from the Houthi insurgents in 2020 was water born improvised explosive devices (WBIED). Although numerous attacks occurred in these waters during 2020, no DNK member was directly exposed to assault.

Somalia-based criminal networks previously involved in pirate attacks on merchant vessels are still capable of assaulting ships in both the Gulf of Aden and the Western Indian Ocean. In recent years, however, other sources of income involving less risk in relation to gain have emerged and have reduced the motivation for piracy and currently there is no threat from Somalia-based pirates. No DNK member was exposed to any pirate attacks off Somalia in 2020.

The year 2020 saw a shift in the Gulf of Aden, from financially motivated Somalia-based pirates to politically motivated Yemen-based threat actors. Numerous WBIED attacks were launched on shipping by Yemen-based insurgents linked to the Southern Transitional Council (STC) or backed by state players in the international recognised transit corridor (IRTC) and in Yemeni territorial waters in 2020. Several DNK members were subject to suspicious approaches and failed WBIED attacks in these waters during 2020.

Fighting in Libya, often close to several of the main ports, between the Libyan National Army (LNA) and the Government of National Accord (GNA) and their external supporters, continued in 2020. Merchant vessels were also attacked while berthed in Tripoli in 2020. Although the year began with further offensives by the warring parties, its end saw positive signs of a peace agreement developing. All DNK members calling at Libyan ports in 2020 avoided exposure to direct attacks.

Concerning Southeast Asia, armed robberies and petty thefts in the Singapore Strait, continued to rise during 2020. Although the nature of the threat has smaller consequences for crew and vessel than piracy in the Gulf of Guinea, these pirate-attacks have become increasingly worrying for shipping transit through the strait. Pirates based in Indonesia continued to be highly adaptable against security measures taken by the Malaysian, Singaporean and Indonesian security forces. No DNK members were exposed to pirate attacks in Southeast Asia during 2020.

INVESTMENT MANAGEMENT

Financial markets in 2020

Overall, equity markets delivered surprisingly strong returns in 2020, despite moderate economic growth, little earnings momentum, fluctuating levels of geopolitical risk and, perhaps most importantly in this fragile setting, uncertainty over the development of Covid-19. The outlook for 2021 could include a slow recovery if Covid-19 vaccines prove effective. Otherwise, the economic slowdown is likely to persist.

Key market indices 2018-2020

The table below shows the annual and aggregate return over the past three years for market indices relevant to DNK's investment strategy. While the global equity index for developed markets rose 37.1 % over the past three years, medium term global bonds returned 8.4 %.

A bespoke aggregated index used for the domestic fixed income market generated a return of 7.1 % in 2018-2020, while the USD rose by 4.9 % against NOK in the same period.

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 of A-. Part of the portfolio may periodically deviate from the benchmark within set guidelines. By year-end 2020 the portfolio was primarily allocated or hedged to USD.

Return/change in value %	2020	2019	2018	3 years
Global equities, MSCI, USD	14.3	28.4	-6.6	37.1
Global bonds, Barclays, 1-3 years, USD	2.3	3.7	2.2	8.4
DNB combined, 3 years, NOK	4.5	1.4	1.0	7.1
USD vs. NOK	-2.2	1.5	5.7	4.9

Measured in USD, the portfolio return was 6.9 % in 2020 (9.5 %). Equities returned 13.8 % and bonds 4.1 %. DNK's portfolio return was 0.1 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 oversee 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 lower stress-test amount in 2020, reflects the net effect of (i) a higher allocation to equities, (ii) lower spread risk, and (iii) the virtual elimination of currency risk.

The portfolio's VaR more than doubled due to the extreme market volatility in the first half of 2020.

Risk measures	2020	2019
Stress test, USD million	-144.8	-155.8
Value at Risk (VaR), USD million	-164.3	-77.2
Relative volatility	1.0 %	0.3 %

CORPORATE GOVERNANCE

DNK is subject to supervision by Finanstilsynet. Corporate Governance issues and requirements are specified in the Associations Articles. The Board has approved policies to provide additional support for corporate governance in DNK.

The governing bodies are the General Meeting, the Board of Directors and the Nomination Committee. The Board of Directors constitutes both the Risk and Audit Committee and the Remuneration Committee.

DNKs Articles specify the Association's objectives and membership conditions and outline the scope and conduct of an annual general meeting. Each member's voting rights are proportional to its registered insured amount with DNK. No restrictions are placed on voting rights. The Articles regulate payment of premiums, premium adjustments and additional calls, and include provisions for specific measures in times of crisis. The key responsibilities of the Board concerning corporate governance issues are also outlined in the Articles.

The Board sets the overall objectives, strategies and policies to ensure sound management of the business, including requirements to facilitate a transparent organizational structure with clear areas of responsibility and authority, reporting lines, information transmission, risk management and internal controls. The Board continually monitors and reviews DNKs financial results, 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 RESPONSIBILITY

DNK has a longstanding tradition of approaching its core war risks insurance business broadly, for example by taking care of crew members who have been subject to captivity or violent threats. The support offered to members is designed to ensure redundancy in the ability to protect crew members before, during and after an incident.

This begins with an extensive loss prevention program where credible threats against the members' ships are monitored and matched with the location of each individual vessel followed by a professional crisis response managed by the DNK Intelligence & Operations Centre. Providing financial security through insurance is the starting point. Matching this with the ability to give credible operational support in avoiding, mitigating and managing incidents has been an integral part of DNK's business for many years.

Cover in the war risks policy is limited to the perils listed in section 2-9 of the Nordic Marine Insurance Plan, which typically relate to losses caused by war, terror and piracy. However, in special cases DNK's Board is also empowered to approve cover outside the terms of an insurance policy. Cover under this provision has traditionally been awarded when a member makes special efforts to comply with the law of the sea or to meet humanitarian needs. When a ship entered in DNK responds to a humanitarian need in an additional premium area, the additional premium is reduced to a minimum or waived to support the response.

From 2017, DNK has also offered a new Security Incident Response cover (SIR) to its standard offering. This can be triggered by the mere suspicion of questionable measures or actions. Once triggered, the member will receive the support of one of the largest security companies with a worldwide presence. This company will back the member in the jurisdiction where the problem arises and ensure that the member's actions accord with legal requirements. Such support is particularly important in jurisdictions where corrupt practices are common and where shipowners are confronted with demands for corrupt payments disguised as fines or threats of enforcement actions.

Over the past years, DNK's holistic approach to loss prevention has included the establishment and staffing of an intelligence an operations center (IOC). The IOC team does not only limit its operational capacity to crisis management. It seeks to proactively identify potential threats and communicates it findings and recommendations to vessels that may be in danger. This is feasible in real-time with modern tracking devices that are integrated with DNK´s loss prevention capabilities. The tracking system does also allow for an automated calculation of premiums for transits through bridge-of-warranty areas. Osprey Solutions, a subsidiary of DNK, explores other services and solutions that a vessel operator and owner can take advantage of to efficiently manage its assets at sea. NORMA Cyber Resilience Center AS became operational in 2021 as a joint-venture between DNK and Norges Rederiforbund. Norma Cyber will provide loss-prevention services and products within cyber-related risks. DNK has a unique insurance cover for marine cyber risks. Through the establishment of Norma Cyber, DNK has strengthened its capabilities in this domain.

DNK supports not only a wide range of projects related to war risks insurance and the maritime environment, but also humanitarian causes. While financial contributions are sometimes substantial, the Association also provides support by allowing employees time to contribute.

DNK's investment portfolio will increasingly implement criteria relating to socially responsible investment. As the new taxonomy in EU is developed for this purpose, it will be integrated in the investment strategy and reporting.

The Association has zero tolerance for corruption and bribes. This applies to DNKs employees, service providers, counterparties and members. Ethical guidelines and policies for anti-money laundering, anti-terrorism financing, sanctions, anti-corruption and fraud are discussed and made available to employees. Regular know your customer (KYC) controls, including sanctions screening and monitoring of transactions, are performed to minimize the risk of inadvertently doing business with questionable counterparties. DNK's Board, management and control functions are also subject to fit and proper checks. Suspicious activity and illegal or unethical behavior can be reported in a safe and confidential way. DNK also routinely reports details of all cases involving payment of ransoms to the Norwegian national economic crimes unit (Økokrim), the National Crimes Agency in the UK and INTERPOL. In 2020 DNK had no confirmed cases of corruption or bribes.

DNK aims for high ethical business standards and to operate as environmentally friendly as possible.

The Association devotes great attention to solid internal control procedures, managing existing and emerging risks, and complying with internal and external regulations.

RISK MANAGEMENT

Risk management and internal control are integrated into DNKs system of governance and daily operations. At least once a year the Board reviews the Association's risk strategies and policies which defines its risk profile and tolerance, key principles for risk taking, controls and capital structuring. Managers at all levels are responsible for risk management and sound internal control within their area of responsibility. DNK aims to have an open risk culture with risk awareness and discussions at all levels of the organisation. Key risks are identified, measured, managed and reported throughout the organisation and 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.

The Association is exposed to insurance, market, counterparty, operational and liquidity risk. Except for liquidity risk, the loss potential of each risk 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, business, reputational and geopolitical risk. For these risks, DNK also performs analysis, risk assessments, monitoring and reporting.

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

Counterparty risk is restricted through credit quality standards and concentration limits for participating reinsurers. The use of financial derivatives is mainly limited to currency hedging with standardised products. Parties of 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 strategies, 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. Liquidity risk is tested by stress scenarios that assume the realisation of DNK's investment portfolio and the call for 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 and so forth.

Reputational risk is identified and evaluated as part of the periodic risk assessments and managed by emphasising compliance with laws and regulations, product quality, financial performance, corporate governance, member service and so forth.

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 which may hinder DNK's ability to comply with agreements entered into.

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

CAPITAL MANAGEMENT AND SOLVENCY CAPITAL REQUIREMENT

The Association's solvency capital was USD 948 million at the end of 2020 (832), where Tier-1 capital was USD 790 million (695) and Tier-2 capital amounted to USD 158 million (137).

The solvency capital requirement was USD 386 million by year-end 2020 (412). The solvency margin was consequently 246 % (202 %).

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

ADMINISTRATION

The Association had 19 employees at the end of 2020 (17). From 2021, three employees will be transferred to Norwegian Maritime Cyber Resilience Center AS (NORMA Cyber AS), a start-up where DNK has a 51 % ownership.

Sick leave in 2020 totalled 28 days (43), which represented 0,7 % of overall working hours (1.2 %).

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. DNK 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 consists of six women and thirteen men at year-end 2020. Following the transfer of employees to NORMA Cyber AS, the administration will include of six women and ten men.

OUTLOOK 2021

The two main risk factors affecting DNK's earnings relate to geopolitical risk and financial risk. Volatility in the political arena, or in the financial markets, may result in higher insurance claims or greater 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 situations 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 2020, maritime crime and piracy attempts in the Gulf of Guinea and Southeast Asia continue. Implemented proactive measures in these areas have mitigated the potential damage to members' vessels and crews.

Rates for annual premiums have increased after several years of steady decline. The total value of insured tonnage has increased at a slow pace. Reinsurance costs are also higher after a prevailing softness in prior years. The reinsurance renewal for 2021 gave an average 6 % rise in annual rates for DNK's members. Continued risk mitigation through increased reinsurance will lead to an increase in overall reinsurance costs. During recent years, DNK's risk mitigation program has become more diversified. The solvency capital requirement is consequently lower even though insurance cover has expanded in some areas. 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 insurance.

A major conflict could abruptly cause monumental losses to insured ships and movable offshore units. Covid-19 has no direct relationship 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 Covid-19 may have a negative impact on the financial outlook for 2021. However, vaccines offer hope for an end to the current outbreak although intermittent setbacks may occur. At this juncture, hopes for a gradual economic recovery appear to have increased.

DNK will pay out USD 300 million of equity to its members in 2021 subject to approval by Finanstilsynet. Potential setbacks in the financial markets or possible insurance claims are not expected to adversely affect the planned payout. Covid-19 is not expected to have a direct impact on the market for war risk insurance. DNK's solvency capital will stay well above the regulatory requirement after the proposed distribution of equity.

A marginal but positive investment return is expected for 2021. A positive technical result is anticipated in the absence of major insurance losses. DNK is consequently expected to maintain a solid solvency capital position through 2021.

Finansdepartementet changed the tax regime for insurance reserves as from 2018. The new law had a considerable negative effect on DNK's solvency capital even if taxes are payable over a ten-year period. Potential amendments to the law which will alleviate its impact are being considered for certain insurance companies, among them DNK, but any amendment depends on an approval process by the ESA. DNK will continue to address this tax issue through dialogue with relevant regulators.

Oslo, 16 March 2021
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)

MANAGING DIRECTOR'S COMMENTS

We worked with our Board during 2020 to ensure that we will continue to provide war risks insurance to our members under the Solvency II-regime which is competitive in the international market in terms of conditions, premiums and effective use of capital. Several risk-reduction measures have been implemented in recent years, predominantly through new or increased reinsurance protection.

As a result of this important work, an application to reduce and return capital to our members was submitted to the Financial Supervisory Authority of Norway in December.

To prepare for the future, we have also focused on building a new operating model which meets members interests. This is one of our core strategic aims.

Digitalisation has become a top priority in every industry under the pressure to innovate and grow in a constantly changing environment. Marine insurance is no exception. With a business model largely unchanged since the 17th century, it is particularly vulnerable to the rapidly changing needs of its core clients.

Since shipping and supply-chain logistics are working flat out to embrace digital opportunities, insurance providers find themselves devoting significant time, effort and capital to keeping up. Marine insurance in general, and war risks cover in particular, is making considerable progress in addressing new risks posed by new technologies and increasing cyber risk. Insurers respond with new products, innovative pricing platforms and digital distribution models. Most insurers are planning to invest even more aggressively in technology, expecting that this will strengthen their strategic position and yield positive commercial effects. But there is little evidence that investing in technology alone yields tangible results.

At DNK, we believe digitalisation involves more than implementing discrete technologies. Rather, it requires developing a broad set of technology-related capabilities which prepare the entire organisation in becoming a digital proof enterprise.

Over the past decade, we have made significant strategic investments in technology in order to keep our business model relevant for our customers. We have built a pro-active, data-driven intelligence operations centre which works closely with shipowners to address threat assessment and loss prevention on a daily basis. We use intelligence tools and databases to collect and evaluate relevant information and apply market-leading technology as an integral part of our incident response capabilities.

A few years ago, we pioneered an Internet of Things (IoT) solution to automate trade reporting in high-risk areas by adding a digital tracking system to our insurance system and established a cloud portal where the data can also be accessed by the insured. Today, the Raptor tracking device is deployed on more than 2 000 vessels in our fleet providing owners with valuable new data and insights about their operations while significantly reducing their administrative burden. We launched Osprey Solutions to provide insure-tech and IoT solutions for the maritime industry, and to serve as our digital lab.

Our next big service challenge is to ensure relevant, practical insurance solutions for the increasing cyber threat. Providing cyber war cover makes this essential. Together with the Norwegian Shipowners Association, we therefore put considerable effort in preparing for the launch of the Norwegian Maritime Cyber Resilience Centre (NORMA Cyber) on 1. January 2021.

A new operating model

As our service offering becomes more and more digitalised, we have realised that our next strategic investment needs to secure the right level of digital maturity within our own organisation.

We have conducted a comprehensive review of the digital maturity of our operational model across various dimensions, such as organisation and culture, systems and processes, strategic alliances and – not least – customer experience. We have identified several strategic ambitions, ranging from a redesign of our IT platform architecture to the introduction of new roles with cross functional responsibility for digital change projects.

A priority for our new operational model is customer experience. Our customers/members expect us to build our solutions around their specific needs and preferences to ensure a seamless user experience. New technology will hardly be able to improve customer experience if the solution is developed from the insurer's perspective without truly understanding the users' perspective.

As a member-owned organization, we have always been committed to provide excellent service to our customers and business partners. By investing in new, digitally enhanced user interfaces, adjusting our processes, and extending the internal use of data and analytics, we will be able to establish a 360-degree view of our customers across the entire organization and make our offers even more customer-centric.

Our operational model was designed at a time when collaboration, analytics and decisions-making were very different from today. And like other marine insurers, we cannot predict what the future holds for our industry.

However, we firmly believe that our ability to reap the benefits of digitalization for our industry depends on our willingness to achieve a fundamental transformation in the way we work and to migrate to a new operating platform suited to the digital future. By adopting new structures, processes and methods we aim to work more intelligently and collaborate more efficiently. By continuously striving to know our customers, we can establish a new operating model which will also be a positive experience for our members.

At the end of 2021 we are planning to launch our new member portal facilitating a seamless exchange of an expanded scope of information and further simplifying processes.

Svein Ringbakken
(Managing Director)

Photo: DNK

NORMA
CYBER

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

OSPREY
Solutions

FINANCIAL STATEMENTS
(IN USD)

INCOME STATEMENT

Amounts in USD 1000	Note	2020	2019
TECHNICAL ACCOUNT			
Gross earned premiums		51 157	46 741
Ceded reinsurance on gross earned premiums		(19 519)	(17 590)
Premiums for own account		**31 638**	**29 151**
Gross claims expenses	8	14 105	(66 221)
Reinsurers' share of gross claim expenses	8	(11 738)	34 541
Claims for own account		**2 367**	**(31 680)**
Insurance related administrative expenses	2, 3, 4, 5, 10	**(6 100)**	**(5 398)**
OPERATING RESULT OF TECHNICAL ACCOUNT		**27 905**	**(7 927)**
NON-TECHNICAL ACCOUNT			
Interest and dividend from financial assets	9	9 554	11 872
Change in fair value of financial assets	9	64 278	64 549
Realised gains from financial assets	9	(7 666)	4 957
Administrative expenses related to financial assets	2, 3, 4, 5, 9, 10	(6 920)	(6 417)
Total net income from financial assets		**59 246**	**74 960**
OPERATING RESULT OF NON-TECHNICAL ACCOUNT		**59 246**	**74 960**
PRE-TAX RESULT		**87 151**	**67 033**
Tax expenses	6	**(9 856)**	**(5 955)**
PROFIT FOR THE YEAR		**77 295**	**61 077**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**77 295**	**61 077**
TOTAL RESULT		**77 295**	**61 077**
PROFIT FOR THE YEAR IS DISTRIBUTED AS FOLLOWS:			
PROPOSED DIVIDEND		**0**	**30 000**
EARNED OTHER EQUITY		**77 295**	**31 077**
TOTAL		**77 295**	**61 077**

BALANCE SHEET

Amounts in USD 1000	Note	2020	2019
ASSETS			
Owner occupied properties	5	349	212
Subsidiaries and associated companies			
Investments in subsidiaries	17	581	126
Receivables from subsidiaries		70	34
Financial assets at amortised cost			
Bank deposits investment portfolio	11	17 401	26 192
Financial assets at fair value			
Shares and other equity investments	11,12,14	281 030	233 883
Bonds and other fixed income securities	11,12,13,14	710 990	698 669
Financial derivatives	14,15	1 322	825
Total investments		**1 011 744**	**959 941**
Reinsurers' share of gross claims provisions	8	**10 437**	**34 813**
Insurance related receivables		6 405	6 146
Reinsurers receivables		2 316	813
Other receivables		1 301	980
Total receivables		**10 021**	**7 939**
Equipment and fixtures	5	2 724	2 952
Cash and bank deposits	7	15 596	8 464
Other assets		7	19
Total other assets		**18 327**	**11 435**
Total prepaid expenses and accrued income		**161**	**379**
TOTAL ASSETS		**1 050 690**	**1 014 508**

EQUITY & LIABILITIES			
Other equity	16	822 542	718 997
Total equity		**822 542**	**718 997**
Provision for unearned gross premiums		0	0
Gross claims provisions	8	15 551	47 148
Total insurance reserves		**15 551**	**47 148**
Pension liability provisions	4	719	598
Taxes payable	6	45 068	9 365
Deferred tax liability	6	144 157	166 042
Other provisions		1 372	1 320
Total provisions		**191 316**	**177 325**
Insurance related liabilities		9 003	6 924
Reinsurance liabilities		3 315	3 773
Financial derivatives	14,15	6 381	4 536
Other liabilities		788	54 106
Total liabilities		**19 486**	**69 340**
Other accrued expenses and prepaid income		**1 795**	**1 698**
TOTAL EQUITY AND LIABILITIES		**1 050 690**	**1 014 508**

Oslo, 16 March 2021
The Norwegian Shipowners' Mutual War Risks Insurance Association

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STATEMENT OF CHANGES IN EQUITY

Amounts in USD 1000	2020	2019
OTHER EQUITY		
Other equity 01.01.	718 997	685 362
Total result	77 295	61 077
Proposed dividend	30 000	(30 000)
Translation effects	(3 750)	2 558
Other equity 31.12.	**822 542**	**718 997**

CASH FLOW STATEMENT

Amounts in USD 1000	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers	53 444	45 388
Cash paid to re-insurers	(21 481)	(13 676)
Net cash flow related to claims expenses	(4 855)	(20 734)
Paid insurance related administrative expenses	(5 793)	(5 037)
Net cash flow from the technical account	**21 315**	**5 941**
Net cash flow from interest, dividends and realised gains/losses on financial assets	(486)	16 546
Net cash flow from acquisition/disposal of financial assets	(6 750)	(10 071)
Paid administrative expenses related to financial assets	(6 521)	(5 957)
Net cash flow from the non-technical account	**(13 757)**	**517**
Net cash flow from operating activities	**7 559**	**6 459**
CASH FLOW FROM NON-OPERATING ACTIVITIES		
Net cash flow from acquisition/disposal of fixtures and fixed assets	(427)	(322)
Net cash flow from non-operating activities	**(427)**	**(322)**
Net cash flow in the period	**7 131**	**6 137**
Cash and bank 01.01.	8 464	2 328
Net changes in cash and bank	7 131	6 137
Cash and bank 31.12.	**15 596**	**8 464**

AREAS OF RISK

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 applies 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 for each 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 statements 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 assets' 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 in excess of 12 G. The payments to the defined contribution plan are expensed.

Deferred tax

Tax costs in the income statement 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 reserves 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.

Investments in subsidiaries

The turnover and equity in the subsidiaries are regarded as an insignificant addition to the group's business and has therefore not been consolidated in the accounts. Shares in subsidiaries are valued using the cost method.

Use of estimates

The reported amounts of assets, liabilities, income and expenses are in some cases based on estimates and assumptions that affect the application of accounting policies. Estimates and assumptions 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 the estimates are based on the best knowledge and assessment at the time the financial statements are approved by the Board. Revisions of accounting estimates are recognised in the period in which the estimates are revised.

The most significant estimate is used in Claims Reserves. 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).

NOTE 2 PAYROLL COSTS, NUMBER OF EMPLOYEES AND OTHER BENEFITS

On average there were 18 people employed by the Association in 2020. The following amounts are expensed as salary, fees and other benefits, and the following loans were outstanding:

2020

Amounts in USD 1000	Salary/ fees	Bonus	Pension costs	Other benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	447	99	271	37	**853**	0
Sverre Huse, Finance Director	361	74	183	17	**635**	0
Anders Hovelsrud, Insurance Director	181	21	37	3	**242**	0
Helena Brudvik, Head of Risk Management & Compliance	187	22	28	2	**239**	0
Freddy Furulund, Director of Security & Contingency	207	28	44	3	**281**	0
BOARD OF DIRECTORS						
Mons Aase, Chair	26	0	0	1	**27**	0
Synnøve Seglem, Vice-Chair	16	0	0	0	**17**	0
Vanessa Chapman, Board member	17	0	0	0	**17**	0
Eli Karin Vassenden, Board member	17	0	0	0	**17**	0
Eric Jacobs, Board member	17	0	0	0	**17**	0
Ivar H. Myklebust, Board member	15	0	0	0	**16**	0
Christopher Walker, Board member	17	0	0	0	**17**	0
Harald Fotland, Board member	17	0	0	0	**17**	0

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, Head of Risk Management & Compliance	191	25	22	3	**240**	0
Freddy Furulund, Director of Security & Contingency	211	37	33	3	**283**	0
BOARD OF DIRECTORS						
Jan Pedersen, Chair to 23 May 2019	26	0	0	1	**27**	0
Mons Aase, Chair from 23 May 2019	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**	

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

Holiday-pay accrued in 2019 is included under salary for 2020. 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 top 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 or the other members of the Board.

NOTE 3 AUDITOR'S FEES

The auditor's fees for 2020 include a legally required audit of USD 52 225 (43 530), tax related services of USD 10 368 (16 438) and other audit related services of USD 70 564 (4 126). These amounts are stated without value-added tax.

Other services from the auditor is itemized in the table below, excluding value-added tax:

Amounts in USD	2020	2019
Audit related services	5 458	4 126
Legal, tax-issues relating to equity distribution	54 478	0
Legal, other costs	10 628	0
Other services from auditor	**70 564**	**4 126**

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 covers 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 2020 was USD 375 131 (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		4 260	145	212
+ Additions during year		494	0	137
- Disposals during year		(153)	0	0
+ Exchange rate effects		(13)	0	0
Acquisition cost as at 31.12	**A**	**4 588**	**145**	**349**
Accumulated ord. depr. as at 01.01		1 452	0	0
+ Ordinary depreciation		638	0	0
- Disposals at acquisition cost		(75)	0	0
+ Exchange rate effects		(6)	0	0
Accumulated ord. depr. as at 31.12	**B**	**2 009**	**0**	**0**
Book value as at 31.12	**A-B**	**2 579**	**145**	**349**

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 572 million (712).

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 2020, NOK 700 million of reserves (around USD 82 million) was recognised for tax purposes (included in the note below under insurance reserves).

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.

Because DNK's application is pending approval, no provision for the distribution of equity was made in the financial statements for 2020.

Amounts in USD 1000	2020	2019
OVERVIEW OF TEMPORARY DIFFERENCES INCLUDED IN THE BASIS FOR DEFERRED TAX		
Fixed assets	(589)	79
Pension obligations	108	108
Insurance reserves	81 533	79 732
Gross claims provisions	(92)	(90)
Accrued variable compensation plan	916	0
Tax-exempt investments	20 663	2 824
Net temporary differences	**102 539**	**82 654**
Tax loss carryforward	0	0
Basis for deferred tax (tax asset) on balance sheet	576 628	664 169
Deferred tax (tax asset)	144 157	166 042
Deferred tax benefit not shown on balance sheet	0	0
Deferred tax (tax asset) on balance sheet	**144 157**	**166 042**
BASIS FOR DEFERRED TAX (TAX ASSET), CHANGE IN DEFERRED TAX AND TAX PAYABLE		
Pre-tax result (in NOK accounts)	66 610	81 083
Changes in temporary differences not in the basis for deferred tax (tax asset)	0	0
Permanent differences	(27 186)	(57 261)
Basis for the year's tax expense	**39 424**	**23 822**
Change in temporary differences included in the basis for deferred tax (tax asset)	102 539	82 654
Change in tax loss carryforward	0	(69 014)
Taxable income (basis for taxes payable on balance sheet)	**141 963**	**37 461**
OVERVIEW OF TAXES PAYABLE		
Payable tax (deficit)	35 491	9 365
Payable tax (deficit) from previous years	9 365	0
Exchange rate effects	211	0
Total taxes payable	**45 068**	**9 365**
Change in deferred tax (tax Asset)	(25 635)	(3 410)
Change in deferred tax due to changes in tax rates	0	0
Tax expenses (tax asset)	**9 856**	**5 955**
RECONCILIATION OF THE YEAR'S TAX EXPENSE		
Pre-tax result (in NOK accounts)	66 610	81 083
Tax on accounting result before tax 25%	16 653	20 271
Tax expenses in the income statement	9 856	5 955
Difference	**(6 797)**	**(14 315)**
OVERVIEW OF DIFFERENCE		
25% av permanent differences	(6 797)	(14 315)
Change in deferred tax due to changes in tax rates	0	0
Total differences	**(6 797)**	**(14 315)**

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 227 479 (212 427) of unpaid tax withholdings as at 31.12.20.

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 include 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	2020	2019
PROFIT & LOSS		
Gross paid claims	(17 492)	(21 934)
- Deducted claims provisions	17 260	14 239
Expensed gross claims	**(232)**	**(7 695)**
New gross claims provisions	14 337	(58 526)
Exchange rate effects	0	0
Gross expensed claims	**14 105**	**(66 221)**
Reinsurers' share of gross paid claims	12 638	1 200
- Deducted reinsurers' share of claims provisions	(11 901)	0
Expensed reinsurers' share of gross claims provisions	**737**	**1 200**
Change in reinsurers' share of gross claims provisions	(12 475)	33 341
Exchange rate effects	0	0
Reinsurers' share of expensed gross claims	**(11 738)**	**34 541**
Claims for own account	**2 367**	**(31 680)**
BALANCE SHEET		
Gross claims provisions 01.01	47 148	2 861
- Paid claims deducted from claims provisions	(17 260)	(14 239)
New claims provisions	(14 337)	58 526
Change in gross claims provisions	**(31 597)**	**44 287**
Exchange rate effects	0	0
Gross claims provisions 31.12	**15 551**	**47 148**
Reinsurers' share of gross claims provisions 01.01	**34 813**	**1 472**
- Deducted reinsurers' share from gross claims provisions	(11 901)	0
Change in reinsurers' share of gross claims provisions	(12 475)	33 341
Change in gross claims provisions	**(24 376)**	**33 341**
Exchange rate effects	0	0
Reinsurers' share of gross claims provisions 31.12	**10 437**	**34 813**
Claims provision for own account 31.12	**5 114**	**12 335**

NOTE 9 ITEMS THAT HAVE BEEN COMBINED IN THE ACCOUNTS

Amounts in USD 1000	2020	2019
Interest income from bank deposits	172	203
Interest income from domestic loans	0	0
Interest income on bonds	9 143	11 113
Dividends on equities	239	555
Interest and dividend from financial assets	**9 554**	**11 872**
Unrealised gains/losses on financial current assets	**64 278**	**64 549**
Exchange rate gains	5 107	1 568
Exchange rate losses	(2 508)	(1 285)
Realised gains/losses on equities	0	1 636
Realised gains/losses on bonds	2 251	(1 689)
Realised gains/losses on derivatives	(12 517)	4 727
Realised gains from financial assets	**(7 666)**	**4 957**
Administrative expenses associated with financial assets	**(6 920)**	**(6 417)**
Total income/loss from financial assets	**59 246**	**74 960**

NOTE 10 ADMINISTRATIVE EXPENSES

Amounts in USD 1000	Insurance 2020	Finance 2020	Total 2020	Total 2019
Salary and holiday pay, employees	1 662	1 662	3 325	3 128
Social security taxes	367	367	734	719
Pension cost	188	188	377	360
Other personnel costs	112	106	219	178
Fees	489	489	978	723
Rental costs, office and machinery	212	212	424	413
Ordinary depreciation	319	319	638	616
Other administrative expenses	2 750	3 576	6 326	5 680
Total administrative expenses	**6 100**	**6 920**	**13 020**	**11 816**

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 2020 were split 50/50.

NOTE 11 FINANCIAL ASSETS - FAIR VALUE HIERARCHY

Amounts in USD 1000	2020	2019
Equities	281 030	233 883
Bonds and fixed income securities	723 333	697 706
Total financial assets*	**1 004 363**	**931 589**

2020 - Financial assets measured at fair value over the income statement

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Equities	281 030	0	0	281 030
Bonds and fixed income securities	474 713	236 277	0	710 990
Financial derivatives, assets - liabilities	0	-5 058	0	-5 058
Cash and unsettled trades	17 132	269	0	17 401
Total	**772 875**	**231 488**	**0**	**1 004 363**
Distribution	77.0 %	23.0 %	0.0 %	100.0 %

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 and fixed income securities	474 422	224 247	0	698 669
Financial derivatives, assets - liabilities	0	-3 711	0	-3 711
Cash and unsettled trades	2 676	72	0	2 748
Total	**710 982**	**220 608**	**0**	**931 589**
Distribution	76.3 %	23.7 %	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

2020

Amounts in USD 1000	Value at cost	Fair value	Distribution
Mercer Passive Global Equity	88 420	123 331	43.9 %
State Street index world index	86 616	149 918	53.3 %
Equity index funds	**175 036**	**273 249**	**97.2 %**
Nordea Stable Equities, Global	4 999	7 781	2.8 %
Other equity funds	**4 999**	**7 781**	**2.8 %**
Total equities	**180 035**	**281 030**	**100.0 %**

2019

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 %**

The equity portfolio is primarily managed passively. The risk and return profile of the portfolio is thus similar to that of the global developed equity market. The global equity benchmark is delivered by MSCI and it is hedged to USD. The portfolio of index funds is also USD hedged. The equity portfolio is geographically 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 the Norwegian bond market, while the other portfolio is invested in global bonds. Both portfolios are hedged to USD. The benchmark for the Norwegian mandate is a combination of NORM1D3 and NORM123D3, both bond indices with a fixed duration of 3 years, hedged to USD. The benchmark for the global mandate is Barclays Global Aggregate Index with a duration of 1-3 years, hedged to USD. The weighted benchmark duration for the bond portfolio was 2.2 years, while the duration of the portfolio was 2.4 (2.4) at the end of 2020.

Amounts in USD 1000	2020 Market value	2019 Market value
Bonds and other fixed income securities	707 850	695 304
Accrued interest income	3 140	3 365
Unsettled trades	7 838	-23 444
Cash held with investment managers	9 563	26 192
Fixed income derivatives	-5 058	-3 711
Fixed income portfolio	**723 333**	**697 706**

Amounts in USD 1000	Value at cost	Market value	Value at cost	Market value
DISCREATIONARY MANDATES				
Norwegian bonds, USD hedged	124 602	131 235	126 963	122 975
Global bonds, USD hedged	459 528	486 266	471 332	472 235
BOND FUNDS				
Forte	8 398	8 240	8 293	7 845
Mercer ARFI	61 051	69 409	61 047	65 508
Pimco	19 552	28 184	21 648	29 144

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.

2020

Amounts in USD 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, Norwegian, USD hedged	18 %	A+	3.5	1.1 %	-4 491
Bonds, global, USD hedged	67 %	AA-	1.8	0.4 %	-8 558
Bond funds	15 %	A	3.9	2.2 %	-3 996
Total fixed income	**100 %**	**A+**	**2.4**	**0.8 %**	**-17 045**

2019

Amounts in USD 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, Norwegian, USD hedged	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**

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

	2020	2019
NOK	1 %	14 %
USD	99 %	86 %
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.

2020

Amounts in USD 1000

Rating	NOK	Global	Funds	Total	Distribution
AAA	8 849	206 222	24 646	239 717	33.1 %
AA	63 643	60 190	14 895	138 729	19.2 %
A	20 666	138 572	12 789	172 028	23.8 %
BBB	38 062	56 471	24 545	119 077	16.5 %
BB	0	17 770	9 236	27 005	3.7 %
B	0	10 909	3 193	14 102	1.9 %
CCC, lower	0	1 007	911	1 917	0.3 %
No rating	14	-4 874	15 617	10 757	1.5 %
Total	**131 235**	**486 266**	**105 832**	**723 333**	**100 %**

2019

Amounts in USD 1000

Rating	NOK	Global	Fond	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 %**

Government, government guaranteed, and municipal bonds, amount to 48 % (55 %) 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 it is subject to frequent assessment – with quarterly or annual reporting to the authorities while monthly estimates are reported 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 2020 including details on sub-risks, will be finalised by the reporting deadline in April. However, the solvency capital requirement is estimated at USD 386 million (412).

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 2020, the relative volatility was 1.0 %, which indicates that the portfolio's overall risk profile is fairly close to its benchmark.

At year-end 2020, the portfolio's risk profile was as indicated in the table below.

Amounts in USD million	2020	2019
Market risk	**144.8**	**155.8**
Equity	110.3	91.2
Spread	39.3	59.2
Currency	2.6	32.0
Interest	19.9	21.6
Concentration	10.3	9.5
Property risk	0.1	0.1
Diversification	-37.6	-57.8
Value-at-risk	**164.3**	**77.2**
Volatility	**6.3 %**	**3.2 %**
Relative volatility	**1.0 %**	**0.3 %**

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 calculations are based on historical data using the past 42 months.

The market risk varies mostly with changes in the portfolio's allocation to equities, bond duration, 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 to manage interest rate and foreign exchange risks. 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 efficiently. 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' ability to meet their obligations. Based on DNK's solvency margin and the simultaneous payment clause in its reinsurance contracts, the liquidity risk is considered to be 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. Respective investment agreements regulate each manager's ability to use derivatives to manage interest rate and foreign exchange risks. The managers are required to hedge their respective portfolio to USD.

The table below shows the financial derivatives on the balance sheet at year-end 2020 and 2019.

Amounts in USD 1000

FINANCIAL DERIVATIVES	2020	2019
+ Assets	1 322	825
- Liabilities	-6 381	-4 536
Net financial derivatives	**-5 058**	**-3 711**
Interest rate risk; futures	188	139
Currency hedging, bonds, forwards	-5 246	-3 850
Net financial derivatives	**-5 058**	**-3 711**

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 Norway 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 144,2 million at year-end 2020.

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 Supervisory 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 risks at sea. The additional capital requirement is set for one calendar year and changes as and when DNK amends its insurance and reinsurance program. For 2020, the additional capital requirement was USD 270 million (USD 286 million). The reduction in 2020 is explained by three factors; (i) higher premium and reserve risk which is captured by the standard module, (ii) higher diversification benefits, and (iii) the loss absorbing capacity of deferred tax was reduced. DNK has for 2021 proposed an additional capital requirement of USD 207 million which currently is being considered by the FSAN.

DNK's solvency capital margin at 31.12.2020 was USD 563 million corresponding to an SCR-ratio of 246 %.

Amounts in USD 1000

CAPITAL REQUIREMENT AT YEAR-END	2020	2019
Solvency Capital Requirement (SCR)	385 622	412 495
Minimum Capital Requirement (MCR)	96 405	103 124
Additional capital requirement (included in SCR)	270 400	285 900

SOLVENCY CAPITAL AT YEAR-END		
Basic own funds, Tier 1	790 388	695 395
Ancillary own funds, Tier 2	158 100	136 800
Total eligible own funds to meet the SCR	**948 488**	**832 195**
Tier 2 as a percent of SCR	41 %	33 %
Solvency capital margin	562 866	419 700
SCR-ratio	**246 %**	**202 %**

NOTE 17 INVESTMENT IN SUBSIDIARIES

The turnover and equity in the subsidiaries are regarded as an insignificant addition to the group's business and has therefore not been consolidated in the accounts. The cost method is used for the subsidiary's valuation.

Osprey Solutions AS 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 be integrated into existing operational systems.

NORMA Cyber Resilience Center is a joint effort between Den Norske Krigsforsikring for Skib (DNK) and the Norwegian Shipowners' Association and started operations from 1 January 2021. The centre delivers centralised cyber security services to Norwegian shipowners and other entities within the Norwegian maritime sector. NORMA Cyber aims to be the leading hub for operational cyber security efforts within the Norwegian maritime sector. DNK has a 51 % ownership in NORMA Cyber.

Amounts in USD 1000

Investments in Subsidiaries	2020	2019
Osprey	253	126
NORMA Cyber	328	0
	581	**126**

Receivables from Subsidiaries		
Osprey	70	34
NORMA Cyber	0	0
	70	**34**

NOTE 18 EVENTS AFTER THE BALANCE SHEET DATE PENDING REGULATORY APPROVAL

DNK has sought Finanstilsynet's approval of a planned USD 300 million distribution of equity to its members. Finanstilsynet is currently reviewing DNK's application. Because the application is pending approval, no provision for the distribution of equity was made in the financial statements for 2020.

AUDITOR'S REPORT

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 2020, 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 2020, 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.

PricewaterhouseCoopers AS, Dronning Eufemias gate 71, Postboks 748 Sentrum, NO-0106 Oslo
T: 02316, org. no.: 987 009 713 VAT, www.pwc.no
State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Independent Auditor's Report - Den Norske Krigsforsikring for Skib Gjensidig forening

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.

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

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, 16 March 2021
PricewaterhouseCoopers AS

Thomas Steffensen
State Authorised Public Accountant

(This document is signed electronically)

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