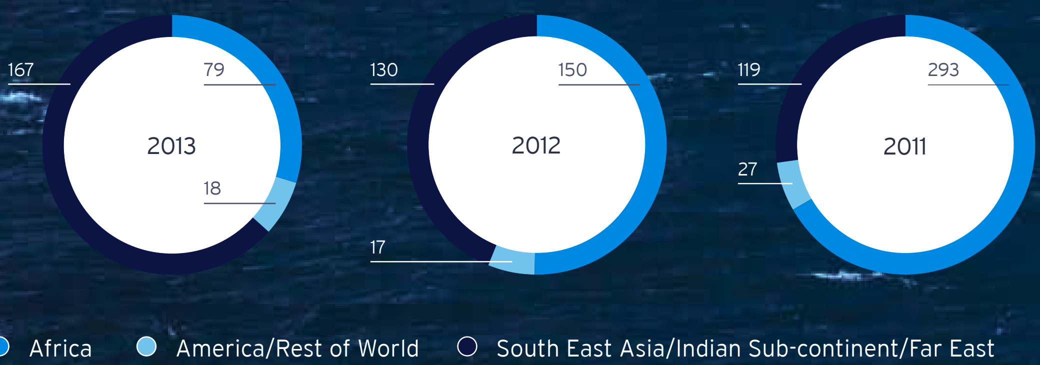
DEN NORSKE KRIGSFORSIKRING FOR SKIB
GJENSIDIG FORENING
The Norwegian Shipowners' Mutual
War Risks Insurance Association

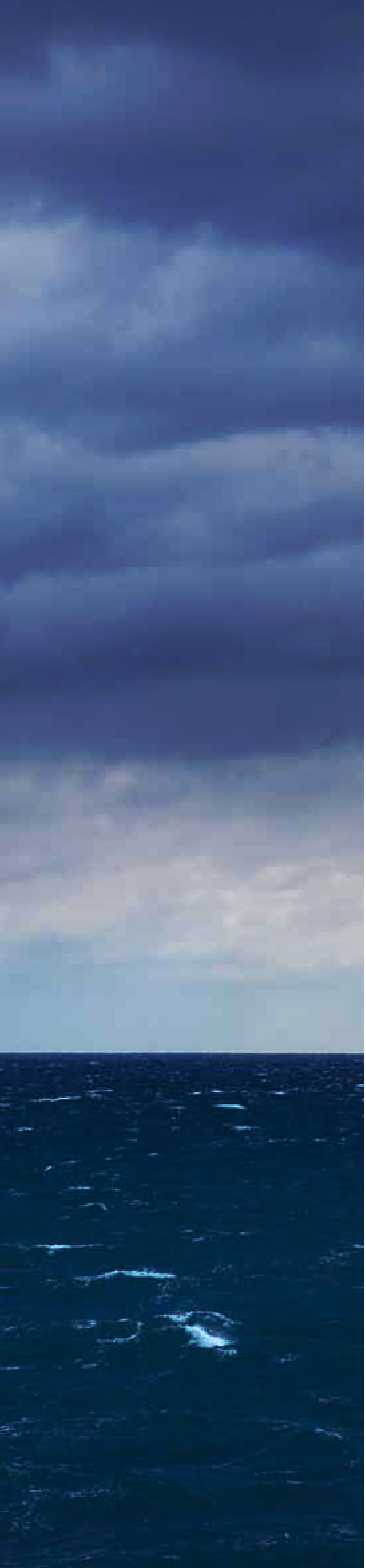
ANNUAL REPORT 2013

AREAS AT RISK

GLOBAL PIRACY INCIDENTS

Source: International Marine Bureau (IMB)





CONTENTS

78TH FINANCIAL YEAR

The annual report of The Norwegian Shipowners' Mutual War Risks Insurance Association ("the Association" or "DNK") is presented in English, with financial statements in both USD and NOK. The NOK version is the official report as required by Norwegian law. Both the NOK and USD figures are audited. The Board of Directors' Report states figures in USD. Key figures are also stated in NOK. The method for converting the financial statements from NOK to USD is stated in the accounting principles.

The four Danish and Norwegian vessels which are ready to bring Syria's chemical agents to destruction, were maneuvering in international waters close to Syria. While waiting for the final order to head for Syria, the four ships are practising different exercises and preparations. The cargo vessel "Taiko" are one of the two vessels that will transport the chemical agents. Photo: Lars Magne Hovtun / Forsvarets Mediearkiv.

ANNUAL REPORT 2013

|1| GOVERNING BODIES

BOARD OF DIRECTORS

MEMBERS
Jan Pedersen Chairman • Kristian Gerhard Jebsen Skibsrederi AS
Garup Meidell Vice-Chairman • SinOceanic,Shipping ASA
Benedicte Bakke Agerup • Wilh. Wilhelmsen ASA
Trine-Lise Wilhelmsen • Scandinavian Institute of Maritime Law
Olav Eikrem • Frontline Management AS
Harald Fotland • Odfjell Management AS
Mons Aase • DOF ASA

DEPUTIES
Roar Flom • Leif Høegh & Co AS
Magne A. Reiersgård • Petroleum Geo Services ASA
Vanessa Chapman • Odfjell Drilling AS

SUPERVISORY COMMITTEE

MEMBERS
Rolf Sæther Chairman • Ex. Norwegian Shipowners' Association
Henrik Aass • State Authorised Public Accountant
Ivar Alvik • Scandinavian Institute of Maritime Law

DEPUTY
Salve Sandvik • Sandvik Shipping & Trading AS

ELECTION COMMITTEE

MEMBERS
Johan Hvide • Seatrans AS
Per Rolf Sævik • Havila Shipping ASA
Trond Kleivdal • Color Line AS

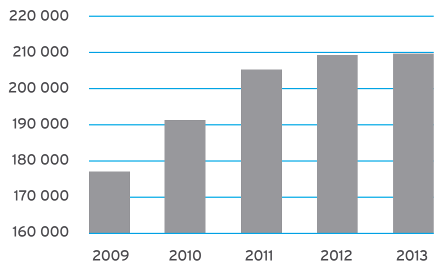
EXTERNAL AUDITOR

PricewaterhouseCoopers AS

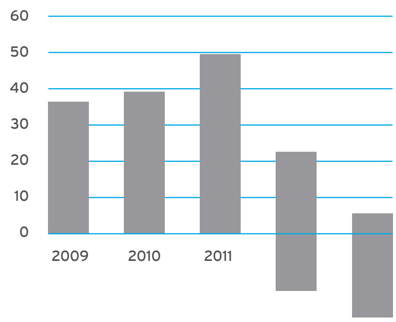
|2| KEY FIGURES

Amounts in USD million

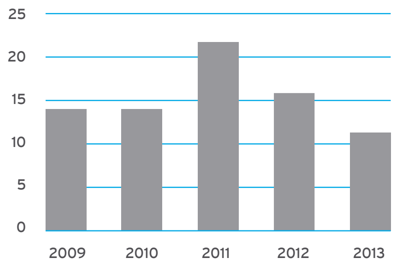
Insured values



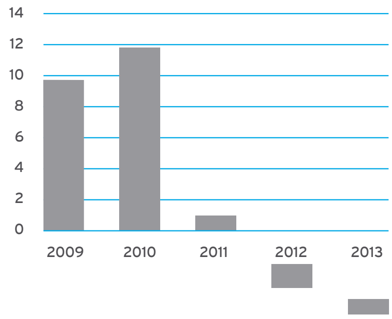
Gross premiums



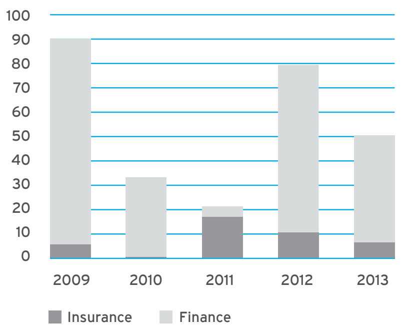
Premium for own account



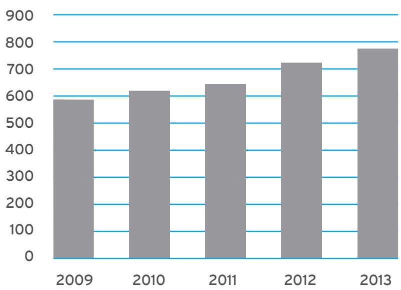
Gross claims



Operating result



Insurance reserves



|3| BOARD OF DIRECTORS' REPORT

The Norwegian Shipowners' Mutual War Risks Insurance Association, ("DNK" or "the Association") is a mutual insurance association covering members' interests in ships, drilling rigs and other similar mobile units against risks of war, terrorism and piracy.

The Association's business is conducted from its office in Oslo.

HIGHLIGHTS 2013

- At the end of 2013 DNK insured 2,989 ships and mobile rigs (3,011 in the previous year), with an aggregate value of USD 210 billion (209). An additional 30 (18) newbuildings were covered.

- The number of pirate attacks was dramatically reduced and no merchant ships were hijacked in the Indian Ocean during 2013. Somali pirates still have capability and intent to hijack ships transiting the Indian Ocean. Attacks on maritime units continue in the Gulf of Guinea, while piracy and maritime crime is on the rise in South East Asia. Vessels insured by DNK suffered only minor incidents in these areas in 2013.

- In 2013, the insurance side generated a satisfactory result, but both the number of voyages in the conditional trading areas off the Horn of Africa, and the average premium rates, declined versus 2012. The combination of premium income and low losses allowed for an adjustment of additional premiums before year-end. On the financial side, 2013 was also a satisfactory year, with an investment return of 6.7 % in USD.

- The war risk insurance market is currently characterised by high capacity. Reinsurance contracts were renewed at satisfactory terms, enabling the Association to retain competitive rates in 2014.

- The Oslo Maritime Security Seminar attracted more than 100 participants. The seminar is jointly arranged by the Norwegian Shipowners' Association and DNK.

- At the end of 2013 DNK's buffer capital was USD 1.15 billion. This capital consists of two elements; insurance reserves and mutual liability. The insurance reserves, including equity, increased by USD 49 million in 2013 to USD 770 million. The mutual liability decreased by USD 41 million to USD 377 million. The buffer capital was 0.5 % of gross insured values at the end of 2013.

Photo: Grieg

RESULTS 2013

Gross premium income in 2013 amounted to USD 28.9 million (38.6). The reduction of USD 9.8 million, or 25 %, is explained by two factors; year-end premium adjustment and lower rates. The premium adjustment of USD 15 million in 2013 was USD 4.2 million less than the year before. Annual rates declined, on average, 5 % in 2013. In the conditional trading areas average rates were down 13 % while the number of additional premium calls fell 11 % versus 2012. Annual premiums represented 47 % of gross premium income, whereas additional premiums for conditional trading areas constituted the balance.

Reinsurance costs fell by USD 5.2 million, or 23 %, in 2013. The reduction was mainly related to activity in the conditional trading areas.

Premiums for own account amounted to USD 11.3 million in 2013 (15.9). This is a reduction of USD 4.6 million, or 29 %, compared with 2012. Annual premiums slightly exceeded 30 % of premium income for own account in 2013, whereas the balance came from additional premiums.

There were negligible claims costs in 2013 (0.8). No units insured with the Association have been hijacked by Somali pirates in the last three years, as against one vessel in each of 2009 and 2010.

The result from insurance activities amounted to USD 6.4 million (10.7) after payment of no-claims bonus. This figure includes administration costs, but excludes allocated investment return and changes in the insurance reserves. The 2013 administration costs relating to insurance activities were similar to those of the previous year.

Income from investments, after administration costs, amounted to USD 45.0 million (68.9). The investment portfolio produced a return of 6.7 % in 2013 (11.2 %), measured in USD. On average equities made up 28 % of the portfolio. The remaining part of the portfolio was invested in Norwegian and international bonds. The financial performance is explained by high returns in stock markets, mitigated by a slight negative performance in bonds due to rising market rates.

The investment return in 2013 was 6.7 % in USD.

The operating result before changes in insurance reserves and tax amounted to USD 51.3 million in 2013 (78.9). After the allocation of USD 48.9 million (82.3) to the insurance reserves and an increase in deferred tax of

USD 2.4 million (-3.4), the Association's total result after tax for 2013 was USD 0.0 million (0.0). Insurance reserves, including equity, amounted to USD 770.0 million at the end of 2013 (721.1).

Measured in NOK, the 2013 result before changes in insurance reserves and tax amounted to NOK 674.9 million (171.9). After tax and the allocation of NOK 660.6 million to the Association's insurance reserves (191.0), the total result for 2013 was NOK 0.0 million (0.0).

Insurance reserves, including equity, amounted to NOK 4,669 million at the end of 2013 (4,008).

Cash flow from the insurance activities was USD 7.1 million in 2013 (10.7), where premium income, reinsurance and administrative costs were the main items. Cash flow from finance activities was USD -5.5 million (-15.6). Realised gains and losses from the sale of financial assets, reinvestments and administrative expenses constitute the major cash flow items in portfolio management. Net investment in fixed assets was USD 0.3 million (1.0). Net cash flow for the period was USD 1.4 million (-5.9). At the end of 2013 cash and bank amounted to USD 6.7 million (5.3) or NOK 40.8 million (29.7).

Allocation to insurance reserves is based on an evaluation of current liabilities and risks against available reserves. The Association has, in the Articles of Association and policy wordings, defined its liabilities in case of an automatic termination of reinsurance due to a war between major powers. Such obligation is a major determinant of DNK's capital needs. Counterparty risk related to reinsurance and mutual liability is also recognised, as well as the need to continue operations in spite of catastrophic events. These factors combine to determine the Associations capital needs. The allocation of the result for 2013 to the insurance reserves is consequently a confirmation that the Association needs to increase its capital base, including mutual liability, to cover the risks to which it is exposed.

At year end 2013, the insurance reserves were USD 770 million, respectively NOK 4,669. ”

The Board confirms that the prerequisite for the continuance of business operations has been met and assumed in the presentation of DNK's financial statements.

The Board is not aware of any incidents occurring after the balance sheet day that may have any bearing on the presented accounts for 2013.

INSURANCE ACTIVITIES

DNK is one of the world's leading providers of war risk insurance for ships, whether measured in terms of scope of cover, ability to insure the most valuable vessels, risk-bearing capacity, or number of units insured and their aggregate value. DNK is also in the forefront when it comes to adopting new technological solutions enabling the Association to further enhance its service level and to assist members effectively in emergencies. The Association offers competitive premiums. New covers are developed and introduced to reflect changes in the market, or as special products exclusively offered to our members. One example is the expanded cover addressing the challenges presented by modern piracy.

The current war risk insurance market provides satisfactory returns, but both capacity and competition have increased in recent years. Over time, this has resulted in lower premiums, which is positive from a member's perspective.

A new insurance director, Göran Skuncke, with experience from both underwriting and claims handling, was employed in March 2013.

The threats

The aftermath of the Arab spring has led to instability and a challenging security situation for international shipping in many key countries. While this has not resulted in any losses during 2013, there have been some problems affecting members' operations. Such situations can occur again, and may escalate into incidents triggering the insurance cover provided by DNK. Piracy has, however, dominated DNK's activities in recent years, particularly as product development, emergency response, and claims are concerned.

DNK has also employed a new risk analyst, Ingrid Mellingen, who regularly provides members with input on threats against the shipping industry in areas where members operate.

Loss prevention and contingency measures

During 2013, the Association again placed emphasis on its cooperation with the Norwegian Shipowners' Association on matters such as loss prevention and contingency measures.

Services where members are given access to timely information about threats in key shipping areas and areas particularly affected by piracy, such as the Indian Ocean, Gulf of Guinea and South East Asia, have also been prioritised.

Special contingency measures remain in place to handle potential hijackings. These give members access to the expertise and services required to deal with a hijacking, without the need to obtain separate insurance cover or enter into separate contracts for the supply of such services.

Insurance conditions, premium adjustments and reinsurance

DNK's insurance conditions were adapted to fit the transition from the old "Norwegian Marine Insurance Plan" to the new "Nordic Marine Insurance Plan of 2013". The conditions were maintained unaltered through the renewal for 2014.

Based on positive premium and claims figures, and a stable insurance cover, reinsurance costs for 2013 were reduced and passed on to members in terms of lower premiums.

Norwegian frigate KNoMS Helge Instad on mission in the Mediterranean sea to escort Syria's chemical agents to destruction.
Photo: Torbjørn Kjosvold / Forsvarets Mediearkiv.

INVESTMENT MANAGEMENT

Equities and bonds produced highly contrasting returns in 2013. Loose monetary policies were continued through the year, and even expanded in Japan, while the Federal Reserve announced a likely tapering of its quantitative easing. This triggered a gradual rise in interest rates that largely explains the dismal performance of aggregate global bond indices in 2013. Economic growth was still meagre, but indicators in the U.S. showed signs of improvement, notably a rise in employment and housing prices. Even if growth stalled in Europe, a further deterioration in peripheral countries was avoided. Thus, a feared global economic set-back was largely sidestepped in 2013. Political debacles relating to the debt ceiling in the U.S., the fiscal cohesion in the EU, and the role and powers of the European Central Bank, caused intermittent volatility in financial markets. So did also signals of dampening growth in emerging countries, such as China. Yet, actual and potential bad news was outstripped by economic strength, recovering earnings and strong liquidity caused by loose monetary policies. The USD gained strength versus other major currencies such as the EUR and notably the YEN.

The table below shows the return for a number of market indices that are of particular relevance to DNK's investment management. The global equity index increased 38.6 % over the last three years, while global bonds rose 11.3 % in value. Over the same period Norwegian government bonds produced a return of 9.4 %. The U.S. dollar strengthened against the Norwegian krone (NOK), both in 2013 and over the last three year period.

DNK's financial investments are allocated approximately 85 % to USD and the balance to NOK. This split mirrors the currency composition of the Association's liabilities and premium income.

Return/ change in value %	2013	2012	2011	3 years
Global equities, MSCI, USD	26.7	15.8	-5.5	38.6
Global bonds, Barclays, USD	-0.1	5.7	5.4	11.3
Norwegian government bonds, 3 years, NOK	0.9	2.2	6.1	9.4
USD vs. NOK	9.1	-7.0	2.4	3.9


HNoMS Fridtjof Nansen in the Red Sea. Photo: Torbjørn Kjosvold / Forsvarets Mediearkiv.

The investment portfolio comprises global liquid securities and fund units. The strategic allocation to equities is 25 %. The remaining 75 % of the portfolio is primarily allocated to investment-grade bonds with an average maturity of 4 to 5 years. The investment portfolio may periodically deviate from its benchmark within a defined band.

Measured in USD, the portfolio return was 6.7 % in 2013 (11.2 %). This return was better than the benchmark. In NOK, the portfolio return was 16.5 % in 2013 (3.5 %).

The main part of DNK's financial investments is managed through two external mandates, one Norwegian and one global portfolio of bonds, while a smaller part is invested in fund units. The investment management agreements regulate interest rate risk, currency risk, credit risk, relative volatility and concentration risk. The equity portfolio is also managed externally. It is benchmarked against global markets using index funds. DNK's investments are hedged to ensure the desired exposure to USD.

The Board has set guidelines for the level of market risk in the investment portfolio. Market risk is the annual loss potential calculated by stress-testing and Value at Risk. The portfolio's degree of active risk is measured by relative volatility. The table below shows these risk measures at the end of 2013 and 2012.

The increased loss potential in the stress test in 2013 was driven by two factors. The stress factor for equities was raised from 36 to 48 % by the Financial Supervisory Authority of Norway (Finanstilsynet), and the allocation to equities increased from 25 to 29 %. Value at Risk is annualised from monthly observations over the recent three and a half years. The marginal increase in VaR reflects a higher allocation to equities mitigated, in part, by lower overall market volatility. Relative volatility measures the degree of active risk in DNK's portfolio compared to its benchmark.

Risk measures	2013	2012
Stress test, USD million	-120.8	-84.0
Value at Risk (VaR), USD million	-109.5	-106.7
Relative volatility, %	1.3	1.3

Photo: Torbjørn Kjosvold / Forsvarets Mediearkiv.

GOVERNANCE

The Association's objectives and membership conditions are laid down in the Articles of Association. The governing bodies are the General Meeting, the Board of Directors, the Supervisory Committee, and the Nomination Committee. The Board of Directors also serves as DNK's Audit Committee and its Compensation Committee.

An ordinary general meeting is held each year. An extraordinary general meeting can be convened at the discretion of the Board or if otherwise demanded by a specified percentage of the members.

The general meeting is the Association's governing body. The Articles of Association outline the scope and conduct of an ordinary general meeting. Each member has a number of votes proportional to the value of its tonnage registered with DNK. There are no restrictions concerning voting rights. The Articles of Association also sets guidelines for the composition of the Board, its procedures and functions.

DNK's Articles of Association also deal with the setting of premiums, financial reporting, premium adjustment and the members mutual liability. The Articles include special rules applicable to crisis situations.

War risk insurance involves unique forms of risk. Neither the timing nor the size of possible claims can be statistically predicted. A long period without claims may be followed by catastrophic events. DNK is therefore exempted from the standardised capital requirements imposed on general insurance companies operating in Norway. The capital requirement is instead calculated according to stress tests approved by the Financial Supervisory Authority of Norway (Finanstilsynet). The Association is not required to have an actuary in-house. DNK's Controller reports directly to the Managing Director and to the Board of Directors.

DNK is subject to requirements governing Solvency II for insurance companies.

RISK MANAGEMENT

The Board sets principles and guidelines for DNK's risk management and internal control. Risk strategies and guidelines are reviewed at least once a year.

Independence in control functions, risk monitoring and reporting is achieved through segregation of duties, systematic re-examination procedures, and independent reporting lines. The Association's Controller has an independent control, risk assessment and reporting function. Furthermore, an external auditor undertakes an annual review of DNK's risk management and internal control systems.

Through its activities, the Association is exposed to insurance risk, counterparty risk, market risk, liquidity risk and operational risk. A loss potential is calculated for these risks in order to measure and manage the aggregate risk in relation to the Association's available capital. The Association is organised to comply with the Board's goal of maintaining a moderate-to-low risk profile.

Insurance risk is managed mainly by limiting the exposure for individual products, and through reinsurance. Premiums are fixed on an annual basis. Rates for conditional trading areas are assessed for each voyage according to current evaluations of the underlying risks.

Counterparty risk is managed by setting credit quality standards and concentration limits for participating reinsurers. The use of financial derivatives is mainly limited to currency hedging with standardised products. The parties to any hedging contract have to meet defined standards of creditworthiness.

Market risk is managed through requirements embodied in the Association's investment strategy. Broadly speaking, limits are placed on interest rate risk, active risk, equities risk, currency risk and credit risk.

Liquidity risk is monitored by assessing the Association's ability to meet claims and liabilities in a catastrophe scenario.

Operational risk is managed through a framework of guidelines to ensure a clear strategy and policies, defined responsibilities and reporting lines, sound internal control, regular risk assessments, follow-up procedures for operational incidents, and updated contingency plans.

A more quantitative overview of the Association's main risks, and their management, can be found in the notes to the financial statements.

DNK is implementing the European Union's Solvency II directive. The existing framework for risk management is refined to comply with the capital requirement under Solvency II, including procedures for own risk and solvency assessment (ORSA).

A model is required to calculate the capital requirement for war risk insurance under Solvency II. DNK is developing its model in close dialogue with the Financial Supervisory Authority of Norway. The Association's implementation of Solvency II has been assigned to three internal project groups dealing with the following pillars: i) capital requirements, ii) risk management and internal control, and iii) reporting.

CAPITAL REQUIREMENTS

In 2008, DNK introduced a limit of USD 1 billion on cover in case of war between major powers. The Association's buffer capital was USD 1.15 billion at the end of 2013, split between USD 770 million in insurance reserves, including equity, and USD 377 million in members' mutual liability.

The minimum capital requirement is calculated for two different scenarios, which vary with the Association's exposure in these scenarios and the corresponding reinsurance cover(s). DNK's capital situation satisfies the authorities' minimum requirements.

Further quantitative details of the Association's buffer capital and capital requirements can be found in the notes to the annual accounts.

ADMINISTRATION

The Association had 15 employees at the end of 2013.

Sick leave in 2013 equalled 108 days (28), which represented 2.7 % (0.7 %) of overall working hours. There were no serious work-related accidents resulting in material injury to personnel or property. The Association is not engaged in activities that pollute the environment.

The Association seeks to contribute to the development of employees, and their careers, irrespective of gender.

DNK's Board consists of two women and five men. The Association's administration consisted of ten women and five men at the end of 2013.

THE BOARD OF DIRECTORS

JAN PEDERSEN
Chairman

GARUP MEIDELL
Vice-Chairman

TRINE-LISE WILHELMSEN

HARALD FOTLAND

BENEDICTE BAKKE AGERUP

MONS AASE

OLAV EIKREM

SVEIN RINGBAKKEN
Managing Director

OUTLOOK

The main factors affecting DNK's result are changes in the values insured, members' activities in conditional trading areas, premium levels in the market at large, price and availability of reinsurance, return on financial investments, and claim costs.

The trend in premiums for war risk insurance is influenced by developments in geopolitical risk in general as well as by more local factors such as piracy. There seems to be no short-term solution to the problem of piracy in the Indian Ocean although the level of activity was low in 2013. The problems with maritime crime and piracy in the Gulf of Guinea are expected to continue. Proactive measures are taken in cooperation with members and the authorities to mitigate potential damage.

DNK's cover is renewed at the start of each calendar year. Rates for annual premiums have been on a steady decline in recent years, while the value of entered tonnage has been steadily increasing. Reinsurance costs have been significantly reduced over the past several years. A satisfactory reinsurance renewal at the end of 2013 is expected to have a positive impact in 2014. Additional premium rates for conditional trading areas are more volatile, but have also moved along a downward trend.

Additional premiums for conditional trading areas fluctuate with the perceived risk and the number of transits or port calls. Generally, the activity in these areas has been high the last few years, but with a small reduction through 2013. Current conditional trading areas suggest that DNK's insurance activities will produce a satisfactory result in 2014, even if, as is probable, additional premium rates are lower than in 2013. Increased capacity in the war risk insurance market will also contribute to reduce current rates, barring any significant change in perceived risks or claims. It is the Association's aim to offer competitive premiums, and increased capacity in the market should thus benefit DNK's members. War risk claims costs are unpredictable in nature. The investment portfolio has a moderate risk profile, and the expected return is correlated with movements in the global equity and bond markets.

The Association's buffer capital consists of insurance reserves and the members' mutual liability.

Reduced annual premiums in 2014 will lead to a reduction in the size of the members' mutual liability. This is somewhat concerning, particularly in the context of new and potentially more stringent solvency regulations in coming years. The Association will consider alternative methods for calculating members' mutual liability to lessen the potential negative effects of variations in annual premiums.

The buffer capital at the end of 2014 is expected to be marginally higher than year-end 2013.

The Norwegian Shipowners' Mutual War Risks Insurance Association Oslo, 24th of March 2014.

Jan Pedersen
(Chairman)

Garup Meidell
(Vice-Chairman)

Benedicte Bakke Agerup

Mons Aase

Trine-Lise Wilhelmsen

Harald Fotland

Olav Eikrem

Svein Ringbakken
(Managing Director)

Photo: Höegh Autoliners

FINANCIAL STATEMENTS in USD

INCOME STATEMENT

Amounts in USD 1000	Note	2013	2012
PREMIUMS			
Gross premiums		28 856	38 648
Reinsurance premiums		(17 594)	(22 749)
Premiums for own account		**11 262**	**15 898**
Allocated investment return		**11 344**	**10 324**
CLAIMS			
Claims paid			
Gross claims paid	8	(1 892)	(682)
- Reinsurers' share of gross claims	8	546	0
Change in claims provisions			
Change in gross claims provisions	8	934	(913)
- Change in reinsurers' share of gross claims provisions	8	425	800
Claims for own account		**13**	**(795)**
Insurance related administrative expenses	2, 3, 4, 5, 9, 10	**(4 890)**	**(4 367)**
Technical result before allocation to reserves		**17 730**	**21 061**
Allocation to insurance reserves	16	**(48 984)**	**(82 253)**
OPERATING RESULT OF TECHNICAL ACCOUNTS		**(31 254)**	**(61 960)**
Interest and dividend from financial assets	9	14 259	13 885
Change in fair value of financial assets	9	9 440	42 624
Realised gains from financial assets	9	25 947	16 859
Administrative expenses related to financial assets	2, 3, 4, 5, 9, 10	(4 694)	(4 513)
Total income/loss from financial assets		**44 951**	**68 855**
Allocated investment return to technical accounts		**(11 344)**	**(10 324)**
OPERATING RESULT NON-TECHNICAL ACCOUNTS		**33 607**	**58 530**
PRE-TAX RESULT		**2 353**	**(3 430)**
Tax expenses	6	(2 353)	3 430
TOTAL RESULT		**0**	**0**

BALANCE SHEET

Amounts in USD 1000	Note	2013	2012
ASSETS			
Owner occupied real estate	5	212	212
Mortgage-backed loans at amortised cost	2	37 263	15 465
Shares and other equity investments	11, 12, 14	222 105	182 433
Bonds and other fixed income securities	11, 12, 13, 14	537 144	547 842
Financial derivatives	14, 15	109 046	96 018
Total investments		**905 770**	**841 970**
Reinsurers' share of gross claims provisions	8	**1 701**	**1 287**
Policy holders receivables		2 299	4 299
Reinsurers receivables		0	0
Other receivables		7 049	1 341
Total receivables		**9 348**	**5 640**
Fixtures and other fixed assets	5	1 463	1 392
Cash and bank	7	6 724	5 347
Other assets	4	157	110
Total other assets		**8 345**	**6 848**
Total prepaid expenses and accrued income		**346**	**179**
TOTAL ASSETS		**925 511**	**855 924**
EQUITY & LIABILITIES			
Equity	16	**0**	**0**
Provision for unearned gross premiums		0	0
Gross claims provisions	8	685	1 613
Insurance reserves	16	770 037	721 054
Total insurance reserves		**770 723**	**722 667**
Pension liability provisions	4	1 009	1 253
Tax provisions	2, 6	0	9
Deferred taxes	2, 6	9 269	7 555
Other provisions		0	85
Total provisions		**10 287**	**8 901**
Reinsurance liabilities		2 112	2 969
Financial derivatives	14, 15	109 531	90 663
Other liabilities		30 112	28 936
Total liabilities		**141 755**	**122 569**
Other accrued expenses and prepaid income		**2 746**	**1 787**
TOTAL EQUITY AND LIABILITIES		**925 511**	**855 924**

The Suez canal. Photo: Torbjørn Kjosvold / Forsvarets Mediearkiv.

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

Oslo, 24th of March 2014

The Norwegian Shipowners' Mutual War Risks Insurance Association

Jan Pedersen
(Chairman)

Garup Meidell
(Vice-Chairman)

Benedicte Bakke Agerup

Mons Aase

Trine-Lise Wilhelmsen

Harald Fotland

Olav Eikrem

Svein Ringbakken
(Managing Director)

Photo: Siem Offshore

CASH FLOW STATEMENT

Amounts in USD 1000	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	31 566	38 717
Cash paid to re-insurers	(18 451)	(22 751)
Net cash flows related to claims expenses	(1 329)	(704)
Paid insurance related administrative expenses	(4 657)	(4 544)
Net cash flows from the technical accounts	**7 129**	**10 719**
Net cash flows from interest, dividends and realised gains/losses on financial assets	27 514	27 163
Net cash flows from acquisition/disposal of financial assets	(28 539)	(38 108)
Paid administrative expenses related to financial assets	(4 461)	(4 690)
Net cash flows from the non-technical accounts	**(5 486)**	**(15 635)**
Net cash flows from operating activities	**1 642**	**(4 916)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows from acquisition/disposal of fixtures and fixed assets	(265)	(1 031)
Net cash flows from investing activities	**(265)**	**(1 031)**
Net cash flows in the period	**1 378**	**(5 947)**
Net changes in cash and bank	1 378	(5 947)
Cash and bank 01.01.	5 347	11 293
Cash and bank 31.12.	**6 724**	**5 347**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: Accounting principle

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

Classification and evaluation of balance sheet items

Current assets and short-term liabilities include items associated with insurance and administration activities. The following assets are classified as financial current assets:

- Shares and units
- Bonds and other fixed or variable income securities
- Financial derivatives
- Other financial current assets

Financial assets

The Association uses the possibilities provided in the accounting regulations of insurance companies, § 3-3 and IAS 39 point 9, to measure equities, units, bonds and claims on credit institutions at fair value through profit or loss in accordance with the fair value option. Loans to employees are valued at amortised cost.

Financial derivatives are classified in the trade category in accordance with IAS 39 and are measured at fair value.

Recognition and measurement of financial assets

Regular purchases and sales of financial assets are recogniced 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 recongised at fair value, and transaction costs are expences in the income statement. Financial assets are derecognised when the rights to receive cash flow from the investments have expired or have been transferred, and the Association has transferred substantially all risk and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains of losses arising from changes in the fair value, including dividends and interest income, is included in "change in value of financial assets", and "realised gain and loss on financial assets" in the period in which they arise. Dividend income from financial assets is recognised in the income statement when the Associations right to receive payments is established.

Fair value of financial instruments listed or traded on an exchange is based on the acquisition cost.

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.

Employee Loans

Employee loans are entered on the balance sheet at their nominal values with deductions for any losses and provisions for losses. Specific loss provisions are intended to cover expected loan losses that are identified on the balance sheet date as doubtful commitments.

Foreign exchange

The Association's goal is to reasonably balance receivables against potential obligations in each individual currency.

The portfolio principle is used for all currencies collectively. The cost price of foreign securities, classified as financial assets, is converted to USD at the exchange rate on the transaction day. The fair value is converted to USD at the exchange rate on the balance sheet date, and unrealised exchange rate gains/losses are recognised in the accounts.

Liquid assets, receivables and liabilities are converted at the exchange rate on the balance sheet date. Any other balance sheet items are recognised at the exchange rate on the acquisition date.

Fixed assets

Fixed assets are recognised at historical cost in the balance sheet and depreciated linearly over the asset's life. The direct maintenance of business equipment is recognised in operating expenses on an on-going basis, while additions or improvements are capitalised to an asset's cost price and depreciated along with the asset.

Pensions

Pension costs are accounted for in accordance with the Norwegian accounting standard for pensions.

The Association has two collective pension insurance schemes for its employees, plus an additional scheme for salaries surpassing 12 G. The schemes are defined benefit schemes, which means that pensions are based on linear accrual and expected final salary. Prior service costs are amortised over the expected remaining earning period. The same applies to deviations in estimates to the extent that they exceed 10% of the larger of pension obligations or pension assets.

Pension assets and pension liabilities are estimated on an annual basis. The estimated values are corrected each year in accordance with calculations performed by an actuary. The employer's contribution accrues for unsecured pensions.

Deferred tax

Tax costs in the profit and loss account consist of taxes payable and changes in deferred tax/tax benefits.

Taxes payable are calculated on the basis of the year's taxable result.

Deferred tax is calculated at 27 % on the basis of the temporary differences that exist between book and tax values, as well as the deficit for tax assessment purposes that will be carried forward at the end of the financial year. Tax increasing and tax reducing temporary differences that are reversed or could be reversed during the same period are offset and the tax effect is calculated on a net basis.

Real estate

The Association does not currently own any real estate except for an apartment in Spain. This is valued at the lowest of cost and market value. Any write down is treated as an ordinary expense in the profit/loss accounts. There is no depreciation on real estate.

Allocated investment returns

Allocated investment returns have been transferred from the non-technical accounts and comprise the amount equivalent to the estimated return on the financial year's average insurance reserves. An actuarial interest rate that is equal to the average yearly yield on government bonds with 3 years remaining until maturity is used to calculate the investment return. The amount is calculated in accordance with the requirements issued by The Financial Supervisory Authority of Norway (Finanstilsynet).

Premium recognition and premium for own account

Premium and commision are recognised when earned. Premium for own account includes premiums written, net of premiums ceded (reinsurance). All premium payments follow the calendar year, so there is no allocation to premium reserve at year end. Premium for own account appears in the technical accounts.

Cost recognition and claims reserve

Claims are expensed as incurred. Other costs are expensed in the same period as the income to which they relate is recognised. Claims reserves are intended to cover anticipated future claims payments for losses incurred but not yet settled at the end of the fiscal year. These reserves comprise provisions for losses reported to the Association. Provisions for losses are assessed individually by the claims department.

Insurance reserves

The Financial Supervisory Authority of Norway (Finanstilsynet) has prepared separate minimum requirements for the following five types of allocations (reserves); premium allocations, claims reserve, contingency allocations, reinsurance allocations and unallocated loss adjustment expenses.

In this particular insurance sector (war risk insurance), the Association cannot use methods of calculating reserves commonly used by non-life insurance companies. The Association has therefore, in the insurance reserves, made an allocation for the combined insurance risks that exist at the end of the year.

Statutory insurance reserves

Statutory insurance reserves are allocations made to cover the Association's liabilities in the event of any war catastrophes with extraordinary claims. Allocation to the insurance reserves is based on an assessment of prevailing liabilities and risks in light of available reserves and the year's financial result.

The Association changed policy for calculation of statutory insurance reserve in 2013 for the Financial Statements in USD. The statutory insurance reserve is after the change in policy calculated based on the Financial Statements in

NOK (Norwegian Kroner) and converted from NOK to USD in the Financial Statements in USD at each reporting date. Exchange gain or loss is included in the income statement under line "allocation to insurance reserve". The impact of the change in policy for the 2012 Financial Statements in USD is an increase in statutory insurance reserve in the balance sheet and an increase in allocation to insurance reserves in the income statement of USD 2.2 million.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates may differ from actual results, but are based on best estimates at the time the financial statements are approved by the Board. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Fair value assessments for financial instruments in inactive markets are made using valuation methods based on market conditions at the balance sheet date. Net pension liabilities and pension costs for the accounting period are based on actuarial and economic assumptions.

NOTE 2: Payroll costs, number of employees, other benefits, loans to employees

On average there were 16 people employed by the Association in 2013. The following amounts are expensed as salary, fees and other benefits, and the following loans, secured by mortgages, were outstanding:

2013

Amounts in USD 1000	Salary/ fees	Bonus	Pension costs	Other Benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	438	114	252	51	**854**	9
Sverre Huse, Finance Director	362	96	225	46	**728**	0
Göran Skuncke, Insurance Director (from 1st March)	186	0	20	5	**211**	0
Helena Brudvik, Controller	188	28	31	4	**251**	0
BOARD OF DIRECTORS						
Jan Pedersen, Chairman	28	0	0	0	**28**	0
Garup Meidell, Vice Chairman	19	0	0	0	**19**	0
Benedicte Bakke Agerup, Board member	17	0	0	0	**17**	0
Trine - Lise Wilhelmsen, Board member	17	0	0	0	**17**	0
Olav Eikrem, Board member	17	0	0	0	**17**	
Harald Fotland, Board member	17	0	0	0	**17**	0
Mons Aase, Board member	17	0	0	0	**17**	0
SUPERVISORY COMMITTEE						
Rolf Sæther, Chairman	8	0	0	0	**8**	0
Henrik Aass, Committee member	5	0	0	0	**5**	0
Ivar Alvik, Committee member	5	0	0	0	**5**	0

2012

Amounts in USD 1000	Salary/ fees	Bonus	Pension costs	Other Benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	412	78	123	58	**671**	9
Sverre Huse, Finance Director	350	66	132	42	**591**	0
Irene Phillips, Insurance Manager/Insurance Director (8th March - 31th August)	143	14	28	3	**187**	0
Helena Brudvik, Controller	174	18	32	3	**228**	0
BOARD OF DIRECTORS						
Per Oscar Lund, Chairman (to 7th May)	29	0	0	2	**31**	0
Sverre A Farstad, Vice Chairman (to 7th May)	19	0	0	0	**19**	0
Jan Pedersen, Board member/Chairman (from 7th May)	17	0	0	0	**17**	0
Garup Meidell, Board member/Vice Chairman (from 7th May)	17	0	0	0	**17**	0
Benedicte Bakke Agerup, Board member	17	0	0	0	**17**	
Trine - Lise Wilhelmsen, Board member	17	0	0	0	**17**	0
Olav Eikrem, Board member	17	0	0	0	**17**	0
Harald Fotland, Board member	0	0	0	0	**0**	
Mons Aase, Board member	0	0	0	0	**0**	
SUPERVISORY COMMITTEE						
Rolf Sæther, Chairman	8	0	0	0	**8**	0
Henrik Aass, Committee member	5	0	0	0	**5**	0
Ivar Alvik, Committee member	5	0	0	0	**5**	0

The loan to DNK's former Managing Director is interest bearing in accordance with prevailing market rates and with a repayment date in 2014. Loans to other employees follow common repayment schedules. All loans are secured by mortgages. No loans/guarantees have been extended to the Board of Directors, Supervisory Committee or other related parties.

Holiday-pay accrued in 2012 is included under salary for 2013.

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, 30 or 50 % of annual base salary, depending on position held. The Association's variable compensation plan for the management is in line with legal requirements with respect to documentation, size of payment, payment period, adjustment for risk and cyclicality in earnings.

There are no other compensation agreements with the Managing Director, the Chairman of the Board or the other members of the Board.

NOTE 3: Auditor's fees

The auditor's fees include a legally required audit of USD 68,992, internal control review of USD 15,109, tax related services of USD 17,486 and other audit related services of USD 56,218. These amounts are stated without value-added tax.

NOTE 4: Pension costs and pension obligations

Employees' pensions are secured through a collective pension scheme established in accordance with legal act no. 16 of March 24th, 2000 relating to company pension schemes. The collective pension scheme covers pensions from the age of 67. According to individual employment contracts, employees are entitled to an early retirement pension. 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 scheme. If the Association's employees leave before they turn 67 they will, according to the provisions of the act relating to companies' pensions, be withdrawn from the pension scheme and receive a so-called paid-up policy, i.e. the value of their accrued rights.

The individual agreements, combined with a collective pension scheme, mean that an employee should receive a retirement pension equivalent to 70% of the basis for calculating pensions from the moment they retire. From the age of 67, pensions from the Association are coordinated with social security benefits. In the event of less than 30 years of service at the time of retirement, a proportional reduction will be made in the pension payments.

Amounts in USD 1000	2013	2012
Present value of the year's pension accruals	640	701
Net interest cost and expected return on pensions	17	9
Management fee	52	
Administration costs	15	47
Actuarial gain/(loss)	42	60
Net pension costs (incl. social security taxes)	**765**	**817**
Calculated pension obligations as at 31.12	6 506	5 976
Pension assets (at market value) as at 31.12	(3 875)	(3 597)
Effect of estimated deviations	(1 799)	(1 236)
Net pension assets/(liabilities)	**(852)**	**(1 143)**
FINANCIAL ASSUMPTIONS		
Discount rate	4,10 %	3,80 %
Expected return on pension fund assets	4,40 %	4,00 %
Expected payroll adjustment	3,75 %	3,50 %
Expected pension increase	1,75 %	1,75 %
Expected G-adjustment	3,50 %	3,25 %

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

NOTE 5: FIXED ASSETS

Amounts in USD 1000		Machinery/ fixtures and vehicles	Works of art (paintings)	Real estate
Acquisition cost as at 01.01		1 391	145	212
+ Additions during year		374	0	0
- Disposals during year		(211)	0	0
+ Exchange rate effects		(13)	0	0
Acquisition cost as at 31.12	**A**	**1 541**	**145**	**212**
Accumulated ord. depr. as at 01.01		144	0	0
+ Ordinary depreciation		203	0	0
- Disposals at acquisition cost		(140)	0	0
+ Exchange rate effects		16	0	0
Accumulated ord. depr. as at 31.12	**B**	**223**	**0**	**0**
Book value as at 31.12	**A-B**	**1 318**	**145**	**212**

The Association uses linear depreciation for all fixed assets. The economic life of fixed assets is estimated as follows: Machinery and fixtures 3-10 years, vehicles 3-5 years and IT-systems 3-5 years.

NOTE 6: Taxes

Amounts in USD 1000	2013	2012
THE YEAR'S TAX COSTS ARE CLASSIFIED AS FOLLOWS:		
Payable tax (deficit)	(19 811)	(1 350)
Part of deficit not included in deferred tax	19 811	1 350
Use of not recognised tax asset of tax loss carry forward	0	0
Adjustment to historic tax	1	1
Change in deferred tax	2 344	(3 439)
Net worth tax	9	9
Total	**2 353**	**(3 429)**
CALCULATION OF TAXES:		
Profit/loss before tax	2 353	(3 429)
Permanent differences, non-deductible	63	118
Accounting related gain/loss on realisation of securities	(17 543)	(9 522)
Tax related gain/loss on realisation of securities	12 535	6 152
Reversal of change in marketable securities	(68 160)	2 166
Diff. between deducted and refunded withholding tax	0	0
Taxable share of dividend and gain	0	0
Change in temporary differences	(1)	(306)
This year's taxable result	**(70 754)**	**(4 822)**
Taxes payable (deferred taxes)	**(19 811)**	**(1 350)**
OVERVIEW OF TEMPORARY DIFFERENCES		
Fixed asset investments	(3)	208
Diff. between market and book value of trading portfolio	33 960	19 862
Pension obligations	(852)	(1 143)
Taxable share of dividend and gain	0	0
Total	**33 105**	**18 928**
28% deferred tax	**9 269**	**7 555**
WHY TAX COST DIFFERS FROM 28% OF PROFIT/LOSS BEFORE TAX:		
28% tax of the profit/loss before tax	659	(960)
Tax effects of permanent differences (28%)	(1 385)	(911)
Change in tax effects of unrealised gain/loss on shares	(16 398)	(2 918)
Tax loss carried forward	0	0
Too little tax set aside in previous years	1	1
Net worth tax	9	9
Tax effect of reduced tax rate (27 %)	(343)	0
Deferred tax deficit not shown on balance sheet	19 811	1 350
Calculated tax costs	**2 353**	**(3 429)**

Tax cost figures in USD are converted from the Norwegian taxable income. The Association has chosen not to recognise deferred tax benefits in the balance sheet, since the reversal (usage) of each benefit will take place in the future. The deferred tax benefits of tax loss carry forwards in 2013 was USD 118 mill (52).

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 492,807 of unpaid tax withholdings as at 31.12.13.

NOTE 8: Claims expenses

Claims costs for 2013 were relatively low .The "Bulford Dolphin" claim from 2007 was finalised by a crew claim and reinsurer's share was collected. The remaining costs were in relation to the vessel "BW Rhine", which was hijacked in the Gulf of Guinea May 2012.

Amounts in USD 1000	2013	2012
PROFIT & LOSS		
Gross paid claims	1 892	682
- Deducted claims provisions	(1 847)	(482)
Expensed gross claims	**45**	**200**
New gross claims provisions	913	1 395
Gross expensed claims, total	**958**	**1 595**
Reinsurers' share of gross paid claims	546	0
- Deducted reinsurers' share of claims provisions	(546)	0
Expensed reinsurers' share of gross claims provisions	**0**	**0**
Change in reinsurers' share of gross claims provisions	971	800
Reinsurers' share of expensed gross claims	**971**	**800**
Claims for own account	**(13)**	**795**
BALANCE SHEET		
Gross claims provisions 01.01	1 613	700
- Paid claims deducted from claims provisions	(1 847)	(482)
New claims provisions	913	1 395
Change in gross claims provisions	**(934)**	**913**
Exchange rate effects	6	0
Gross claims provisions 31.12	**685**	**1 613**
Reinsurers' share of gross claims provisions 01.01	1 287	465
- Deducted reinsurers' share from gross claims provisions	(546)	0
Change in reinsurers' share of gross claims provisions	971	800
Change in gross claims provisions	**425**	**800**
Exchange rate effects	(11)	22
Reinsurers' share of gross claims provisions 31.12	**1 701**	**1 287**
Claims provision for own account 31.12	**(1 016)**	**326**

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

Amounts in USD 1000	2013	2012
Interest income from bank deposits	21	38
Interest income from domestic loans	15	16
Interest income on bonds	14 026	13 830
Dividends on equities	196	0
Interest and dividend from financial assets	**14 259**	**13 885**
Unrealised gains/losses on financial current assets	**9 440**	**42 624**
Exchange rate gains	25 093	13 580
Exchange rate losses	(12 155)	(10 046)
Realised gains/losses on equities	4 463	7 584
Realised gains/losses on bonds	5 889	6 376
Realised gains/losses on derivatives	2 656	(636)
Realised gains from financial assets	**25 947**	**16 859**
Administrative expenses associated with financial assets	**(4 694)**	**(4 513)**
Total income/loss from financial assets	**44 951**	**68 855**

NOTE 10: Administrative expenses

Amounts in USD 1000	Insurance 2013	Finance 2013	Total 2013	2012
Salary and holiday pay, employees	1 638	1 638	3 276	3 474
Social security taxes	292	292	584	475
Pension cost	382	382	765	824
Other personell costs	113	89	203	205
Fees	304	304	607	802
Rental costs, office and machinery	221	221	441	429
Ordinary depreciation	102	102	203	91
Other administrative expenses	1 839	1 666	3 505	2 581
Total administrative expenses	**4 890**	**4 694**	**9 584**	**8 880**

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 2013 were split 50/50.

NOTE 11: Financial assets – fair value hierarchy

Amounts in USD 1000	2013	2012
Equities	222 105	182 433
Bonds and fixed income securities	537 144	547 842
Financial derivatives, assets - liabilities	-485	5 355
Loans and accounts receivable	37 263	15 465
Total financial assets*	**796 027**	**751 095**

2013 - Financial assets measured at fair value over the income statement

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Equities	221 030	0	1 075	222 105
Bonds	325 463	211 681	0	537 144
Financial derivatives, net	0	-485	0	-485
Total	**546 493**	**211 196**	**1 075**	**758 764**
Distribution	72,0 %	27,8 %	0,1 %	100,0 %

2012 - Financial assets measured at fair value over the income statement

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Equities	181 295	0	1 138	182 433
Bonds	362 486	185 356	0	547 842
Financial derivatives, net	0	5 355	0	5 355
Total	**543 781**	**190 711**	**1 138**	**735 630**
Distribution	73,9 %	25,9 %	0,2 %	100,0 %

* Total fair value equals book value.

The reduction in level 3 from 2012 to 2013 is mainly explained by change in 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 marked data, but the instrument is not considered to be actively traded. This includes prices derived from identical instruments and prices of similar assets that can be confirmed through marked data. Level 2 financial instruments are for example fixed income securities that are priced based on representative yield curves.

LEVEL 3 is considered to be an inactive market, where observable data is unavailable. Prices are primarily estimated out of internal assessments. Level 3 financial instruments can be private equity, real estate and financial claims.

NOTE 12: The association's investment portfolio in equities and mutual funds

2013 - Investment portfolio in equities and mutual funds

Amounts in USD 1000	Value at cost	Fair value	Distribution
Equities	153 185	222 105	100,0 %
STATE STREET INDEX FUNDS			
Australia	3 400	3 668	1,7 %
Canada	7 082	8 043	3,6 %
Europe	32 405	44 794	20,2 %
Hong Kong	999	1 194	0,5 %
Japan	11 344	14 587	6,6 %
Singapore	1 256	1 577	0,7 %
USA	42 537	69 917	31,5 %
World	45 819	69 723	31,4 %
Equity index funds	**144 842**	**213 503**	**96,1 %**
OTHER EQUITY FUNDS			
Nordea Stable equities, global	5 397	7 527	3,4 %
Private equities	**2 946**	**1 075**	**0,5 %**
Total equities	**153 185**	**222 105**	**100,0 %**

2012 - Investment portfolio in equities and mutual funds

Amounts in USD 1000	Value at cost	Fair value	Distribution
Equities	157 662	182 433	100,0 %
STATE STREET INDEX FUNDS			
Australia	2 792	3 039	1,7 %
Canada	6 927	7 562	4,1 %
Europe	34 052	37 874	20,8 %
Hong Kong	939	1 079	0,6 %
Japan	11 665	11 888	6,5 %
Singapore	1 644	2 066	1,1 %
USA	39 402	50 468	27,7 %
World	42 564	52 220	28,6 %
Equity index funds	**139 986**	**166 196**	**91,1 %**
OTHER EQUITY FUNDS			
Nordea Stable equities, global	13 886	15 098	8,3 %
Private equities	**3 791**	**1 138**	**0,6 %**
Total equities	**157 662**	**182 433**	**100,0 %**

The equity portfolio is primarily managed passively. The risk and return profile of the portfolio is thus similar to that of the global equity market of OECD-countries. The global equity exposure is achieved through regional index funds. The mixture of funds is changed when necessary to best track the performance of the benchmark. The global equity benchmark is delivered by MSCI and is expressed in USD. The portfolio of index funds is hedged to the USD. The equity portfolio is well diversified and consists of easily traded fund units.

NOTE 13: Specification of bond portfolio

DNK's fixed income portfolio consists of two bond funds, and two discretionary managed bond portfolios. One of these portfolios is invested in NOK in the Norwegian bond market, while the other portfolio is invested in global bonds hedged to the USD. The benchmark for the Norwegian mandate is ST4X, a government bond index with a fixed duration of 3 years. The benchmark for the global mandate is Barclays Global Aggregate Index hedged to the USD. The weighted benchmark duration for the bond portfolio is 4.6 years, while the duration of the portfolio was 4.4 (4.1) at the end of 2013.

	2013		2012	
Amounts in USD 1000	Value at cost	Book value	Value at cost	Book value
Bonds and other fixed income securities		537 144		547 842
Accrued interest income		6 938		247
Settlement, broker		-29 322		-28 198
Loans and accounts receivable		36 175		14 004
Fixed income derivatives		-840		5 181
Fixed income portfolio		**550 096**		**539 077**
Amounts in USD 1000	Value at cost	Book value	Value at cost	Book value
DISCREATIONARY MANDATES				
Norwegian bonds	103 029	107 849	105 649	113 207
Global bonds, USD hedged	356 358	336 600	320 243	332 646
BOND FUNDS				
Franklin Templeton, global	34 121	46 161	34 121	45 359
Pimco	54 749	59 444	42 749	47 864

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.

2013

Amounts in USD 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, NOK	20 %	AA	2,8	2,9 %	-2 891
Bonds, global, USD hedged	61 %	AA-	5,2	2,1 %	-17 066
Bond funds	19 %	A	3,6	3,7 %	-3 645
Total fixed income	**100 %**	**AA-**	**4,4**	**2,6 %**	**-23 601**

2012

Amounts in USD 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, NOK	21 %	AA	2,8	2,9 %	-3 076
Bonds, global, USD hedged	62 %	A+	4,9	2,2 %	-15 834
Bond funds	17 %	AA-	3,1	4,1 %	-2 745
Total fixed income	**100 %**	**A+**	**4,1**	**2,7 %**	**-21 655**

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

The average credit quality (rating) of the bond portfolio is AA-. The table below shows how the portfolio is distributed by credit quality. The credit rating of Norwegian bonds is based on S&P and DNB.

	2013	2012
NOK	20 %	21 %
USD	77 %	75 %
Other	3 %	4 %

2013 - Rating

Amounts in USD 1000	NOK	Global	Fond	Total	Distribution
AAA	54 634	68 700	27 756	151 090	27,5 %
AA	1 743	136 188	17 468	155 399	28,2 %
A	47 751	39 719	25 847	113 318	20,6 %
BBB	3 357	67 589	22 246	93 192	16,9 %
BB	0	13 935	7 703	21 638	3,9 %
B	0	1 279	2 598	3 877	0,7 %
CCC, lower	0	0	1 383	1 383	0,3 %
No rating	364	9 230	604	10 199	1,9 %
Total	**107 849**	**336 641**	**105 605**	**550 096**	**100 %**

2012 - Rating

Amounts in USD 1000	NOK	Global	Fond	Total	Distribution
AAA	57 972	123 045	40 314	221 331	41,1 %
AA	0	77 928	6 214	84 142	15,6 %
A	54 222	44 089	17 433	115 744	21,5 %
BBB	0	67 648	19 159	86 807	16,1 %
BB	0	8 695	6 235	14 930	2,8 %
B	0	1 967	2 912	4 879	0,9 %
CCC, lower	0	0	479	479	0,1 %
No rating	1 013	9 274	479	10 766	2,0 %
Total	**113 207**	**332 646**	**93 224**	**539 077**	**100 %**

Government, government guaranteed, and municipal bonds, amount to 38 % (35 %) 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. A loss potential is calculated for each risk, and the aggregate risk is measured and managed in relation to available capital. 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 capital requirement at the end of 2013 was USD 501 million (469). The capital requirement reflects the aggregate risk exposure, which again can be broken down into the major risk components in DNK. In the case of a war between major powers, the capital requirement is USD 864 million (827). The increased capital required for this catastrophe scenario is in part explained by higher insurance risk, and in part by a less comprehensive reinsurance programme.

INSURANCE RISK relates to DNK's insurance products. This is the Association's most significant risk, which is reinsured through an extensive programme. This risk constituted 43 % (46 %) of DNK's ordinary capital requirement, and 81 % (85 %) of the capital requirement applicable to a catastrophe scenario that entails a war between major powers.

MARKET RISK arises from the Association's investment activity. Equity risk, interest rate risk, credit risk, concentration risk, and currency risk are controlled through a set of limits. Financial derivatives are mainly used to achieve the desired currency exposure. Market risk is measured by stress testing, value-at-risk and relative volatility. This risk constituted 24 % (18 %) of DNK's ordinary capital requirement, and 14 % (10 %) of the capital requirement applicable to a catastrophe scenario that entails a war between major powers.

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. This risk constituted 32 % (35 %) of DNK's ordinary capital requirement, and 5 % (5 %) of the capital requirement applicable to a catastrophe scenario that entails a war between major powers.

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. This risk is measured and controlled by conducting tests for different catastrophe scenarios.
DNK is also exposed to geopolitical risk. The Association's members operate beyond traditional waters and transport routes. Changes in external conditions may affect the insurance market, political power balances and legal provisions in a manner that may hinder DNK's ability to comply with agreements entered into. Geopolitical risk is monitored in close cooperation with external parties.

Market risk

The investment portfolio consists of equities and bonds. The financial risk in the portfolio can be decomposed into interest rate risk, equity risk, spread risk, concentration risk and currency risk. The Association has no exposure to real estate. The investments are limited to highly liquid securities and mutual funds. The degree of active risk is fairly low. The portfolios financial risk is therefore adequately expressed by using market indices. The stress test template by the Financial Supervisory Authority of Norway 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 of approximately 1.4 percentage points.
- The equity risk is calculated by assuming a 48 % fall in the equity portfolio.
- Currency risk comes into play when the investment portfolio has a currency composition that deviates from the currency mix of the Association's insurance liabilities. If a deviation occurs, usually for tactical reasons, the amount at risk is assumed to fall 25 % in value.

- Concentration risk is based on the combined exposure to an individual issuer. The major factor in determining the level of risk for any issuer is its credit rating. The risk factor for AAA-bonds is 12%, increasing to 27% for BBB-bonds.
- The spread risk is a measure of a potential increase in the risk premium for non-government bonds over sovereign bonds. This risk is calculated by allocating bonds with credit risk to different rating categories. The spread increase varies by credit quality. The spread for AAA-bonds is increased by 0.9 percentage points, while the spread for BBB-bonds is widened by 2.5 percentage points.

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 a stress test 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 2013, the relative volatility was 1.3 %, which indicates that the portfolio's overall risk profile is close to its benchmark.

At year-end 2013, the portfolio's risk profile was as indicated in the table below.

	2013		2012	
Amounts in USD 1000	Portfolio	Benchmark	Portfolio	Benchmark
Interest rate risk	33,2	35,9	30,8	31,3
Equity risk	106,8	93,1	65,8	65,6
Currency risk	4,0	0,0	12,3	0,0
Spread risk	10,5	10,8	8,5	8,5
Concentration risk	0,0	0,0	0,0	0,0
Gain from diversification	-33,6	-32,2	-33,8	-26,7
Market risk	**120,8**	**107,6**	**83,6**	**78,7**
Market risk % of portfolio	15,7 %	13,9 %	11,6 %	10,9 %
Value-at-risk	109,5	-89,5	106,7	89,3
Volatility	5,5 %	4,5 %	5,7 %	4,8 %
Relative volatility	1,3 %	--	1,3 %	--

While the stress test models a financial crisis, the estimated VaR reflects the current level of market volatility. The statistical model reflects the changing volatility in the portfolio's asset mix, and the expected co-movements between these assets. Given the level of confidence applied by DNK, one would normally expect the VaR based loss estimate to remain above that of the stress test. When market volatility declines, the VaR based loss estimate will also be lower, for the same nominal exposures.

Using the risk limits in the investment strategy to maximise market risk implies a loss potential of NOK 1,001 million. This is also an expression of the degree of risk tolerated in the investment strategy. Based on the table above, about 73 % of this risk tolerance was used at the end of 2013.

The market risk varies most with changes in the portfolio's allocation to equities, bond duration, the USD and NOK exposure, and credit quality. The table below lists changes in the loss potential given changes in the exposures to the above mentioned risk factors.

Sensitivity

Amounts in USD 1000		2013		2012	
Risk factor	**Change in exposure**	+	-	+	-
Duration, bonds	+/- 1 unit duration	3	-2	3	-2
Equities	+/- 5 percentage points	17	-17	11	-10
Currency exposure	+/- 5 percentage points	4	1	4	-4
Share of non-sovereign bonds	+/- 5 percentage points	0	0	0	0
Duration, non-sovereign bonds	+/- 1 unit duration	3	-2	3	-1
Rating, non-sovereign bonds	Down one letter designation	--	5	--	3
Concentration, issuer rating	Down one letter designation	--	0	--	0

In asset management, counterparty risk is primarily related to the use of derivatives. DNK has outsourced most of its investment management through three discretionary mandates. The external managers can use derivatives related to currency, alternatively to fixed income. Foreign exchange related derivatives are used to secure the desired exposure to USD. Fixed income related derivatives are used to reduce risk, or to make the management process more efficient. Qualitative limits on counterparties and the type of derivatives permitted is regulated in the investment mandates. The counterparty risk that relates to asset management is marginal relative to the overall potential loss indicated by the stress test.

Liquidity risk

The liquidity requirement is stated in the investment strategy and in external investment mandates. DNK is required to invest in assets that are easily divestible. The purpose of a stringent liquidity requirement is to be able to meet large potential claims, including the possible failure of reinsurers' to meet their obligations. Based on this, and the low utilisation of DNK's liquidity reserves, the liquidity risk is considered low. DNK's holdings of securities are valued using official exchange prices, while fund holdings are valued using official unit prices provided by the fund manager or its pricing agent.

NOTE 15: Financial derivatives

The major part of DNK's bond portfolio is managed externally by two investment managers. An investment agreement with each manager regulates the ability to use derivatives related to fixed income instruments. The asset manager for the global bond portfolio is required to hedge the portfolio to the USD. The passively managed equity portfolio is also hedged to the USD by the asset manager.

The table below shows the financial derivatives on the balance sheet at year-end 2013 and 2012.

Amounts in USD 1000	2013	2012
FINANCIAL DERIVATIVES		
+ Assets	109 046	94 557
- Liabilities	-109 531	-89 203
Net financial derivatives	**-485**	**5 355**
Interest rate risk; futures	374	885
Currency hedging, bonds, forwards	-1 214	4 297
Currency hedging, equities, forwards	354	174
Net financial derivatives	**-485**	**5 355**

The currency derivatives are rolled over monthly or quarterly. The derivatives are mainly related to hedging of currencies. For this reason there is no major change in exposure during the year. The fixed income derivatives are more commonly used for tactical purposes to implement changes so that the portfolio is in line with the manager's current market outlook. Note 16 Equity, solvency margin and insurance reserves.

NOTE 16: Equity, solvency margin and insurance reserves

The Association is exempt from the equity requirement in the Insurance Companies' Act. Equity at year-end 2013 and 2012 was NOK 0 million.

The Association's solvency capital and insurance reserves exceeds the minimum required by the Financial Supervisory Authority of Norway.

The minimum insurance reserve requirement was USD 501 million (469) at year-end 2013. The increase in the requirement is mainly explained by a higher stress factor for equities.

The members' mutual liability was USD 377 million (418) in 2013, while the insurance reserves was USD 770 million (721) at year-end 2013. This amounts to a total buffer capital of USD 1,150 million. The association's coverage limit for a war between major powers is USD 1,000 million.

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To the Annual Shareholders' Meeting of Den Norske Krigsforsikring for Skib Gjensidig Forening

Independent auditor's report

We have audited the accompanying financial statements of Den Norske Krigsforsikring for Skib Gjensidig Forening, which comprise the balance sheet as at 31 December 2013, and the income statement, and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting principles described in note 1, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Den Norske Krigsforsikring for Skib Gjensidig Forening as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with the financial reporting principles described in note 1.

Oslo, 24 March 2014
PricewaterhouseCoopers AS

Magne Sem

Magne Sem
State Authorised Public Accountant (Norway)

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

Photo: Odfjell

FINANCIAL STATEMENTS
in NOK

INCOME STATEMENT

Amounts in NOK 1000	Note	2013	2012
PREMIUMS			
Gross premiums		162 662	223 700
Reinsurance premiums		(100 654)	(131 964)
Premiums for own account		**62 007**	**91 736**
Allocated investment return		**68 796**	**57 390**
CLAIMS			
Claims paid			
Gross claims paid	8	(10 874)	(3 981)
- Reinsurers' share of gross claims	8	3 169	0
Change in claims provisions			
Change in gross claims provisions	8	5 196	(5 197)
- Change in reinsurers' share of gross claims provisions	8	2 704	4 625
Claims for own account		**195**	**(4 553)**
Insurance related administrative expenses	2, 3, 4, 5, 9, 10	**(28 787)**	**(25 152)**
Technical result before allocation to reserves		**102 212**	**119 421**
Allocation to insurance reserves	16	**(660 618)**	**(190 996)**
OPERATING RESULT OF TECHNICAL ACCOUNTS		**(558 406)**	**(71 575)**
Interest and dividend from financial assets	9	84 584	80 314
Change in fair value of financial assets	9	420 335	(32 872)
Realised gains from financial assets	9	164 265	88 440
Administrative expenses related to financial assets	2, 3, 4, 5, 9, 10	(27 711)	(25 980)
Total income/loss from financial assets		**641 473**	**109 901**
Allocated investment return to technical accounts		**(68 796)**	**(57 390)**
OPERATING RESULT NON-TECHNICAL ACCOUNTS		**572 676**	**52 511**
PRE-TAX RESULT		**14 270**	**(19 064)**
Tax expenses	6	(14 270)	19 064
TOTAL RESULT		**0**	**0**

BALANCE SHEET

Amounts in NOK 1000	Note	2013	2012
ASSETS			
Owner occupied real estate	5	1 240	1 240
Mortgage-backed loans at amortised cost	2	225 974	85 966
Shares and other equity investments	11, 12, 14	1 346 910	1 014 106
Bonds and other fixed income securities	11, 12, 13, 14	3 257 392	3 045 347
Financial derivatives	14, 15	661 287	533 745
Total investments		**5 492 803**	**4 680 404**
Reinsurers' share of gross claims provisions	8	**10 318**	**7 156**
Policy holders receivables		13 943	23 896
Reinsurers receivables		0	0
Other receivables		42 747	7 456
Total receivables		**56 690**	**31 352**
Fixtures and other fixed assets	5	8 273	7 695
Cash and bank	7	40 777	29 721
Other assets	4	954	613
Total other assets		**50 004**	**38 029**
Total prepaid expenses and accrued income		**2 100**	**993**
TOTAL ASSETS		**5 611 915**	**4 757 933**
EQUITY & LIABILITIES			
Equity	16	**0**	**0**
Provision for unearned gross premiums		0	0
Gross claims provisions	8	4 156	8 967
Insurance reserves	16	4 669 078	4 008 460
Total insurance reserves		**4 673 234**	**4 017 427**
Pension liability provisions	4	6 122	6 965
Tax provisions	2, 6	52	47
Deferred taxes	2, 6	56 212	41 998
Other provisions		0	471
Total provisions		**62 386**	**49 481**
Reinsurance liabilities		12 806	16 504
Financial derivatives	14, 15	664 230	503 979
Other liabilities		182 608	160 608
Total liabilities		**859 643**	**681 090**
Other accrued expenses and prepaid income		**16 652**	**9 935**
TOTAL EQUITY AND LIABILITIES		**5 611 915**	**4 757 933**

Photo: Farstad

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

Oslo, 24th of March 2014

The Norwegian Shipowners' Mutual War Risks Insurance Association

Jan Pedersen (Chairman)	Garup Meidell (Vice-Chairman)	Benedicte Bakke Agerup
Mons Aase	Trine-Lise Wilhelmsen	Harald Fotland
Olav Eikrem	Svein Ringbakken (Managing Director)	

Photo: Seadrill

CASH FLOW STATEMENT

Amounts in NOK 1000	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	176 509	226 248
Cash paid to re-insurers	(104 352)	(133 209)
Net cash flows related to claims expenses	(7 778)	(4 148)
Paid insurance related administrative expenses	(24 821)	(26 570)
Net cash flows from the technical accounts	**39 558**	**62 320**
Net cash flows from interest, dividends and realised gains/losses on financial assets	192 308	154 008
Net cash flows from acquisition/disposal of financial assets	(195 348)	(220 901)
Paid administrative expenses related to financial assets	(23 745)	(27 398)
Net cash flows from the non-technical accounts	**(26 785)**	**(94 292)**
Net cash flows from operating activities	**12 773**	**(31 972)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows from acquisition/disposal of fixtures and fixed assets	(1 717)	(5 754)
Net cash flows from investing activities	**(1 717)**	**(5 754)**
Net cash flows in the period	**11 056**	**(37 726)**
Net changes in cash and bank	11 056	(37 726)
Cash and bank 01.01.	29 721	67 447
Cash and bank 31.12.	**40 777**	**29 721**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: Accounting principle

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

Classification and evaluation of balance sheet items

Current assets and short-term liabilities include items associated with insurance and administration activities. The following assets are classified as financial current assets:

- Shares and units
- Bonds and other fixed or variable income securities
- Financial derivatives
- Other financial current assets

Financial assets

The Association uses the possibilities provided in the accounting regulations of insurance companies, § 3-3 and IAS 39 point 9, to measure equities, units, bonds and claims on credit institutions at fair value through profit or loss in accordance with the fair value option. Loans to employees are valued at amortised cost.

Financial derivatives are classified in the trade category in accordance with IAS 39 and are measured at fair value.

Recognition and measurement of financial assets

Regular purchases and sales of financial assets are recogniced 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 recongised at fair value, and transaction costs are expences in the income statement. Financial assets are derecognised when the rights to receive cash flow from the investments have expired or have been transferred, and the Association has transferred substantially all risk and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains of losses arising from changes in the fair value, including dividends and interest income, is included in "change in value of financial assets", and "realised gain and loss on financial assets" in the period in which they arise. Dividend income from financial assets is recognised in the income statement when the Associations right to receive payments is established.

Fair value of financial instruments listed or traded on an exchange is based on the acquisition cost.

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.

Employee Loans

Employee loans are entered on the balance sheet at their nominal values with deductions for any losses and provisions for losses. Specific loss provisions are intended to cover expected loan losses that are identified on the balance sheet date as doubtful commitments.

Foreign exchange

The Association's goal is to reasonably balance receivables against potential obligations in each individual currency.

The portfolio principle is used for all currencies collectively. The cost price of foreign securities, classified as financial assets, is converted to USD at the exchange rate on the transaction day. The fair value is converted to USD at the exchange rate on the balance sheet date, and unrealised exchange rate gains/losses are recognised in the accounts.

Liquid assets, receivables and liabilities are converted at the exchange rate on the balance sheet date. Any other balance sheet items are recognised at the exchange rate on the acquisition date.

Fixed assets

Fixed assets are recognised at historical cost in the balance sheet and depreciated linearly over the asset's life. The direct maintenance of business equipment is recognised in operating expenses on an on-going basis, while additions or improvements are capitalised to an asset's cost price and depreciated along with the asset.

Pensions
Pension costs are accounted for in accordance with the Norwegian accounting standard for pensions.

The Association has two collective pension insurance schemes for its employees, plus an additional scheme for salaries surpassing 12 G. The schemes are defined benefit schemes, which means that pensions are based on linear accrual and expected final salary. Prior service costs are amortised over the expected remaining earning period. The same applies to deviations in estimates to the extent that they exceed 10% of the larger of pension obligations or pension assets.

Pension assets and pension liabilities are estimated on an annual basis. The estimated values are corrected each year in accordance with calculations performed by an actuary. The employer's contribution accrues for unsecured pensions.

Deferred tax
Tax costs in the profit and loss account consist of taxes payable and changes in deferred tax/tax benefits.

Taxes payable are calculated on the basis of the year's taxable result.

Deferred tax is calculated at 27 % on the basis of the temporary differences that exist between book and tax values, as well as the deficit for tax assessment purposes that will be carried forward at the end of the financial year. Tax increasing and tax reducing temporary differences that are reversed or could be reversed during the same period are offset and the tax effect is calculated on a net basis.

Real estate
The Association does not currently own any real estate except for an apartment in Spain. This is valued at the lowest of cost and market value. Any write down is treated as an ordinary expense in the profit/loss accounts. There is no depreciation on real estate.

Allocated investment returns
Allocated investment returns have been transferred from the non-technical accounts and comprise the amount equivalent to the estimated return on the financial year's average insurance reserves. An actuarial interest rate that is equal to the average yearly yield on government bonds with 3 years remaining until maturity is used to calculate the investment return. The amount is calculated in accordance with the requirements issued by The Financial Supervisory Authority of Norway (Finanstilsynet).

Premium recognition and premium for own account
Premium and commision are recognised when earned. Premium for own account includes premiums written, net of premiums ceded (reinsurance). All premium payments follow the calendar year, so there is no allocation to premium reserve at year end. Premium for own account appears in the technical accounts.

Cost recognition and claims reserve
Claims are expensed as incurred. Other costs are expensed in the same period as the income to which they relate is recognised. Claims reserves are intended to cover anticipated future claims payments for losses incurred but not yet settled at the end of the fiscal year. These reserves comprise provisions for losses reported to the Association. Provisions for losses are assessed individually by the claims department.

Insurance reserves
The Financial Supervisory Authority of Norway (Finanstilsynet) has prepared separate minimum requirements for the following five types of allocations (reserves); premium allocations, claims reserve, contingency allocations, reinsurance allocations and unallocated loss adjustment expenses.

In this particular insurance sector (war risk insurance), the Association cannot use methods of calculating reserves commonly used by non-life insurance companies. The Association has therefore, in the insurance reserves, made an allocation for the combined insurance risks that exist at the end of the year.

Statutory insurance reserves
Statutory insurance reserves are allocations made to cover the Association's liabilities in the event of any war catastrophes with extraordinary claims. Allocation to the insurance reserves is based on an assessment of prevailing liabilities and risks in light of available reserves and the year's financial result.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates may differ from actual results, but are based on best estimates at the time the financial statements are approved by the Board. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Fair value assessments for financial instruments in inactive markets are made using valuation methods based on market conditions at the balance sheet date. Net pension liabilities and pension costs for the accounting period are based on actuarial and economic assumptions.

NOTE 2: Payroll costs, number of employees, other benefits, loans to employees

On average there were 16 people employed by the Association in 2013. The following amounts are expensed as salary, fees and other benefits, and the following loans, secured by mortgages, were outstanding:

2013

Amounts in NOK 1000	Salary/ fees	Bonus	Pension costs	Other Benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	2 591	672	1 492	299	**5 055**	52
Sverre Huse, Finance Director	2 141	570	1 328	271	**4 309**	0
Göran Skuncke, Insurance Director (from 1st March)	1 098	0	121	29	**1 247**	0
Helena Brudvik, Controller	1 110	167	182	25	**1 484**	0
BOARD OF DIRECTORS						
Jan Pedersen, Chairman	165	0	0	1	**166**	0
Garup Meidell, Vice Chairman	110	0	0	1	**111**	0
Benedicte Bakke Agerup, Board member	100	0	0	1	**101**	0
Trine - Lise Wilhelmsen, Board member	100	0	0	1	**101**	0
Olav Eikrem, Board member	100	0	0	1	**101**	0
Harald Fotland, Board member	100	0	0	1	**101**	0
Mons Aase, Board member	100	0	0	1	**101**	0
SUPERVISORY COMMITTEE						
Rolf Sæther, Chairman	45	0	0	0	**45**	0
Henrik Aass, Committee member	30	0	0	0	**30**	0
Ivar Alvik, Committee member	30	0	0	0	**30**	0

2012

Amounts in NOK 1000	Salary/ fees	Bonus	Pension costs	Other Benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	2 385	450	714	333	**3 882**	0
Sverre Huse, Finance Director	2 027	382	765	244	**3 418**	0
Irene Phillips, Insurance Manager/Insurance Director (8th March - 31th August)	825	81	159	15	**1 080**	0
Helena Brudvik, Controller	1 009	106	183	18	**1 316**	0
BOARD OF DIRECTORS						
Per Oscar Lund, Chairman (to 7th May)	165	0	0	11	**176**	0
Sverre A Farstad, Vice Chairman (to 7th May)	110	0	0	1	**111**	0
Jan Pedersen, Board member/Chairman (from 7th May)	100	0	0	1	**101**	0
Garup Meidell, Board member/Vice Chairman (from 7th May)	100	0	0	1	**101**	0
Benedicte Bakke Agerup, Board member	100	0	0	1	**101**	0
Trine - Lise Wilhelmsen, Board member	100	0	0	1	**101**	0
Olav Eikrem, Board member	100	0	0	1	**101**	0
Harald Fotland, Board member	0	0	0	1	**1**	0
Mons Aase, Board member	0	0	0	1	**1**	0
SUPERVISORY COMMITTEE						
Rolf Sæther, Chairman	45	0	0	0	**45**	0
Henrik Aass, Committee member	30	0	0	0	**30**	0
Ivar Alvik, Committee member	30	0	0	0	**30**	0

The loan to DNK's former Managing Director is interest bearing in accordance with prevailing market rates and with a repayment date in 2014. Loans to other employees follow common repayment schedules. All loans are secured by mortgages. No loans/guarantees have been extended to the Board of Directors, Supervisory Committee or other related parties.

Holiday-pay accrued in 2012 is included under salary for 2013.

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, 30 or 50 % of annual base salary, depending on position held. The Association's variable compensation plan for the management is in line with legal requirements with respect to documentation, size of payment, payment period, adjustment for risk and cyclicality in earnings.

There are no other compensation agreements with the Managing Director, the Chairman of the Board or the other members of the Board.

NOTE 3: Auditor's fees

The auditor's fees include a legally required audit of NOK 406,398, internal control review of NOK 89,000, tax related services of NOK 103,000 and other audit related services of NOK 331,154. These amounts are stated without value-added tax.

NOTE 4: Pension costs and pension obligations

Employees' pensions are secured through a collective pension scheme established in accordance with legal act no. 16 of March 24th, 2000 relating to company pension schemes. The collective pension scheme covers pensions from the age of 67. According to individual employment contracts, employees are entitled to an early retirement pension. 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 scheme. If the Association's employees leave before they turn 67 they will, according to the provisions of the act relating to companies' pensions, be withdrawn from the pension scheme and receive a so-called paid-up policy, i.e. the value of their accrued rights.

The individual agreements, combined with a collective pension scheme, mean that an employee should receive a retirement pension equivalent to 70% of the basis for calculating pensions from the moment they retire. From the age of 67, pensions from the Association are coordinated with social security benefits. In the event of less than 30 years of service at the time of retirement, a proportional reduction will be made in the pension payments.

Amounts in NOK 1000	2013	2012
Present value of the year's pension accruals	3 830	3 896
Net interest cost and expected return on pensions	100	51
Management fee	308	
Administration costs	87	260
Actuarial gain/(loss)	249	335
Net pension costs (incl. social security taxes)	**4 574**	**4 542**
Calculated pension obligations as at 31.12	39 453	33 220
Pension assets (at market value) as at 31.12	(23 500)	(19 995)
Effect of estimated deviations	(10 785)	(6 872)
Net pension assets/(liabilities)	**(5 168)**	**(6 352)**
FINANCIAL ASSUMPTIONS		
Discount rate	4,10 %	3,80 %
Expected return on pension fund assets	4,40 %	4,00 %
Expected payroll adjustment	3,75 %	3,50 %
Expected pension increase	1,75 %	1,75 %
Expected G-adjustment	3,50 %	3,25 %

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

NOTE 5: FIXED ASSETS

Amounts in NOK 1000		Machinery/ fixtures and vehicles	Works of art (paintings)	Real estate
Acquisition cost as at 01.01		7 804	853	1 240
+ Additions during year		2 215	0	0
- Disposals during year		(1 289)	0	0
Acquisition cost as at 31.12	**A**	**8 729**	**853**	**1 240**
Accumulated ord. depr. as at 01.01		962	0	0
+ Ordinary depreciation		1 202	0	0
- Disposals at acquisition cost		(855)	0	0
Accumulated ord. depr. as at 31.12	**B**	**1 309**	**0**	**0**
Book value as at 31.12	**A-B**	**7 420**	**853**	**1 240**

The Association uses linear depreciation for all fixed assets. The economic life of fixed assets is estimated as follows: Machinery and fixtures 3-10 years, vehicles 3-5 years and IT-systems 3-5 years.

NOTE 6: Taxes

Amounts in NOK 1000	2013	2012
THE YEAR'S TAX COSTS ARE CLASSIFIED AS FOLLOWS:		
Payable tax (deficit)	(120 141)	(7 505)
Part of deficit not included in deferred tax	120 141	7 505
Use of not recognised tax asset of tax loss carry forward	0	0
Adjustment to historic tax	3	4
Change in deferred tax	14 214	(19 115)
Net worth tax	52	47
Total	**14 270**	**(19 064)**
CALCULATION OF TAXES:		
Profit/loss before tax	14 270	(19 064)
Permanent differences, non-deductible	380	653
Accounting related gain/loss on realisation of securities	(106 387)	(52 931)
Tax related gain/loss on realisation of securities	76 015	34 196
Reversal of change in marketable securities	(413 344)	12 041
Diff. between deducted and refunded withholding tax	0	0
Taxable share of dividend and gain	0	0
Change in temporary differences	(7)	(1 698)
This year's taxable result	**(429 074)**	**(26 802)**
Taxes payable (deferred taxes)	**(120 141)**	**(7 505)**
OVERVIEW OF TEMPORARY DIFFERENCES		
Fixed asset investments	(19)	1 158
Diff. between market and book value of trading portfolio	213 381	155 187
Pension obligations	(5 168)	(6 352)
Taxable share of dividend and gain	0	0
Total	**208 194**	**149 993**
28% deferred tax	**56 212**	**41 998**
WHY TAX COST DIFFERS FROM 28% OF PROFIT/LOSS BEFORE TAX:		
28% tax of the profit/loss before tax	3 996	(5 338)
Tax effects of permanent differences (28%)	(8 398)	(5 063)
Change in tax effects of unrealised gain/loss on shares	(99 442)	(16 219)
Tax loss carried forward	0	0
Too little tax set aside in previous years	3	4
Net worth tax	52	47
Tax effect of reduced tax rate (27 %)	(2 082)	0
Deferred tax deficit not shown on balance sheet	120 141	7 505
Calculated tax costs	**14 270**	**(19 064)**

The Association has chosen not to recognise deferred tax benefits in the balance sheet, since the reversal (usage) of each benefit will take place in the future. The deferred tax benefits of tax loss carry forwards in 2013 was NOK 716 mill (287).

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 NOK 2,988,531 of unpaid tax withholdings as at 31.12.13.

NOTE 8: Claims expenses

Claims costs for 2013 were relatively low .The "Bulford Dolphin" claim from 2007 was finalised by a crew claim and reinsurer's share was collected. The remaining costs were in relation to the vessel "BW Rhine", which was hijacked in the Gulf of Guinea May 2012.

Amounts in NOK 1000	2013	2012
PROFIT & LOSS		
Gross paid claims	10 874	3 981
- Deducted claims provisions	(10 621)	(2 822)
Expensed gross claims	**253**	**1 160**
New gross claims provisions	5 425	8 018
Gross expensed claims, total	**5 678**	**9 178**
Reinsurers' share of gross paid claims	3 169	0
- Deducted reinsurers' share of claims provisions	(3 168)	0
Expensed reinsurers' share of gross claims provisions	**1**	**0**
Change in reinsurers' share of gross claims provisions	5 872	4 625
Reinsurers' share of expensed gross claims	**5 873**	**4 625**
Claims for own account	**(195)**	**4 553**
BALANCE SHEET		
Gross claims provisions 01.01	8 967	4 185
- Paid claims deducted from claims provisions	(10 621)	(2 822)
New claims provisions	5 425	8 018
Change in gross claims provisions	**(5 196)**	**5 197**
Exchange rate effects	385	(415)
Gross claims provisions 31.12	**4 156**	**8 967**
Reinsurers' share of gross claims provisions 01.01	7 156	2 779
- Deducted reinsurers' share from gross claims provisions	(3 168)	0
Change in reinsurers' share of gross claims provisions	5 872	4 625
Change in gross claims provisions	**2 704**	**4 625**
Exchange rate effects	458	(248)
Reinsurers' share of gross claims provisions 31.12	**10 318**	**7 156**
Claims provision for own account 31.12	**(6 162)**	**1 811**

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

Amounts in NOK 1000	2013	2012
Interest income from bank deposits	127	220
Interest income from domestic loans	88	95
Interest income on bonds	83 219	79 999
Dividends on equities	1 151	0
Interest and dividend from financial assets	**84 584**	**80 314**
Unrealised gains/losses on financial current assets	**420 335**	**(32 872)**
Exchange rate gains	152 636	101 230
Exchange rate losses	(94 720)	(86 661)
Realised gains/losses on equities	30 372	41 363
Realised gains/losses on bonds	61 337	35 904
Realised gains/losses on derivatives	14 640	(3 397)
Realised gains from financial assets	**164 265**	**88 440**
Administrative expenses associated with financial assets	**(27 711)**	**(25 980)**
Total income/loss from financial assets	**641 473**	**109 901**

NOTE 10: Administrative expenses

Amounts in NOK 1000	Insurance 2013	Finance 2013	Total 2013	2012
Salary and holiday pay, employees	9 666	9 666	19 331	19 895
Social security taxes	1 719	1 719	3 438	2 734
Pension cost	2 287	2 287	4 574	4 713
Other personell costs	664	519	1 183	1 204
Fees	1 796	1 796	3 592	4 618
Rental costs, office and machinery	1 316	1 316	2 631	2 527
Ordinary depreciation	601	601	1 202	519
Other administrative expenses	10 739	9 807	20 546	14 923
Total administrative expenses	**28 787**	**27 711**	**56 498**	**51 133**

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 2013 were split 50/50.

NOTE 11: Financial assets – fair value hierarchy

Amounts in NOK 1000	2013	2012
Equities	1 346 910	1 014 106
Bonds and fixed income securities	3 257 392	3 045 347
Financial derivatives, assets - liabilities	-2 942	29 766
Loans and accounts receivable	225 974	85 966
Total financial assets*	**4 827 333**	**4 175 185**

2013 - Financial assets measured at fair value over the income statement

Amounts in NOK 1000	Level 1	Level 2	Level 3	Total
Equities	1 340 389	0	6 521	1 346 910
Bonds	1 973 699	1 283 692	0	3 257 392
Financial derivatives, net	0	-2 942	0	-2 942
Total	**3 314 088**	**1 280 750**	**6 521**	**4 601 359**
Distribution	72,0 %	27,8 %	0,1 %	100,0 %

2012 - Financial assets measured at fair value over the income statement

Amounts in NOK 1000	Level 1	Level 2	Level 3	Total
Equities	1 007 780	0	6 326	1 014 106
Bonds	2 014 989	1 030 357	0	3 045 347
Financial derivatives, net	0	29 766	0	29 766
Total	**3 022 769**	**1 060 123**	**6 326**	**4 089 218**
Distribution	73,9 %	25,9 %	0,2 %	100,0 %

* Total fair value equals book value.

The reduction in level 3 from 2012 to 2013 is mainly explained by change in 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 marked data, but the instrument is not considered to be actively traded. This includes prices derived from identical instruments and prices of similar assets that can be confirmed through marked data. Level 2 financial instruments are for example fixed income securities that are priced based on representative yield curves.

LEVEL 3 is considered to be an inactive market, where observable data is unavailable. Prices are primarily estimated out of internal assessments. Level 3 financial instruments can be private equity, real estate and financial claims.

NOTE 12: The association's investment portfolio in equities and mutual funds

2013 - Investment portfolio in equities and mutual funds

Amounts in NOK 1000	Value at cost	Fair value	Distribution
Equities	902 368	1 346 910	100,0 %
STATE STREET INDEX FUNDS			
Australia	20 128	22 245	1,7 %
Canada	41 931	48 773	3,6 %
Europe	191 856	271 644	20,2 %
Hong Kong	5 913	7 241	0,5 %
Japan	67 161	88 460	6,6 %
Singapore	7 435	9 561	0,7 %
USA	251 840	423 996	31,5 %
World	271 274	422 820	31,4 %
Equity index funds	**857 540**	**1 294 741**	**96,1 %**
OTHER EQUITY FUNDS			
Nordea Stable equities, global	30 547	45 648	3,4 %
Private equities	**14 281**	**6 521**	**0,5 %**
Total equities	**902 368**	**1 346 910**	**100,0 %**

2012 - Investment portfolio in equities and mutual funds

Amounts in NOK 1000	Value at cost	Fair value	Distribution
Equities	932 169	1 014 106	100,0 %
STATE STREET INDEX FUNDS			
Australia	16 724	16 890	1,7 %
Canada	41 491	42 038	4,1 %
Europe	203 959	210 536	20,8 %
Hong Kong	5 626	5 997	0,6 %
Japan	69 868	66 082	6,5 %
Singapore	9 844	11 484	1,1 %
USA	236 002	280 544	27,7 %
World	254 943	290 280	28,6 %
Equity index funds	**838 464**	**923 852**	**91,1 %**
OTHER EQUITY FUNDS			
Nordea Stable equities, global	67 815	83 928	8,3 %
Private equities	**25 890**	**6 326**	**0,6 %**
Total equities	**932 169**	**1 014 106**	**100,0 %**

The equity portfolio is primarily managed passively. The risk and return profile of the portfolio is thus similar to that of the global equity market of OECD-countries. The global equity exposure is achieved through regional index funds. The mixture of funds is changed when necessary to best track the performance of the benchmark. The global equity benchmark is delivered by MSCI and is expressed in USD. The portfolio of index funds is hedged to the USD. The equity portfolio is well diversified and consists of easily traded fund units.

NOTE 13: Specification of bond portfolio

DNK's fixed income portfolio consists of two bond funds, and two discretionary managed bond portfolios. One of these portfolios is invested in NOK in the Norwegian bond market, while the other portfolio is invested in global bonds hedged to the USD. The benchmark for the Norwegian mandate is ST4X, a government bond index with a fixed duration of 3 years. The benchmark for the global mandate is Barclays Global Aggregate Index hedged to the USD. The weighted benchmark duration for the bond portfolio is 4.6 years, while the duration of the portfolio was 4.4 (4.1) at the end of 2013.

	2013		2012	
Amounts in NOK 1000	Value at cost	Book value	Value at cost	Book value
Bonds and other fixed income securities		3 257 392		3 045 347
Accrued interest income		42 076		1 375
Settlement, broker		-177 816		-156 744
Loans and accounts receivable		219 374		77 845
Fixed income derivatives		-5 092		28 799
Fixed income portfolio		**3 335 934**		**2 996 621**
Amounts in NOK 1000	Value at cost	Book value	Value at cost	Book value
DISCREATIONARY MANDATES				
Norwegian bonds	624 799	654 029	587 281	629 296
Global bonds, USD hedged	2 161 053	2 041 236	1 780 168	1 849 114
BOND FUNDS				
Franklin Templeton, global	192 099	279 934	192 099	252 144
Pimco	312 097	360 487	242 788	266 068

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.

2013

Amounts in NOK 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, NOK	20 %	AA	2,8	2,9 %	-17 500
Bonds, global, USD hedged	61 %	AA-	5,2	2,1 %	-103 400
Bond funds	19 %	A	3,6	3,7 %	-22 100
Total fixed income	**100 %**	**AA-**	**4,4**	**2,6 %**	**-143 000**

2012

Amounts in NOK 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, NOK	21 %	AA	2,8	2,9 %	-17 100
Bonds, global, USD hedged	62 %	A+	4,9	2,2 %	-88 000
Bond funds	17 %	AA-	3,1	4,1 %	-15 200
Total fixed income	**100 %**	**A+**	**4,1**	**2,7 %**	**-120 300**

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

The average credit quality (rating) of the bond portfolio is AA-. The table below shows how the portfolio is distributed by credit quality. The credit rating of Norwegian bonds is based on S&P and DNB.

	2013	2012
NOK	20 %	21 %
USD	77 %	75 %
Other	3 %	4 %

2013 - Rating

Amounts in NOK 1000	NOK	Global	Fond	Total	Distribution
AAA	331 316	416 616	168 322	916 255	27,5 %
AA	10 568	825 884	105 932	942 384	28,2 %
A	289 577	240 866	156 746	687 189	20,6 %
BBB	20 357	409 880	134 908	565 145	16,9 %
BB	0	84 507	46 711	131 218	3,9 %
B	0	7 757	15 754	23 511	0,7 %
CCC, lower	0	0	8 385	8 385	0,3 %
No rating	2 210	55 973	3 661	61 846	1,9 %
Total	**654 029**	**2 041 483**	**640 421**	**3 335 934**	**100 %**

2012 - Rating

Amounts in NOK 1000	NOK	Global	Fond	Total	Distribution
AAA	322 257	683 983	224 096	1 230 335	41,1 %
AA	0	433 186	34 542	467 728	15,6 %
A	301 409	245 082	96 905	643 395	21,5 %
BBB	0	376 042	106 501	482 543	16,1 %
BB	0	48 334	34 659	82 993	2,8 %
B	0	10 934	16 189	27 123	0,9 %
CCC, lower	0	0	2 661	2 661	0,1 %
No rating	5 630	51 552	2 661	59 843	2,0 %
Total	**629 296**	**1 849 113**	**518 212**	**2 996 621**	**100 %**

Government, government guaranteed, and municipal bonds, amount to 38 % (35 %) 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. A loss potential is calculated for each risk, and the aggregate risk is measured and managed in relation to available capital. 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 capital requirement at the end of 2013 was USD 501 million (469). The capital requirement reflects the aggregate risk exposure, which again can be broken down into the major risk components in DNK. In the case of a war between major powers, the capital requirement is USD 864 million (827). The increased capital required for this catastrophe scenario is in part explained by higher insurance risk, and in part by a less comprehensive reinsurance programme.

INSURANCE RISK relates to DNK's insurance products. This is the Association's most significant risk, which is reinsured through an extensive programme. This risk constituted 43 % (46 %) of DNK's ordinary capital requirement, and 81 % (85 %) of the capital requirement applicable to a catastrophe scenario that entails a war between major powers.

MARKET RISK arises from the Association's investment activity. Equity risk, interest rate risk, credit risk, concentration risk, and currency risk are controlled through a set of limits. Financial derivatives are mainly used to achieve the desired currency exposure. Market risk is measured by stress testing, value-at-risk and relative volatility. This risk constituted 24 % (18 %) of DNK's ordinary capital requirement, and 14 % (10 %) of the capital requirement applicable to a catastrophe scenario that entails a war between major powers.

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. This risk constituted 32 % (35 %) of DNK's ordinary capital requirement, and 5 % (5 %) of the capital requirement applicable to a catastrophe scenario that entails a war between major powers.

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. This risk is measured and controlled by conducting tests for different catastrophe scenarios.
DNK is also exposed to geopolitical risk. The Association's members operate beyond traditional waters and transport routes. Changes in external conditions may affect the insurance market, political power balances and legal provisions in a manner that may hinder DNK's ability to comply with agreements entered into. Geopolitical risk is monitored in close cooperation with external parties.

Market risk

The investment portfolio consists of equities and bonds. The financial risk in the portfolio can be decomposed into interest rate risk, equity risk, spread risk, concentration risk and currency risk. The Association has no exposure to real estate. The investments are limited to highly liquid securities and mutual funds. The degree of active risk is fairly low. The portfolios financial risk is therefore adequately expressed by using market indices. The stress test template by the Financial Supervisory Authority of Norway 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 of approximately 1.4 percentage points.
- The equity risk is calculated by assuming a 48 % fall in the equity portfolio.
- Currency risk comes into play when the investment portfolio has a currency composition that deviates from the currency mix of the Association's insurance liabilities. If a deviation occurs, usually for tactical reasons, the amount at risk is assumed to fall 25 % in value.

- Concentration risk is based on the combined exposure to an individual issuer. The major factor in determining the level of risk for any issuer is its credit rating. The risk factor for AAA-bonds is 12%, increasing to 27% for BBB-bonds.
- The spread risk is a measure of a potential increase in the risk premium for non-government bonds over sovereign bonds. This risk is calculated by allocating bonds with credit risk to different rating categories. The spread increase varies by credit quality. The spread for AAA-bonds is increased by 0.9 percentage points, while the spread for BBB-bonds is widened by 2.5 percentage points.

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 a stress test 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 2013, the relative volatility was 1.3 %, which indicates that the portfolio's overall risk profile is close to its benchmark.

At year-end 2013, the portfolio's risk profile was as indicated in the table below.

	2013		2012	
Amounts in NOK 1000	Portfolio	Benchmark	Portfolio	Benchmark
Interest rate risk	201	218	171	174
Equity risk	648	564	366	365
Currency risk	24	0	68	0
Spread risk	63	66	47	47
Concentration risk	0	0	0	0
Gain from diversification	-204	-195	-188	-148
Market risk	**733**	**653**	**465**	**438**
Market risk % of portfolio	15,7 %	13,9 %	11,6 %	10,9 %
Value-at-risk	664,3	-542,7	593,3	496,6
Volatility	5,5 %	4,5 %	5,7 %	4,8 %
Relative volatility	1,3 %	--	1,3 %	--

While the stress test models a financial crisis, the estimated VaR reflects the current level of market volatility. The statistical model reflects the changing volatility in the portfolio's asset mix, and the expected co-movements between these assets. Given the level of confidence applied by DNK, one would normally expect the VaR based loss estimate to remain above that of the stress test. When market volatility declines, the VaR based loss estimate will also be lower, for the same nominal exposures.

Using the risk limits in the investment strategy to maximise market risk implies a loss potential of NOK 1,001 million. This is also an expression of the degree of risk tolerated in the investment strategy. Based on the table above, about 73 % of this risk tolerance was used at the end of 2013.

The market risk varies most with changes in the portfolio's allocation to equities, bond duration, the USD and NOK exposure, and credit quality. The table below lists changes in the loss potential given changes in the exposures to the above mentioned risk factors.

Sensitivity

Amounts in NOK 1000		2013		2012	
Risk factor	**Change in exposure**	+	-	+	-
Duration, bonds	+/- 1 unit duration	16	-13	17	-14
Equities	+/- 5 percentage points	105	-102	61	-58
Currency exposure	+/- 5 percentage points	22	4	25	-21
Share of non-sovereign bonds	+/- 5 percentage points	2	-2	2	-2
Duration, non-sovereign bonds	+/- 1 unit duration	19	-14	15	-7
Rating, non-sovereign bonds	Down one letter designation	--	29	--	14
Concentration, issuer rating	Down one letter designation	--	0	--	0

In asset management, counterparty risk is primarily related to the use of derivatives. DNK has outsourced most of its investment management through three discretionary mandates. The external managers can use derivatives related to currency, alternatively to fixed income. Foreign exchange related derivatives are used to secure the desired exposure to USD. Fixed income related derivatives are used to reduce risk, or to make the management process more efficient. Qualitative limits on counterparties and the type of derivatives permitted is regulated in the investment mandates. The counterparty risk that relates to asset management is marginal relative to the overall potential loss indicated by the stress test.

Liquidity risk

The liquidity requirement is stated in the investment strategy and in external investment mandates. DNK is required to invest in assets that are easily divestible. The purpose of a stringent liquidity requirement is to be able to meet large potential claims, including the possible failure of reinsurers' to meet their obligations. Based on this, and the low utilisation of DNK's liquidity reserves, the liquidity risk is considered low. DNK's holdings of securities are valued using official exchange prices, while fund holdings are valued using official unit prices provided by the fund manager or its pricing agent.

NOTE 15: Financial derivatives

The major part of DNK's bond portfolio is managed externally by two investment managers. An investment agreement with each manager regulates the ability to use derivatives related to fixed income instruments. The asset manager for the global bond portfolio is required to hedge the portfolio to the USD. The passively managed equity portfolio is also hedged to the USD by the asset manager.

The table below shows the financial derivatives on the balance sheet at year-end 2013 and 2012.

Amounts in NOK 1000	2013	2012
FINANCIAL DERIVATIVES		
+ Assets	661 287	525 625
- Liabilities	-664 230	-495 859
Net financial derivatives	**-2 942**	**29 766**
Interest rate risk; futures	2 271	4 918
Currency hedging, bonds, forwards	-7 363	56 882
Currency hedging, equities, forwards	2 150	966
Net financial derivatives	**-2 942**	**29 766**

The currency derivatives are rolled over monthly or quarterly. The derivatives are mainly related to hedging of currencies. For this reason there is no major change in exposure during the year. The fixed income derivatives are more commonly used for tactical purposes to implement changes so that the portfolio is in line with the manager's current market outlook.

NOTE 16: Equity, solvency margin and insurance reserves

The Association is exempt from the equity requirement in the Insurance Companies' Act. Equity at year-end 2013 and 2012 was NOK 0 million.

The Association's solvency capital and insurance reserves exceeds the minimum required by the Financial Supervisory Authority of Norway.

The minimum insurance reserve requirement was USD 501 million (469) at year-end 2013. The increase in the requirement is mainly explained by a higher stress factor for equities.

The members' mutual liability was USD 377 million (418) in 2013, while the insurance reserves was USD 770 million (721) at year-end 2013. This amounts to a total buffer capital of USD 1,150 million. The association's coverage limit for a war between major powers is USD 1,000 million.

Frigate HNoMS Fridtjof Nansen, Suez canal. Photo: Torbjørn Kjosvold / Forsvarets Mediearkiv.

To the Annual Shareholders' Meeting of Den Norske Krigsforsikring for Skib Gjensidig Forening

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of Den Norske Krigsforsikring for Skib Gjensidig Forening, which comprise the balance sheet as at 31 December 2013, and the income statement, showing a result of NOK 0 and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Den Norske Krigsforsikring for Skib Gjensidig Forening as at 31 December 2013, 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.

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

pwc

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

Oslo, 24 March 2014
PricewaterhouseCoopers AS

Magne Sem
State Authorised Public Accountant (Norway)

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SUPERVISORY COMMITTEE'S REPORT

The Supervisory Committee of Den Norske Krigsforsikring for Skib, Gjensidig Forening consists of Rolf Sæther, Henrik Aass, Ivar Alvik and Salve Sandvik (deputy). The Committee held 3 meetings during 2013.

The Managing Director has attended all meetings and the Committee has received reports about the essential business activities of the Association. The Association's auditor participated in the meeting where i.a. the Board of Directors' report and the financial statements were discussed.

The members of the Committee and the deputy receive board documentation, including minutes, as part of their task.

The Committee has received the Controller's report to the Board in relation to the Association's risk management and internal control, as well as confirmation by the auditor, and has noted the issues raised and recommended actions to be taken.

The Supervisory Committee has reviewed the Board of Directors' proposed financial statements for 2013. With reference to the auditor's report dated the 24th of March 2014, the Committee recommends that the income statement, the balance sheet and the cash flow statement be adopted as Den Norske Krigsforsikring for Skib's financial statements for 2013.

The Committee states that, to its knowledge, the Association conducts its business in accordance with the law, regulations and directions by the Financial Supervisory Authority of Norway.

Oslo, 25th of March 2014

Rolf Sæther
Chairman

Henrik Aas

Ivar Alvik

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