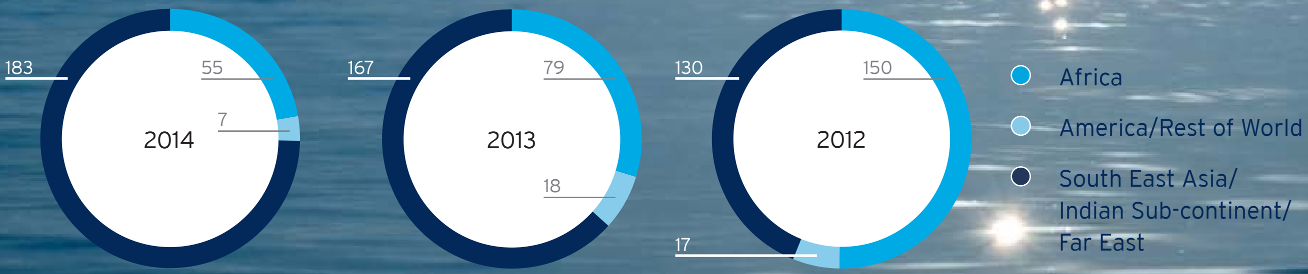
DEN NORSKE KRIGSFORSIKRING FOR SKIB
GJENSIDIG FORENING
The Norwegian Shipowners' Mutual
War Risks Insurance Association

Annual Report 2014

Areas at Risk

Global Piracy Incidents

Source: International Marine Bureau (IMB)



Front page photo: Seadrill

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

79th Financial Year

Photo: Farstad Shipping

Annual Report 2014

Governing Bodies

The Board of Directors

MEMBERS

Jan Pedersen
Chairman

Kristian Gerhard Jebsen Skibsrederi AS

Garup Meidell
Vice-Chairman

SinOceanic Shipping AS

Benedicte Bakke Agerup

Wilh. Wilhelmsen ASA

Roar Flom

Høegh Capital Partners

Olav Eikrem

Frontline Management

Harald Fotland

Odfjell SE

Mons Aase

DOF ASA

DEPUTIES

Vanessa Chapman, Odfjell Drilling AS
Rune Olav Pedersen, Petroleum Geo-Services ASA
Odd Christian Krohn, Fred Olsen Brokers 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

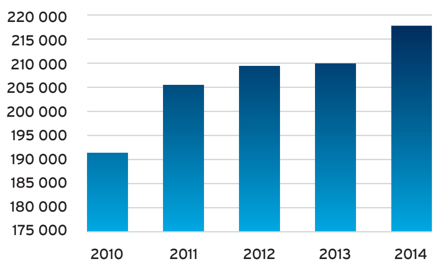
Johan Hvide, Seatrans AS
Lars Peder Solstad, Solstad Offshore ASA
Trond Kleivdal, Color Line AS

External Auditor

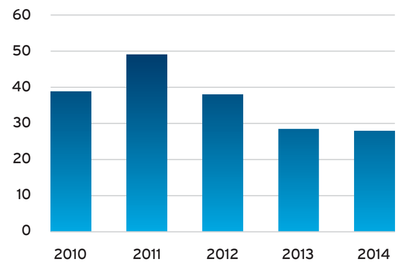
PricewaterhouseCoopers AS

Key Figures Amounts in USD million

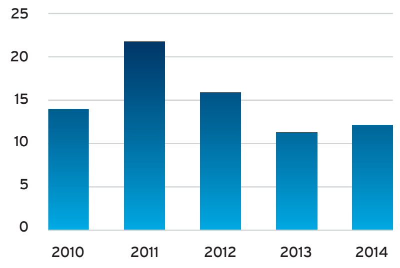
Insured values



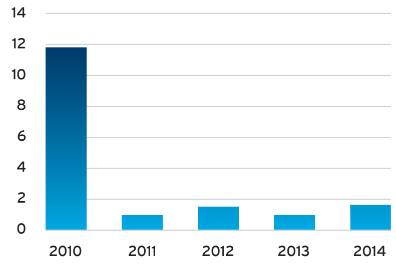
Gross premiums



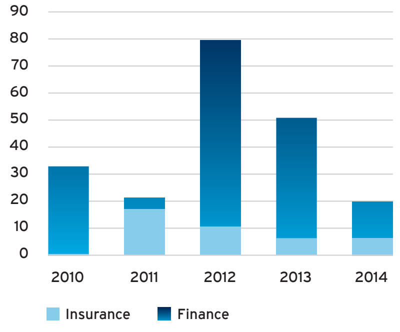
Premium for own account



Gross claims



Operating result



Insurance reserves

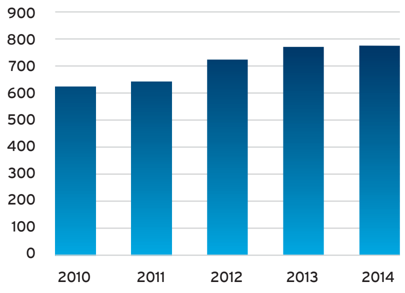


Photo: Odfjell

Annual Report

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

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

Highlights 2014

- At the end of 2014 DNK insured 3109 ships and mobile rigs (2,989 in the previous year), with an aggregate value of USD 218 billion (210). An additional 35 (30) newbuildings were covered.

- No merchant ships were hijacked in the Indian Ocean during 2014. Attacks on maritime units continued in the Gulf of Guinea, while piracy and maritime crime increased in South East Asia. Vessels insured by DNK suffered only minor incidents in these areas. The aftermath of the Arab spring has led to instability and a challenging security situation for international shipping, notably in Libya. While this has not resulted in any losses during 2014, operational issues have occurred for DNK's members.

- In 2014, insurance activities generated a satisfactory result. The number of voyages and average premium rates declined in the conditional trading areas versus 2013. The level of premium income for own account, and low losses, allowed for an adjustment of both annual and additional premiums before year-end. The return on DNK's investments portfolio in USD was 2.3 % (6.7 %).

- The war risk insurance market is characterised by high capacity, for both direct and reinsurance contracts. Reinsurance contracts were renewed at satisfactory terms, enabling the Association to retain competitive rates in 2015. The constructive total loss threshold was lowered to 180 days, thus matching the limit for loss of hire.

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

- DNK's buffer capital at year-end 2014 was USD 1.14 billion (1.15). This capital consists of two elements; insurance reserves and mutual liability. The insurance reserves, including equity, increased by USD 4.2 million in 2014 to USD 774.2 million (770.0). The mutual liability decreased by USD 7 million to USD 370 million (377). The buffer capital was 0.5 % of gross insured values at the end of 2014.

Results 2014

Gross premium income in 2014 amounted to USD 28.4 million (28.9). The reduction of USD 0.5 million is explained by two factors; year-end premium adjustment and lower rates. The premium adjustment, or no-claims bonus, in 2014 was USD 12.3 million, or USD 2.7 million less than the year before. Annual rates declined on average 8 % in 2014. In the conditional trading areas average rates were down 6 % while the number of transits fell 3 % versus 2013. Annual premiums represented 42 % of reported gross premium income in 2014.

Reinsurance costs fell by USD 1.4 million, or 8 %, in 2014. The reduction was mainly related to annual premiums.

Premiums for own account amounted to USD 12.2 million in 2014 (11.3).

Gross claims costs were higher in 2014. The increase was caused by two incidents. Claims for own account was USD 0.0 million (0.0). No vessels/units insured with the Association were hijacked by Somali pirates in the last year.

The operating result from DNK's insurance activities amounted to USD 6.6 million (6.4) after administration costs and payment of no-claims bonus.

Income from investments, after deduction of administration costs, amounted to USD 15.3 million (45.0). The investment portfolio generated a return of 2.3 % in 2014 (6.7 %), measured in USD. On average, equities made up 27 % of the portfolio, while the balance was invested in Norwegian and international bonds.

The operating result before changes in insurance reserves and tax amounted to USD 21.9 million in 2014 (51.4). After the allocation of USD 4.2 million (49.0) to the insurance reserves, and an increase in deferred tax of USD 17.7 million (2.4), the Association's net result was USD 0.0 million (0.0).

Insurance reserves, including equity, amounted to USD 774.2 million at the end of 2014 (770.0).

Cash flow from insurance activities was USD 6.3 million in 2014 (7.1). Premium income, reinsurance expenses and administrative costs were the main cash items. Cash flow from finance activities was negative USD 10.1 million (-5.5). Realised gains and losses from the sale of financial assets, reinvestments and administrative expenses constitute the major cash flow items in portfolio management. Net investment in fixed assets was USD 0.1 million (0.3). Net cash flow for the period was negative USD 3.8 million (1.4). At the end of 2014 bank deposits amounted to USD 3.0 million (6.7).

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. This coverage is a large component of DNK's capital requirement. Counterparty risk relating to reinsurance and mutual liability is also considered, along with the reserve needed to continue operations in spite of catastrophic events. These risk factors determine the Association's capital needs. The allocation of the result for 2014 to the insurance reserves is consequently a confirmation that the Association needs to increase its capital base to properly cover the risks to which it is exposed.

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 2014.

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 to enhance its service level, and to assist members effectively in emergencies. Several systems for monitoring the insured units were tested throughout the year and will be implemented as a permanent tool for loss prevention, emergency response and portfolio administration as from 2015. New covers are developed and introduced to reflect changes in the market, or as special products offered exclusively to our members. The Association offers competitive premiums also utilising year end premium adjustments applicable to both annual and additional premiums.

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

The threats

The aftermath of the Arab spring has led to instability and a challenging security situation for international shipping in many key countries, most notably Libya during 2014. While this has not resulted in any losses, there have been some challenges 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 far as product development, emergency response, and claims are concerned.

Loss prevention and contingency measures

During 2014 the Association again placed emphasis on its cooperation with the Norwegian Shipowners'

Association on matters such as loss prevention and contingency measures. Contact was also established with INTERPOL with respect to preventive measures and intelligence sharing in the aftermath of incidents.

DNK regularly provides members with risk analysis of actual and potential threats that could impact the shipping industry. This is done by DNK's in-house security analyst and through automated services from third parties.

Special contingency measures remain in place to handle potential hijackings. These measures secure 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

Based on positive premium and claims figures and a stable insurance cover, reinsurance costs for 2014 were reduced and passed on to members by way of lower premiums and supplemented by year-end premium adjustments.

Apart from lowering the constructive total loss threshold to 180 days, the insurance conditions were unaltered through the renewal for 2015.

Regulatory Developments

DNK monitors developments in the national and international sanctions' regimes closely, and implemented additional measures to ensure continued compliance.

In preparing for Solvency II, DNK has met the Financial Supervisory Authority of Norway (Finanstilsynet) and the Ministry of Finance. Major topics have included modelling of the capital requirement, the eligibility of solvency capital, and the potential negative impact of regulatory change requiring reclassification of insurance reserves. Detailed input has been submitted to the Ministry of Finance to document the consequences of regulatory changes that could make DNK's insurance reserves taxable.

Investment Management

The financial markets became increasingly volatile through the second half of 2014, driven by the sudden drop in oil prices and concern over weaker global economic growth. As a consequence, sovereign bond yields declined, yet again to record lows. Loose monetary policies were maintained or even expanded through 2014, notably in Japan and the European Union. This will likely continue through 2015 to counter deflation and stimulate investments and economic growth. The Federal Reserve, on the other hand, may tighten monetary policy as economic growth and employment in the U.S. are rising. The discrepancy between a brighter outlook in the U.S., and more gloom in other major economies has led to a considerable strengthening of the USD through 2014; around 14 % vs. EUR and JPY respectively, and nearly 24 % vs. NOK. Debt concerns in European countries resurfaced as political tensions in Greece reemerged. This disrupts peripheral bond markets and the EU currency. A rise in geopolitical tensions, not least due to conflicts in Ukraine, had a negative effect on financial markets causing sell-offs and consequent money flows into safe haven alternatives, such as sovereign bonds. Russian equity and bond markets are distressed, and the ruble weak, which was further aggravated by the steep decline in oil prices. Other major emerging market economies did not live up to the growth levels anticipated for 2014. Global economic growth in 2014 failed to meet forecasts, and targets for 2015 have been moderated.

The table on the next page shows the return for a number of market indices that are of particular relevance to DNK's investment strategy.

The global equity index for developed markets increased 63.5% over the last three years, while medium term global bonds rose 4.7 % in value. Over the same period Norwegian government bonds generated a return of 8.4 %. The U.S. dollar strengthened against the Norwegian krone (NOK), notably in 2014.

DNK's financial investments mirror the currency composition of its liabilities and premium income. The allocation, or hedge, to USD is thus 85 % while the balance is exposed to NOK.

The investment portfolio consists of global liquid securities and fund units. The strategic exposure to equities is 25 %, while the remaining 75 % of the portfolio is allocated to investment-grade bonds with

Return/ change in value %	2014	2013	2012	3 years
Global equities, MSCI, USD	9.7	28.7	15.8	63.5
Global bonds, Barclays, 1-3 years, USD	1.2	1.1	2.4	4.7
Norwegian government bonds, 3 years, NOK	5.1	0.9	2.2	8.4
USD vs. NOK	23.4	9.1	-7.0	25.3

an average maturity near 2 years. The investment portfolio may periodically deviate from its benchmark within a defined band.

Measured in USD, the portfolio return was 2.3 % in 2014 (6.7 %). The financial performance is explained by 8.9 % return on equities, while the fixed income part of the portfolio generated a return of 0.1 %. DNK's portfolio return exceeded its benchmark. The outperformance is explained by an overweight in equities, an underweight in NOK, and excess return in fixed income.

The main part of DNK's investments in fixed income products is managed through two external mandates; one Norwegian and one global. The investment management agreements regulate interest rate risk, currency risk, credit risk, relative volatility and concentration risk. The equity portfolio consists of index funds that track the performance of the global developed markets in USD.

The Board has set limits 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 (VAR). The portfolio's degree of active risk is measured by relative volatility. The table below shows these risk measures over the past three year-ends.

The lower loss potential indicated by the stress test in 2014 was driven by two factors; (i) the stress factor for equities was lowered from 48 to 45 %, and (ii) the allocation to equities declined from 29 to 25 %. Value at Risk is annualised from past monthly observations. The decrease in VaR reflects a lower allocation to equities, and less volatility in the historic data used for calculation purposes. Relative volatility measures the degree of active risk in DNK's portfolio compared to its benchmark.

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 may 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 its registered insured amount with DNK. There are no restrictions in respect of voting rights. The Articles of Association also set guidelines for the composition of the Board, its procedures and functions.

DNK's Articles of Association deal with the setting of premiums, financial reporting, premium adjustment and the discretion to call for extra contributions (mutual

Risk measures	2014	2013	2012
Stress test, USD million	-100.3	-120.8	-84.0
Value at Risk (VaR), USD million	-97.6	-109.5	-106.7
Relative volatility, %	1.0	1.3	1.3

liability) from members. The Articles also include special rules applicable to crisis situations.

DNK's activities are governed, controlled and monitored in accordance with policies and instructions set by the Board. The governance components take into account the nature, scale and complexity of DNK's risk profile and its organisational and operational structures.

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 DNK's loss potential by type of cover, and by risk mitigation through reinsurance. Premiums are set on an annual basis. Rates for conditional trading areas are set for each voyage according to current evaluations of the underlying risks.

Counterparty risk is 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 its 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 dialogue with the Financial Supervisory Authority of Norway. The Association will be in compliance with the Solvency II Directive by its implementation in 2016.

Capital Requirements

In 2008, DNK introduced a limit of USD 1 billion for cover of war between major powers. The Association's buffer capital was USD 1.14 billion at the end of 2014, split between USD 774.2 million in insurance reserves, including equity, and USD 370 million in members' mutual liability.

The minimum capital requirement is calculated for two different scenarios, which vary with the liability type and corresponding reinsurance. DNKs capital situation exceeds the regulatory minimum requirements.

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

Administration

The Association had 13 employees at the end of 2014.

Sick leave in 2014 totalled 190 days (108), which represented 5.9 % of overall working hours (2.7 %). Excluding long-term absence due to illness, the sick leave for 2014 was 1.6%.

There were no work-related accidents resulting in material injury to personnel or property. The Association is not engaged in activities that pollute the environment.

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

DNK's Board consists of one woman and six men. The Association's administration consisted of seven women and six men at the end of 2014.

Outlook

The main factors affecting DNK's result are the geopolitical situation and threat levels in areas where members' tonnage operates, as well as developments in world financial markets. On a more detailed level these will be the main drivers: Changes in the values insured, members' activities in conditional trading areas, market premium levels 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 or other violent attacks against ships and offshore units. Although the level of activity outside Somalia was low in 2014, problems with maritime crime and piracy in the Gulf of Guinea and South East Asia continue. Proactive measures are taken in cooperation with members and the authorities to mitigate potential damage. This seems to be working with regard to Somali piracy, but the threat against insured units in the other areas is more difficult to combat.

DNK's cover is renewed at the start of each calendar year. Rates for annual premiums have declined in recent years, while the value of entered tonnage has increased. Reinsurance costs have also declined over the past several years. A satisfactory reinsurance renewal at the end of 2014 is expected to have a positive impact in 2015. Additional premium rates for conditional trading areas are more volatile, but have also followed a downward trend. The activity in these areas has been high the last few years, including 2014. Current conditional trading areas suggest that DNK's insurance activities will produce a satisfactory result in 2015, even with lower premium rates than in 2014. 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 market capacity should 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 2015 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 2015 is expected to be marginally higher than in 2014.

DNK will continue its dialogue with the authorities in preparing for the EU Solvency II Directive. Issues relating to technical standards and capital requirements will be discussed with the Financial Supervisory Authority of Norway (Finanstilsynet), while the regulatory treatment of insurance reserves will be followed up with the Ministry of Finance. The Ministry of Finance has signalled that stakeholders will be invited to comment on any consequences of potential changes in current regulation. DNK will submit detailed comments on any regulatory changes, including the potential taxation of insurance reserves.

The Norwegian Shipowners' Mutual War Risks Insurance Association Oslo, 23rd of March 2015.

Jan Pedersen
(Chairman)

Garup Meidell
(Vice-Chairman)

Benedicte Bakke Agerup

Mons Aase

Roar Flom

Harald Fotland

Olav Eikrem

Svein Ringbakken
(Managing Director)

Photo: GC Rieber Shipping AS

Photo: Petroleum Geo-Services

Financial Statements in USD

INCOME STATEMENT

Amounts in USD 1000	Note	2014	2013
PREMIUMS			
Gross premiums		28 447	28 856
Reinsurance premiums		(16 234)	(17 594)
Premiums for own account		**12 213**	**11 262**
Allocated investment return		**10 395**	**11 344**
CLAIMS			
Claims paid			
Gross claims paid	8	(1 269)	(1 892)
- Reinsurers' share of gross claims	8	1 973	546
Change in claims provisions			
Change in gross claims provisions	8	(391)	934
- Change in reinsurers' share of gross claims provisions	8	(340)	425
Claims for own account		**(28)**	**13**
Insurance related administrative expenses	2, 3, 4, 5, 9, 10	**(5 589)**	**(4 890)**
Technical result before allocation to reserves		**16 991**	**17 730**
Allocation to insurance reserves	16	**(4 183)**	**(48 984)**
OPERATING RESULT TECHNICAL ACCOUNTS		**12 807**	**(31 254)**
Interest and dividend from financial assets	9	11 590	14 259
Change in fair value of financial assets	9	(40 993)	9 440
Realised gains from financial assets	9	49 961	25 947
Administrative expenses related to financial assets	2, 3, 4, 5, 9, 10	(5 274)	(4 694)
Total income/loss from financial assets		**15 284**	**44 951**
Allocated investment return transferred to technical accounts		**(10 395)**	**(11 344)**
OPERATING RESULT NON-TECHNICAL ACCOUNTS		**4 889**	**33 607**
PRE-TAX RESULT		**17 696**	**2 353**
Tax expenses	6	(17 696)	(2 353)
PROFIT FOR THE YEAR		**0**	**0**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**0**	**0**
TOTAL RESULT		**0**	**0**

BALANCE SHEET

Amounts in USD 1000	Note	2014	2013
ASSETS			
Owner occupied properties	5	212	212
Bank deposits investment portfolio		41 491	37 263
Shares and other equity investments	11, 12, 14	199 075	222 105
Bonds and other fixed income securities	11, 12, 13, 14	547 281	537 144
Financial derivatives	14, 15	86 239	109 046
Total investments		**874 297**	**905 770**
Reinsurers' share of gross claims provisions	**8**	**1 345**	**1 701**
Insurance related receivables		2 117	2 299
Reinsurers receivables		0	0
Other receivables		4 446	7 049
Total receivables		**6 562**	**9 348**
Equipment and fixtures	5	1 297	1 463
Cash and bank deposits	7	2 960	6 724
Other assets	4	174	157
Total other assets		**4 431**	**8 345**
Total prepaid expenses and accrued income		**196**	**346**
TOTAL ASSETS		**886 831**	**925 511**
EQUITY & LIABILITIES			
Equity	16	**0**	**0**
Provision for unearned gross premiums		0	0
Gross claims provisions	8	1 060	685
Insurance reserves	16	774 221	770 037
Total insurance reserves		**775 281**	**770 723**
Pension liability provisions	4	694	1 009
Taxes payable	2, 6	66	9
Deferred tax liability	2, 6	25 132	9 269
Other provisions		560	0
Total provisions		**26 453**	**10 287**
Reinsurance liabilities		1 529	2 112
Financial derivatives	14, 15	80 690	109 531
Other liabilities		1 658	30 112
Total liabilities		**83 877**	**141 755**
Other accrued expenses and prepaid income		**1 220**	**2 746**
TOTAL EQUITY AND LIABILITIES		**886 831**	**925 511**

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

Oslo, 23rd of March 2015

The Norwegian Shipowners' Mutual War Risks Insurance Association

Jan Pedersen
(Chairman)

Garup Meidell
(Vice-Chairman)

Benedicte Bakke Agerup

Mons Aase

Roar Flom

Harald Fotland

Olav Eikrem

Svein Ringbakken
(Managing Director)

Photo: Odd Angell

CASH FLOW STATEMENT

Amounts in USD 1000	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	28 574	31 566
Cash paid to re-insurers	(16 817)	(18 451)
Net cash flows related to claims expenses	703	(1 329)
Paid insurance related administrative expenses	(6 128)	(4 657)
Net cash flows from the technical accounts	**6 332**	**7 129**
Net cash flows from interest, dividends and realised gains/losses on financial assets	41 628	27 514
Net cash flows from acquisition/disposal of financial assets	(45 885)	(28 539)
Paid administrative expenses related to financial assets	(5 813)	(4 461)
Net cash flows from the non-technical accounts	**(10 070)**	**(5 486)**
Net cash flows from operating activities	**(3 738)**	**1 642**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows from acquisition/disposal of fixtures and fixed assets	(26)	(265)
Net cash flows from investing activities	**(26)**	**(265)**
Net cash flows in the period	**(3 764)**	**1 378**
Net changes in cash and bank	(3 764)	1 378
Cash and bank 01.01.	6 724	5 347
Cash and bank 31.12.	**2 960**	**6 724**

Photo: Independence, Höegh LNG

Notes

NOTE 1: Accounting principles

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 recognised on the settlement date. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed 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 or losses arising from changes in the fair value, including dividends and interest income, are included in "change in value of financial assets", and "realised gain and loss on financial assets" in the period in which they arise. Dividend income from financial assets is recognised in the income statement when the 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 major part of the premium income, financial assets and potential claims obligations are in USD. USD is the Association's functional and presentation currency and the figures are presented in this currency.

Profit and loss transactions in foreign currencies are translated into USD using the average monthly rate of exchange. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Norwegian kroner are used in the official Norwegian regulatory reporting.

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

Properties
The Association does not currently own any properties 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 commission are recognised when earned. Premium for own account includes premiums written, net of premiums ceded (reinsurance). All premium payments follow the calendar year, so there is no allocation to premium reserve at year end. Premium for own account appears in the technical 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.

Increased focus on Cyber Risk

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

On average there were 14 people employed by the Association in 2014. The following amounts are expensed as salary, fees and other benefits, and the following loans were outstanding:

2014

Amounts in USD 1000	Salary/ fees	Bonus	Pension costs	Other Benefits	Total	Loan
MANAGEMENT						
Svein Ringbakken, Managing Director	432	124	150	56	**762**	5
Sverre Huse, Finance Director	358	102	181	42	**683**	0
Göran Skuncke, Insurance Director	237	0	32	5	**274**	0
Helena Brudvik, Controller	190	32	62	2	**287**	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 (to 28th of April)	17	0	0	0	**17**	0
Olav Eikrem, Board member	17	0	0	0	**17**	0
Harald Fotland, Board member	17	0	0	0	**17**	0
Mons Aase, Board member	17	0	0	0	**17**	0
Roar Flom (from 28th of April)	0	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

NOTE 2 cont.

NOTE 2 cont.

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

Loans to employees follow common repayment schedules. No loans/guarantees have been extended to the Board of Directors, Supervisory Committee or other related parties.

Holiday-pay accrued in 2013 is included under salary for 2014.

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 60,608, an internal control review of USD 13,488, tax related services of USD 16,344 and other services of USD 294,092. Included in the amount of other services, USD 262,195 represent fee for Solvency II related services. 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	2014	2013
Present value of the year's pension accruals	574	640
Net interest cost and expected return on pensions	26	17
Management fee	52	52
Administration costs	12	15
Actuarial gain/(loss)	61	42
Net pension costs (incl. social security taxes)	**725**	**765**
Calculated pension obligations as at 31.12	6 645	6 506
Pension assets (at market value) as at 31.12	(3 658)	(3 875)
Effect of estimated deviations	(2 467)	(1 779)
Net pension assets/(liabilities)	**(520)**	**(852)**
FINANCIAL ASSUMPTIONS		
Discount rate	3,00 %	4,10 %
Expected return on pension fund assets	3,80 %	4,40 %
Expected payroll adjustment	3,25 %	3,75 %
Expected pension increase	1,75 %	1,75 %
Expected G-adjustment	3,00 %	3,50 %

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		Equipment/ fixtures and vehicles	Works of art (paintings)	Properties
Acquisition cost as at 01.01		1 541	145	212
+ Additions during year		27	0	0
- Disposals during year		(21)	0	0
+ Exchange rate effects		(4)	0	0
Acquisition cost as at 31.12	**A**	**1 544**	**145**	**212**
Accumulated ord. depr. as at 01.01		223	0	0
+ Ordinary depreciation		192	0	0
- Disposals at acquisition cost		(21)	0	0
+ Exchange rate effects		(3)	0	0
Accumulated ord. depr. as at 31.12	**B**	**392**	**0**	**0**
Book value as at 31.12	**A-B**	**1 152**	**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	2014	2013
THE YEAR'S TAX COSTS ARE CLASSIFIED AS FOLLOWS:		
Payable tax (deficit)	(24 711)	(19 811)
Part of deficit not included in deferred tax	24 711	19 811
Adjustment to historic tax	6	1
Change in deferred tax	17 622	2 344
Net worth tax	66	9
Total	**17 696**	**2 353**
CALCULATION OF TAXES:		
Profit/loss before tax	17 696	2 353
Permanent differences, non-deductible	242	63
Accounting related gain on realisation of securities	(62 170)	(18 318)
Accounting related loss on realisation of securities	15 067	774
Tax related gain/loss on realisation of securities	21 398	12 535
Reversal of change in marketable securities	(83 603)	(68 160)
Change in temporary differences	(151)	(1)
This year's taxable result	**(91 521)**	**(70 754)**
Taxes payable (deferred taxes)	**(24 711)**	**(19 811)**
OVERVIEW OF TEMPORARY DIFFERENCES		
Fixed asset investments	(22)	(3)
Diff. between market and book value of trading portfolio	90 301	33 960
Pension obligations	(520)	(852)
Total	**89 759**	**33 105**
27% deferred tax	**25 132**	**9 269**
WHY TAX COST DIFFERS FROM 27 % (28 %) OF PROFIT/LOSS BEFORE TAX:		
27 % (28 %) tax of the profit/loss before tax	4 778	659
Tax effects of permanent differences (27 %, 28 % in 2013)	(6 875)	(1 385)
Change in tax effects of unrealised gain/loss on shares	(4 991)	(16 398)
Too little tax set aside in previous years	6	1
Net worth tax	66	9
Tax effect of reduced tax rate (27 %)	0	(343)
Deferred tax deficit not shown on balance sheet	24 711	19 811
Calculated tax costs	**17 696**	**2 353**

NOTE 6 cont.

NOTE 6 cont.

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. Tax loss carry forwards in 2014 was USD 187 million (118).

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 372,360 of unpaid tax withholdings as at 31.12.14.

NOTE 8: Claims expenses

Gross claims expenses related to two incidents, one dating back to 2012. Net claims costs after reinsurance were negligible.

Amounts in USD 1000	2014	2013
PROFIT & LOSS		
Gross paid claims	1 269	1 892
- Deducted claims provisions	(1 218)	(1 847)
Expensed gross claims	**51**	**45**
New gross claims provisions	1 609	913
Gross expensed claims, total	**1 661**	**958**
Reinsurers' share of gross paid claims	1 973	546
- Deducted reinsurers' share of claims provisions	0	(546)
Expensed reinsurers' share of gross claims provisions	**1 973**	**0**
Change in reinsurers' share of gross claims provisions	(340)	971
Reinsurers' share of expensed gross claims	**1 632**	**971**
Claims for own account	**28**	**(13)**
BALANCE SHEET		
Gross claims provisions 01.01	685	1 613
- Paid claims deducted from claims provisions	(1 218)	(1 847)
New claims provisions	1 609	913
Change in gross claims provisions	**391**	**(934)**
Exchange rate effects	(17)	6
Gross claims provisions 31.12	**1 060**	**685**
Reinsurers' share of gross claims provisions 01.01	1 701	1 287
- Deducted reinsurers' share from gross claims provisions	0	(546)
Change in reinsurers' share of gross claims provisions	(340)	971
Change in gross claims provisions	**(340)**	**425**
Exchange rate effects	(17)	(11)
Reinsurers' share of gross claims provisions 31.12	**1 345**	**1 701**
Claims provision for own account 31.12	**(285)**	**(1 016)**

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

Amounts in USD 1000	2014	2013
Interest income from bank deposits	20	21
Interest income from domestic loans	8	15
Interest income on bonds	11 340	14 026
Dividends on equities	222	196
Interest and dividend from financial assets	**11 590**	**14 259**
Unrealised gains/losses on financial current assets	**(40 993)**	**9 440**
Exchange rate gains	153 641	25 093
Exchange rate losses	(133 718)	(12 155)
Realised gains/losses on equities	25 467	4 463
Realised gains/losses on bonds	833	5 889
Realised gains/losses on derivatives	3 739	2 656
Realised gains from financial assets	**49 961**	**25 947**
Administrative expenses associated with financial assets	**(5 274)**	**(4 694)**
Total income/loss from financial assets	**15 284**	**44 951**

NOTE 10: Administrative expenses

Amounts in USD 1000	Insurance 2014	Finance 2014	Total 2014	2013
Salary and holiday pay, employees	1 444	1 444	2 888	3 276
Social security taxes	246	246	492	584
Pension cost	362	362	725	765
Other personell costs	128	106	234	203
Fees	470	470	940	607
Rental costs, office and machinery	233	233	465	441
Ordinary depreciation	96	96	192	203
Other administrative expenses	2 610	2 318	4 927	3 505
Total administrative expenses	**5 589**	**5 274**	**10 864**	**9 584**

The Association's administrative expenses are allocated between its insurance and finance activities as far as practically possible. Where not practically possible, common costs are allocated according to the distribution of personnel expenses between the two operating activities, which for 2014 were split 50/50.

NOTE 11: Financial assets – fair value hierarchy

Amounts in USD 1000	2014	2013
Equities	199 075	222 105
Bonds and fixed income securities	547 281	537 144
Financial derivatives, assets - liabilities	5 548	-485
Loans and accounts receivable	41 491	37 263
Total financial assets*	**793 395**	**796 027**

2014 - Financial assets measured at fair value over the income statement

Amounts in USD 1000	Level 1	Level 2	Level 3	Total
Equities	198 004	0	1 070	199 075
Bonds	339 174	208 108	0	547 281
Financial derivatives, net	0	5 548	0	5 548
Total	**537 178**	**213 656**	**1 070**	**751 904**
Distribution	71,4 %	28,4 %	0,1 %	100,0 %

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 %

* Total fair value equals book value.

The reduction in level 3 from 2013 to 2014 is explained by the sale of Norchip in 2014.

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

2014 - Investment portfolio in equities and mutual funds

Amounts in USD 1000	Value at cost	Fair value	Distribution
Equities	147 167	199 075	100,0 %
STATE STREET INDEX FUNDS			
Australia	3 706	3 756	1,9 %
Canada	5 777	6 452	3,2 %
Europe	28 130	34 377	17,3 %
Hong Kong	685	858	0,4 %
Japan	8 380	10 314	5,2 %
Singapore	889	1 103	0,6 %
USA	30 445	53 928	27,1 %
World	35 198	53 968	27,1 %
Equity index funds	**113 211**	**164 756**	**82,8 %**
OTHER EQUITY FUNDS			
Nordea Stable equities, global	32 000	33 248	16,7 %
Private equities	**1 956**	**1 070**	**0,5 %**
Total equities	**147 167**	**199 075**	**100,0 %**

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 %**

NOTE 12 cont.

NOTE 12 cont.

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 with a duration of 1-3 years, hedged to the USD. The weighted benchmark duration for the bond portfolio is 2.2 years, while the duration of the portfolio was 2.2 (4.4) at the end of 2014.

	2014	2013
Amounts in USD 1000	Book value	Book value
Bonds and other fixed income securities	547 281	537 144
Accrued interest income	4 288	6 938
Settlement, broker	0	-29 322
Loans and accounts receivable	41 086	36 175
Fixed income derivatives	4 600	-840
Fixed income portfolio	**597 255**	**550 096**

Amounts in USD 1000	Value at cost	Book value	Value at cost	Book value
DISCREATIONARY MANDATES				
Norwegian bonds	86 574	93 178	103 029	107 849
Global bonds, USD hedged	354 461	387 450	356 358	336 600
BOND FUNDS				
Franklin Templeton, global	39 121	51 843	34 121	46 161
Pimco	54 749	64 784	54 749	59 444

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.

2014

Amounts in USD 1000	Distribution	Rating	Duration	Yield	Int. rate risk
Bonds, NOK	16 %	AA	2,7	1,6 %	-2 504
Bonds, global, USD hedged	65 %	AA-	1,6	0,7 %	-6 160
Bond funds	20 %	A	3,7	3,4 %	-4 227
Total fixed income	**100 %**	**AA-**	**2,2**	**1,4 %**	**-12 892**

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**

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.

	2014	2013
NOK	16 %	20 %
USD	82 %	77 %
Other	2 %	3 %

2014 - Rating

Amounts in USD 1000	NOK	Global	Fond	Total	Distribution
AAA	48 876	168 037	22 469	239 382	40,1 %
AA	0	65 440	23 081	88 522	14,8 %
A	40 918	91 516	32 917	165 350	27,7 %
BBB	2 893	51 182	24 086	78 162	13,1 %
BB	0	9 299	9 072	18 370	3,1 %
B	0	775	2 830	3 605	0,6 %
CCC, lower	0	0	2 162	2 162	0,4 %
No rating	491	1 201	10	1 703	0,3 %
Total	**93 178**	**387 450**	**116 627**	**597 255**	**100 %**

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 %**

Government, government guaranteed, and municipal bonds, amount to 55 % (38 %) 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 2014 was USD 471 million (501). 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 842 million (864). The decreased capital required for this catastrophe scenario is mainly explained by lower market risk.

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 46 % (43 %) of DNK's ordinary capital requirement, and 83 % (81 %) 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 21 % (24 %) of DNK's ordinary capital requirement, and 12 % (14 %) 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 % (32 %) 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 0.7 percentage points.
- The equity risk is calculated by assuming a 45 % 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 2014, the relative volatility was 1.0 %, which indicates that the portfolio's overall risk profile is close to its benchmark.

At year-end 2014, the portfolio's risk profile was as indicated in the table below.

	2014		2013	
Amounts in USD 1000	**Portfolio**	**Benchmark**	**Portfolio**	**Benchmark**
Interest rate risk	15,1	12,9	33,2	35,9
Equity risk	90,1	89,5	106,8	93,1
Currency risk	3,6	0,0	4,0	0,0
Spread risk	10,4	10,4	10,5	10,8
Concentration risk	0,0	0,0	0,0	0,0
Gain from diversification	-18,8	-14,4	-33,6	-32,2
Market risk	**100,3**	**98,4**	**120,8**	**107,6**
Market risk % of portfolio	12,6 %	12,4 %	15,7 %	13,9 %
Value-at-risk	97,6	82,3	109,5	-89,5
Volatility	4,8 %	4,0 %	5,5 %	4,5 %
Relative volatility	1,0 %	--	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 USD 131 million. This is also an expression of the degree of risk tolerated in the investment strategy. Based on the table above, about 77 % of this risk tolerance was used at the end of 2014.

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.

NOTE 14 cont.

Amounts in USD 1000		Sensitivity 2014		2013	
Risk factor	**Change in exposure**	**+**	**-**	**+**	**-**
Duration, bonds	+/- 1 unit duration	1	-1	3	-2
Equities	+/- 5 percentage points	17	-17	17	-17
Currency exposure	+/- 5 percentage points	4	1	4	1
Share of non-sovereign bonds	+/- 5 percentage points	0	0	0	0
Duration, non-sovereign bonds	+/- 1 unit duration	2	-2	3	-2
Rating, non-sovereign bonds	Down one letter designation	--	5	--	5
Concentration, issuer rating	Down one letter designation	--	--	--	--

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.

Photo: Polarcus Nadia, Polarcus

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 2014 and 2013.

Amounts in USD 1000	2014	2013
FINANCIAL DERIVATIVES		
+ Assets	86 239	109 046
- Liabilities	-80 690	-109 531
Net financial derivatives	**5 548**	**-485**
Interest rate risk; futures	-349	374
Currency hedging, bonds, forwards	4 949	-1 214
Currency hedging, equities, forwards	948	354
Net financial derivatives	**5 548**	**-485**

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 2014 and 2013 was USD 0 million.

The solvency capital margin satisfies the minimum requirements of the Financial Supervisory Authority of Norway, and the Association's insurance reserves satisfy the minimum requirements established in consultation with public supervisory bodies.

The minimum insurance reserve requirement was USD 471 million (501) at year-end 2014. The decrease in the requirement is mainly explained by a lower equity allocation.

The members' mutual liability was USD 370 million (377) in 2014, while the insurance reserves was USD 774.2 million (770) at year-end 2014. This amounts to a total buffer capital of USD 1,143.8 million in case of a superpower war. The association's coverage limit for this scenario is USD 1,000 million.

Auditor's Report - USD

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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 2014, and the income statement, showing a result of USD 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 Association'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 2014, 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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 23 March 2015
PricewaterhouseCoopers AS

Magne Sem

Magne Sem
State Authorised Public Accountant (Norway)

Supervisory Committee's Report

The Supervisory Committee of Den Norske Krigs-forsikring for Skib, Gjensidig Forening consists of Rolf Sæther, Henrik Aass, Ivar Alvik and Salve Sandvik (deputy). The Committee held 3 meetings during 2014.

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 2014.

With reference to the auditor's report dated the 23rd of March 2015, 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 2014.

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, 24th of March 2015

Rolf Sæther
Chairman

Henrik Aas

Ivar Alvik

Photo: West Eminence, Seadrill