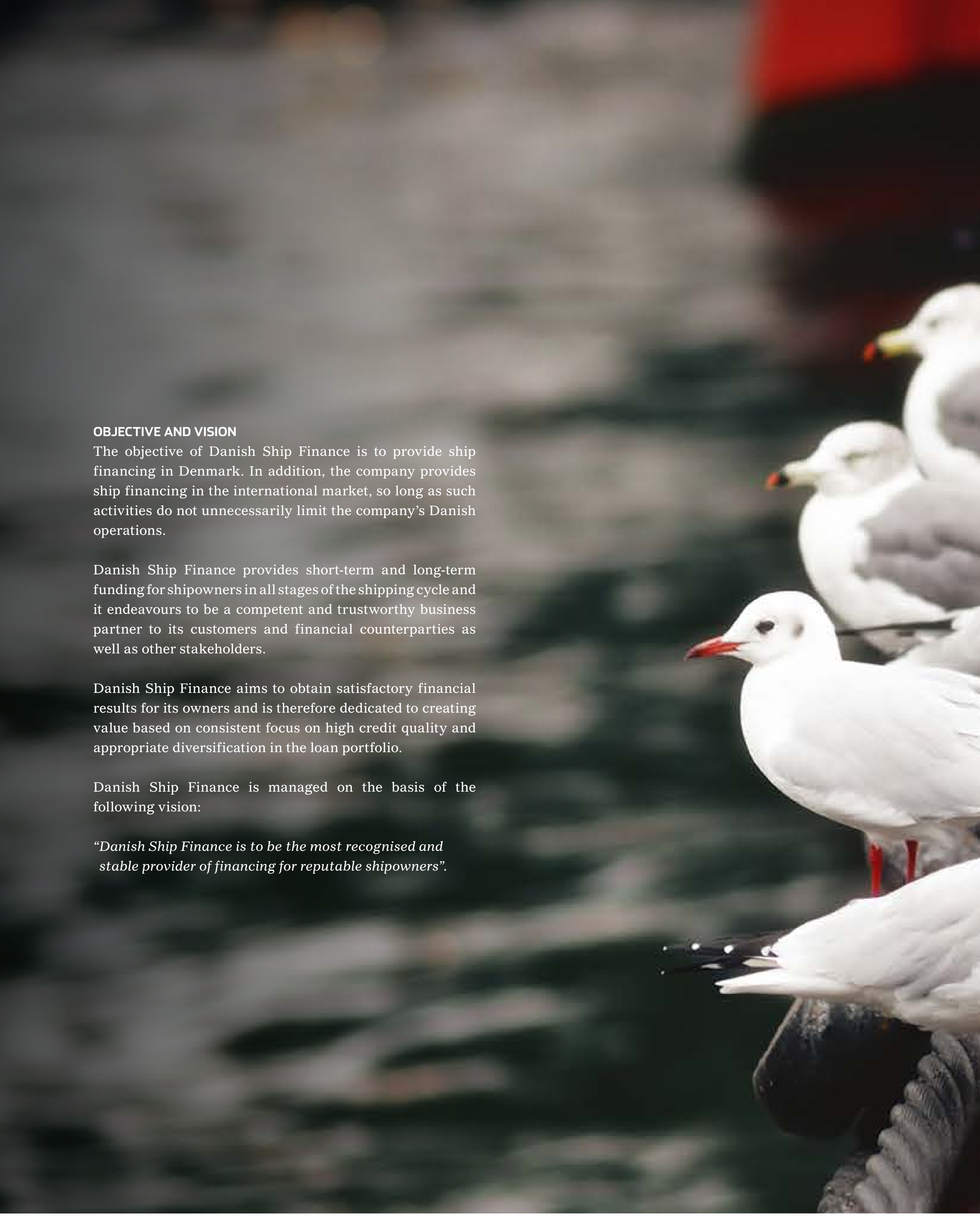
DANISH
SHIP FINANCE

CVR NO. 27 49 26 49

ANNUAL REPORT 2015



OBJECTIVE AND VISION

The objective of Danish Ship Finance is to provide ship financing in Denmark. In addition, the company provides ship financing in the international market, so long as such activities do not unnecessarily limit the company's Danish operations.

Danish Ship Finance provides short-term and long-term funding for shipowners in all stages of the shipping cycle and it endeavours to be a competent and trustworthy business partner to its customers and financial counterparties as well as other stakeholders.

Danish Ship Finance aims to obtain satisfactory financial results for its owners and is therefore dedicated to creating value based on consistent focus on high credit quality and appropriate diversification in the loan portfolio.

Danish Ship Finance is managed on the basis of the following vision:

"Danish Ship Finance is to be the most recognised and stable provider of financing for reputable shipowners".

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DANISH SHIP FINANCE AT A GLANCE

BUSINESS AREA
Danish Ship Finance is a ship finance institute which uses a simple and effective business model for financing vessels against a first mortgage. The company is supervised by the Danish FSA.

Danish Ship Finance provides financing for selected Danish shipowners and for selected non-Danish shipowners.

Danish Ship Finance must comply with the specific balance principle. Any future liquidity deficit under the balance principle may not exceed the total capital, which ensures liquidity for lending throughout the maturity. The company is thus not dependent on ongoing refinancing of outstanding loans.

Danish Ship Finance has a vision of being the most recognised and stable provider of financing for reputable shipowners.

FINANCIAL PERFORMANCE AND EVENTS DURING THE YEAR
At 31 December 2015, Danish Ship Finance had loans of DKK 43,171 million, total assets of DKK 64,873 million and equity of DKK 10,378 million, including proposed dividends for the financial year. The company had first mortgages in 454 vessels at 31 December 2015.

Net profit for the year was DKK 413 million, which was a decline relative to last year's net profit of DKK 1,568 million. The profit for 2014 was strongly affected by substantial reversals of prior-year loan impairment charges, and a lower profit for 2015 was therefore anticipated.

The capital ratio was 17.3% at 31 December 2015 after proposed dividends. The common equity tier 1 capital ratio was also 17.3%. The company's individual solvency need was 8.7% at the end of 2015. The counter-cyclical capital buffer at 31 December 2015 was calculated at 0.2%. After recognition of the counter-cyclical capital buffer, the solvency need buffer was 8.4 percentage points.

The company's loans to Danish shipowners accounted for 33% of total loans before impairment charges. Loans to foreign shipowners were divided between 57 shipowners and 19 countries.

Danish Ship Finance maintains satisfactory liquidity resources. Through bond issues and the existence of a liquid portfolio of bonds, the company has secured ample liquidity coverage for all existing loans and loan offers until expiry.

The company expects to pay dividends of DKK 413 million to its shareholders, of which Den Danske Maritime Fond will receive DKK 62 million.

KEY FIGURES AND RATIOS

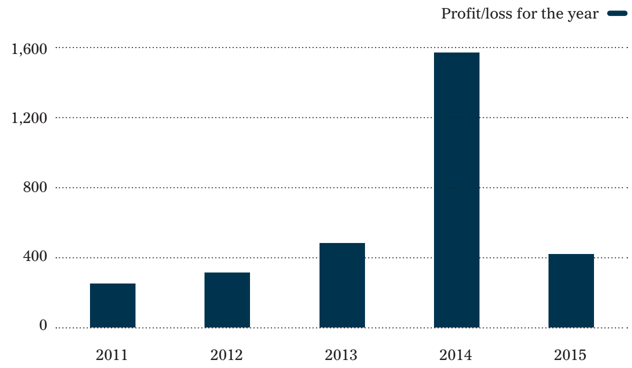
KEY FIGURES, DKK MILLION	2015	2014	2013	2012	2011
Net interest income from lending	623	565	541	439	348
Net interest income from asset management	242	255	350	447	476
Total net interest income	865	820	891	886	824
Net interest and fee income	906	934	937	940	886
Market value adjustments	(177)	123	(25)	105	(135)
Staff costs and administrative expenses	(113)	(98)	(97)	(94)	(90)
Loan impairment charges etc.	(46)	1,103	(166)	(523)	(333)
Profit/loss before tax	569	2,061	647	427	326
Profit/loss for the year	413	1,568	477	314	244
Loans	43,171	43,347	42,383	46,364	46,948
Bonds	19,100	18,680	21,066	30,091	26,944
Subordinated debt	-	-	-	-	899
Equity	10,378	11,146	9,983	9,773	9,666
Total assets	64,873	69,374	67,222	83,002	78,998

RATIOS	2015	2014	2013	2012	2011
Net interest and fee income from lending (DKKm)	664	679	586	488	404
Return on equity after tax (%)	3.8	14.8	4.8	3.2	2.5
Return on asset management (%) *)	0.3	2.8	2.9	4.7	3.5
Common equity tier 1 capital (DKKm)	9,896	9,682	9,312	8,963	9,760
Common equity tier 1 capital ratio	17.3	16.4	17.0	15.1	16.3
Individual solvency need incl. counter-cyclical capital buffer	8.9	8.5	8.5	5.9	5.6
Cost/income ratio (%) **)	15.0	9.0	10.1	8.7	11.7
Equity as a % of lending	24.0	25.7	23.6	21.1	20.6
Write-offs on loans as a % of lending	0.2	0.1	0.1	0.0	0.2
Total allowance account as a % of lending	4.3	4.3	6.7	5.8	4.6
Weighted Loan-To-Value ratio after impairment charges	64	59	62	67	64
Proportion of loans covered within 60% of market value (%)	91	95	92	89	90

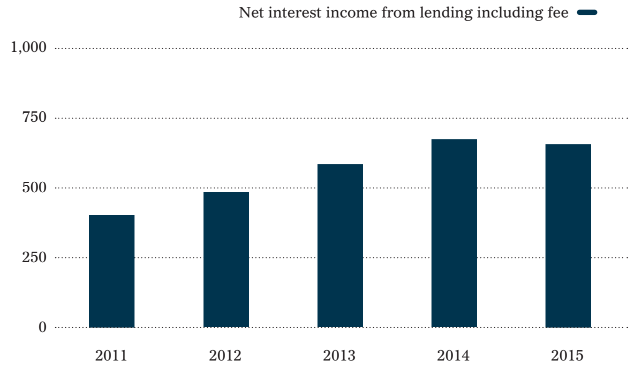
*) *Return on asset management is calculated exclusive of return from shares and currency.*
**) *The calculation of the cost/income ratio does not include impairment charges.*

Unless otherwise indicated, the ratios are calculated in accordance with Appendix 5 of the Danish FSA's instructions for financial reporting in credit institutions and investment companies, etc.

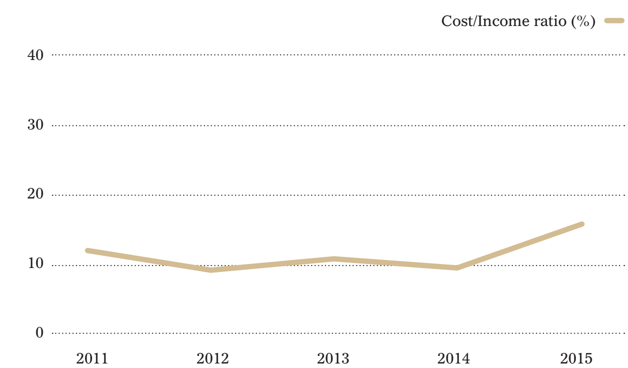
PROFIT/LOSS FOR THE YEAR
DKK MILLION



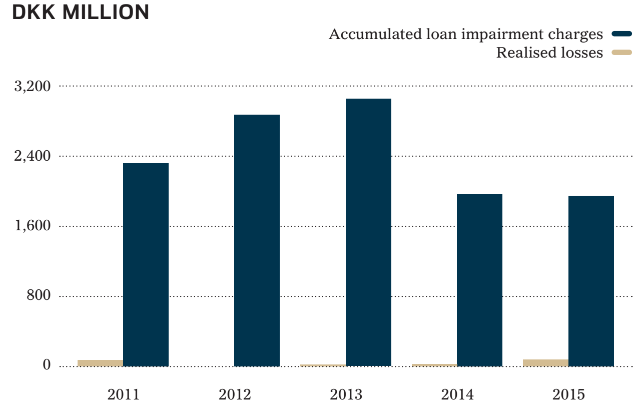
NET INCOME FROM LENDING
DKK MILLION



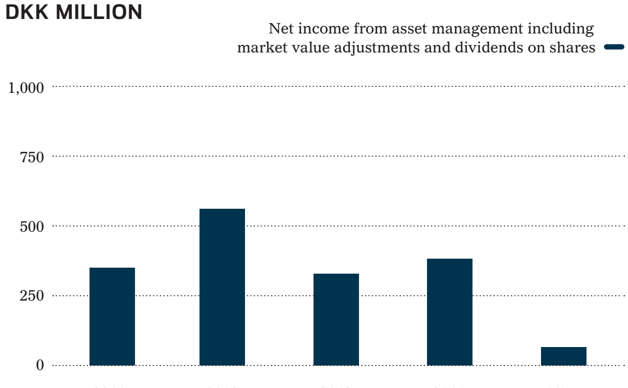
COST/INCOME RATIO
PCT.



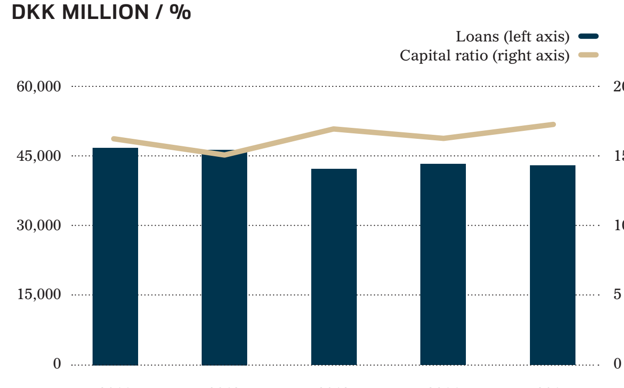
ACCUMULATED IMPAIRMENT CHARGES AND WRITE-OFFS
DKK MILLION



NET INCOME FROM ASSET MANAGEMENT
DKK MILLION



LOANS/CAPITAL RATIO
DKK MILLION / %



2015

Moderate global economic growth, geopolitical tension and falling commodity prices were dominant factors in 2015. The International Monetary Fund (IMF) lowered its global growth projection on several occasions in 2015, ending up with a projection of 3.1%. This was lower than both 2013 and 2014.

The US and European economies experienced stronger growth than in 2014, although growth remained moderate. Economic growth in Asia contributed to driving the global economy, but a number of the key economies lost momentum in 2015. In particular, weaker economic growth in China contributed to a general slowdown in the region. The Japanese economy, on the other hand, emerged stronger from 2015.

According to the IMF, world trade rose by 3.2% in 2015, which was more or less in line with the global economy. The ageing populations of Europe, Japan and China create a structural and therefor more long-term challenge for global seaborne trade. The reason is that an ageing population tends to demand services rather than products to the detriment of seaborne trade. However, it remains to be seen whether global economic growth will cause a decline in world trade in the future.

THE SHIPPING MARKET

The shipping market continues to suffer from the fact that, during the past few years, the expansion of the fleet has strongly outgrown demand for maritime transport. The excess supply of vessels was not absorbed in 2015.

The lower oil prices had a different impact on the various segments. In terms of costs, developments favoured the shipping industry, as bunker costs declined in step with the oil price. On average, bunker prices fell 50% in 2015.

Clarksons ClarkSea Index, the leading freight rate index, rose in 2015 by an average of USD 2,700 per day relative to 2014 to USD 14,400 per day. This was an increase of 22%, but the index remains 23% below the 10-year average of USD 18,500 per day.

The container markets remained characterised by excess capacity and low freight rates. The fleet is dominated by new and very large vessels. Despite the fact that most vessels continued the practice of slow steaming to absorb some of the excess capacity, it was necessary to lay up more vessels in 2015 than previously.

Suffering from excess capacity and volatile demand outlook, the dry bulk market had another difficult year in 2015. The leading dry bulk index, Baltic Dry Index, reached new all-time lows several times during the year. The Capesize and Panamax segments had a particularly difficult year.

The crude oil and product tanker segments achieved the highest freight rates since the onset of the financial crisis. Markets were driven especially by the low oil prices, which induced refineries to increase their output, while several countries intensified their stockpiling of crude oil.

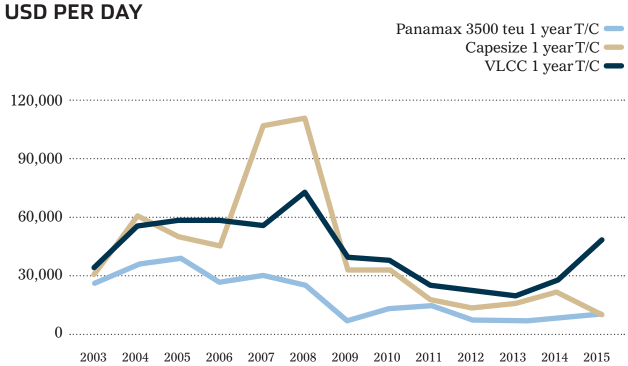
The chemical carrier market was supported by increased demand for product tankers in 2015, which made more chemical tankers carry petroleum products. However, the market continues to suffer from excess capacity, which was highlighted in the third quarter of 2015 when a slump in demand for product tankers weighed on earnings in the chemical tanker market.

In the first half of the year, demand exceeded the supply of vessels in the LPG market, resulting in record-high freight rates. In the second half of 2015, freight rates fell as the fleet outgrew demand, but on average the year was better than 2014.

The offshore market was impacted by the low oil prices and a sharp fall in demand for offshore-related vessels. Freight rates have plummeted, and an increasing number of vessels were laid up.

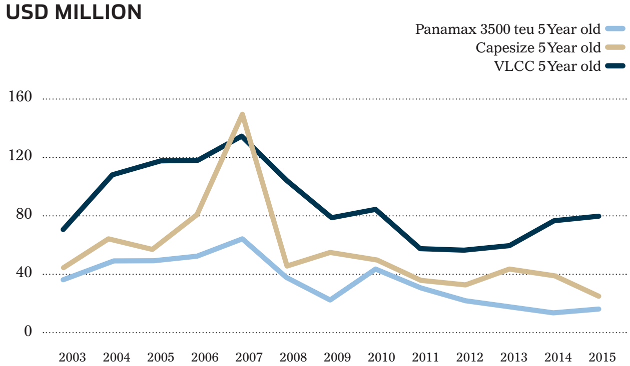
Despite the positive end-of-year rate developments in several of the tanker segments, 2015 should in general be considered another challenging year for international shipping. The falling oil prices also involve an inherent risk that vessels will begin to steam up. The capacity reserve that slow steaming has built up in recent years would then become visible. In other words, the shipping crisis cannot generally be said to be over.

TIMECHARTER RATE
USD PER DAY



Source: Clarksons, Danish Ship Finance

SHIP PRICES BY SEGMENT
USD MILLION



Source: Clarksons, Danish Ship Finance

THE FINANCIAL MARKET

From the beginning of the year, 2015 was marked by the ECB's bond purchase programme (QE programme), which was announced in January. The QE programme, which comprises government and mortgage bonds issued in eurozone countries, was more extensive than anticipated and proved to bear an impact on how European interest rates developed and the strength of the euro versus other currencies.

First and foremost, the QE programme weakened EUR vis-à-vis safe haven currencies such as CHF, USD and JPY: In response to a stronger CHF, in January 2015 the Swiss central bank abandoned the cap on CHF against EUR that it had maintained since 2011. Developments in Switzerland triggered a corresponding pressure on the Danish krone. In order to defend the Danish fixed rate policy, the Danish central bank actively intervened in the forex market. The Danish central bank cut the rate on certificates of deposit to minus 75 basis points and temporarily stopped issuing treasury bills and government bonds. The monetary policy initiatives caused Danish government bond yields and swap yields to fall more than their European peers, and yields dropped to historic lows in February and March.

There was also a sharp drop in mortgage rates. Non-callable bullet bonds with maturities of up to 3 years were traded at negative yields. CIBOR fixings were also negative, and most mortgage credit institutions as well as Danish Ship Finance introduced a rate floor for existing floating-rate bonds.

Sentiment in the fixed income market turned in the second quarter of 2015, and long-term German and Danish government bond and swap yields (10-30 years) rose by between 80 and 100 basis points. The relatively large interest rate correction in the second quarter was considered a market response to the years of historically low interest rates. In particular, the persistently high volatility in the fixed income markets triggered an increase in long-term mortgage bond yields over the course of the summer. The increase was notably higher than for similar government bond and swap yields. Interest rate movements in the second half of the year were less volatile with Danish government bond and swap yields moving in a 30-40 basis point range.

In 2015, financial institutions were faced with new EU regulation. The new rules involve tightened requirements on liquidity (Liquidity Coverage Ratio – "LCR"), capital (Leverage Ratio) and funding (Net Stable Funding Ratio, in force from 2018). Especially the final implementation of the LCR on 1 October 2015 and the new and stricter capital adequacy rules for credit institutions reduced liquidity in the Danish bond market.

Danish Ship Finance's securities portfolio was invested primarily in Danish mortgage bonds and Danish government bonds. The return on the securities portfolio in 2015 was 0.3%.

COMPETITION

There was fair demand for financing in the company's target group; reputable shipowners. However, other lenders also maintain an ample supply of funds for this customer segment. Overall, the competitive situation is believed to be unchanged, although the decline in loan margins seems to have stopped. Competition in the market remained fairly unchanged.

ACTIVITIES DURING THE YEAR

In 2015, loan offers of DKK 3.7 billion were accepted, down from DKK 10.1 billion in 2014 (year-end exchange rates). The loans will be disbursed during the period 2015-2016. As there was strong demand for loans, the lower business volume was due to other factors. First of all, the USD appreciated sharply in the first quarter of the year. Such sharp appreciation entails a corresponding increase in lending measured in Danish kroner and a declining capital ratio. Because of the solvency-related excess cover selected by Danish Ship Finance, the company had substantial excess cover throughout the year, but uncertainty about movements in the exchange rate of the USD vis-à-vis DKK made the company temporarily scale down loan offer activities.

Secondly, developments in the Danish bond market and company-specific factors resulted in an increase in financing costs. Against this background, the company opted not to consider business opportunities for which the net earnings were below its minimum requirement.

Loans disbursed in 2015 amounted to DKK 5.1 billion, against DKK 8.4 billion in 2014. A few new customers were added to the loan portfolio.

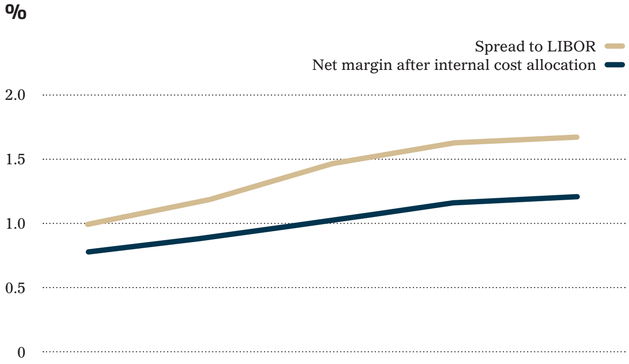
There was a small drop in the number of problem loans in 2015 but a small increase measured in terms of volume.

At the end of 2015, loans with objective evidence of impairment amounted to DKK 4.2 billion, against DKK 3.9 billion at the end of 2014. The small increase was due to a combination of two opposing trends. The negative impact from offshore and bulk was partly offset by fewer problem loans in the tanker segment. The weighted loan-to-value ratio after impairment charges for loans with objective evidence of impairment was 62% at 31 December 2015.

Write-offs for the year amounted to DKK 90 million. Write-offs since the crisis broke out in 2008 thus still account for less than 0.1% p.a. measured in proportion to total lending. This low level is satisfactory.

MARGIN EARNINGS ON LOANS

%



BOND ISSUANCE

In 2015, the company issued bonds for approximately DKK 7.0 billion with a weighted maturity of about 5.4 years. Most of the bonds were issued in the first quarter of 2015, when there was strong investor interest and good liquidity in the Danish bond market.

The entry into force of the LCR on 1 October 2015 led to a decreasing liquidity in the Danish bond market.

As a result of funding raised in the first quarter of the year and Danish Ship Finance's rules which require liquidity coverage for all loans disbursed, the company is not compelled to issue bonds during periods when market conditions are considered unfavourable.

The company's robust cash position thus entails low sensitivity to short-term developments in the capital markets.

In 2015, the company purchased ship mortgage bonds for approximately DKK 2.9 billion, which have been withdrawn from circulation. One of the purposes of purchasing short-term ship mortgage bonds (0-3 years) was to generate more liquidity in the company's bonds to the benefit of investors.

At 31 December 2015, the weighted duration of issued bonds was approximately 3.6 years, against approximately 3.3 years for the loans.

STRATEGY CONSIDERATIONS

In June, Danish Ship Finance released a stock exchange announcement disclosing that a review had been initiated. The purpose of the review was to identify multiple possibilities for facilitating the continued development of Danish Ship Finance's ship asset management and improving the marketability of the company's shares. Such possibilities include an IPO and a sale of shares. The review is still ongoing, and Danish Ship Finance is not aware of any shareholders having decided to making their shares available for an IPO or otherwise to sell shares in Danish Ship Finance.

In the fourth quarter of 2015, consultants McKinsey & Company were asked to carry out a strategic review of the company's business strategy and positioning. The process has been conducted simultaneously with the strategy considerations. The analysis led to a recommendation that the company's prudent approach to ship financing should remain unchanged. The other conclusions of the analysis will be incorporated in the company's normal strategy and development efforts.

INSPECTION BY THE DANISH FSA

In June 2015, the Danish FSA conducted a so-called functional examination of Danish Ship Finance. The inspection covered selected areas, including the company's organisation and management, credit area, securities trading and funding, audit, risk management function, compliance function, capital adequacy and liquidity statements as well as IT security.

The examination resulted in a few minor orders, which the company has duly noted, and the required initiatives have been implemented. The Danish FSA had no comments on the calculation of the company's solvency need with respect to the areas examined.

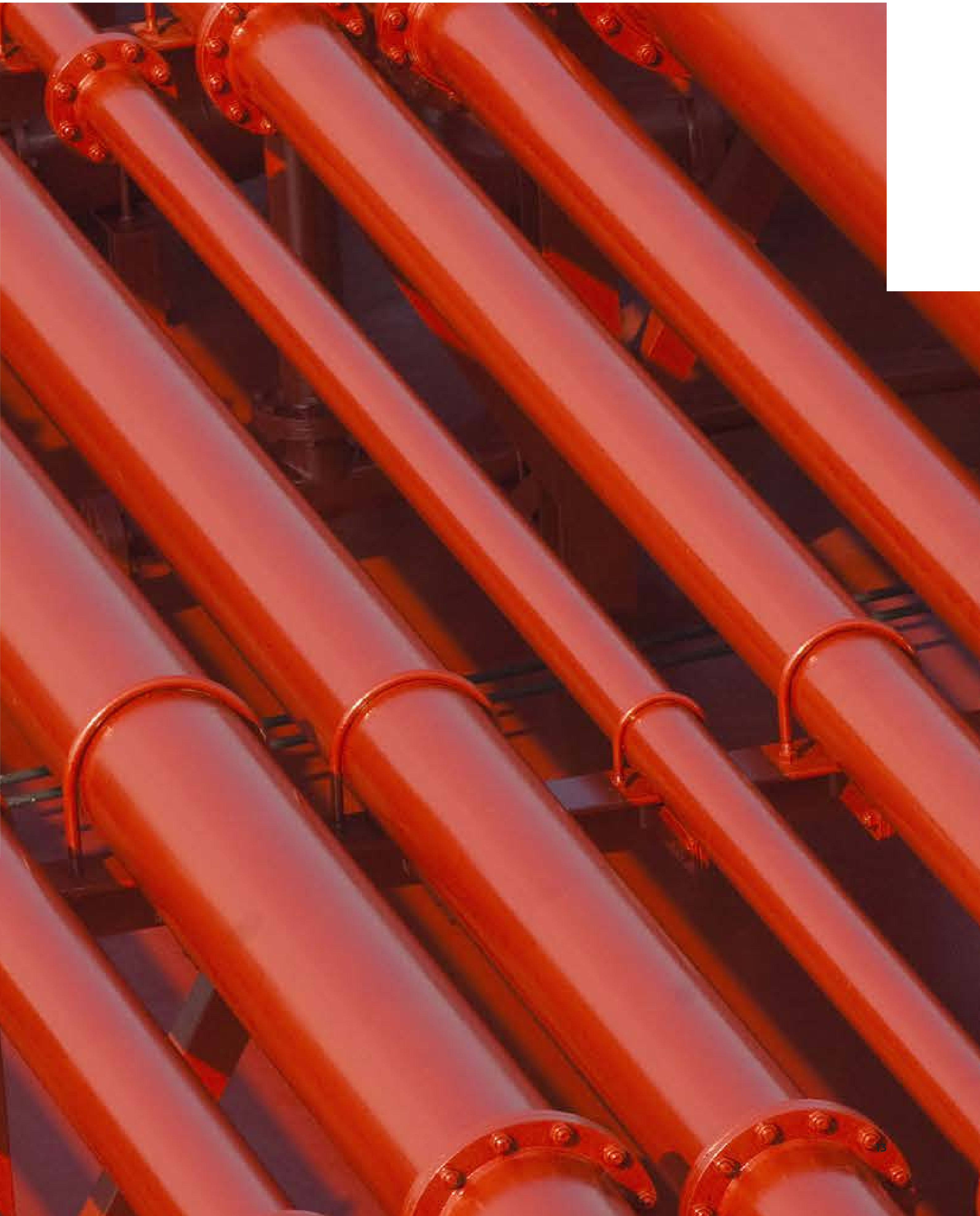
The report from the Danish FSA is available on the company's website.

EVENTS AFTER THE BALANCE SHEET DATE

On 4 February 2016, Standard & Poor's ("S&P") announced ratings of all listed bonds issued by Danish Ship Finance. The company's bonds were assigned an A rating with stable outlook. S&P applied its criteria for rating covered bonds.

S&P also announced an Issuer Credit Rating of Danish Ship Finance, assigning a rating of BBB+ with stable outlook.

The rating is based on Danish Ship Finance's current bond issuance practice. As a result, the structure of the company's operations and the collateral underlying the bond issuance will continue in their present form.



INCOME STATEMENT AND BALANCE SHEET

INCOME STATEMENT

The net profit for the year amounted to DKK 413 million compared with DKK 1,568 million in 2014, representing a fall of 74%. The profit for 2014 was to a large degree positively affected by reversals of prior-year loan impairment charges, and a lower profit for 2015 was therefore anticipated.

Net earnings from lending including fee income amounted to DKK 664 million in 2015 against DKK 679 million in 2014. The decline in net earnings was primarily due to lower fee and commission income, which was offset by higher interest income from lending.

Interest and dividend earnings from asset management fell slightly from DKK 255 million in 2014 to DKK 242 million in 2015.

Net interest and fee income totalled DKK 906 million, down from DKK 934 million in 2014. The decline was due to lower fee income, which was extraordinarily high in 2014. Interest income from lending rose as a result of an increase in the exchange rate of the USD vis-à-vis DKK.

Market value adjustments of securities and foreign exchange amounted to an expense of DKK 177 million in 2015 compared with an income of DKK 123 million in 2014. The expense was largely due to a widening of the credit spread on the company's portfolio of Danish mortgage bonds.

At the end of 2015, the securities portfolio consisted primarily of Danish mortgage bonds, while a small proportion was invested in Danish government bonds and bonds issued by Kommunekredit.

Staff costs and administrative expenses rose to DKK 113 million in 2015 from DKK 98 million in 2014. The higher costs were mainly due to non-recurring expenses relating to the strategy considerations. The average number of employees (full-time equivalents) rose by five persons from 62 to 67.

Loan impairment charges amounted to a net expense of DKK 46 million compared with a net income of DKK 1,103 million in 2014.

Write-offs amounted to DKK 90 million in 2015, up from DKK 32 million in 2014. Write-offs thus remain at a very low level. Movements in impairment charges in 2015 are specified in note 14 to the financial statements.

Tax on the net profit for the year represents an expense of DKK 156 million against an expense of DKK 493 million in 2014. In 2016, the corporate tax rate will be lowered by 1.5 percentage point to 22%, which will reduce the tax value of the deferred tax. For 2015, the expense in the income statement subsequently translates into an effective tax rate of 27.4% against 23.9% in 2014.

BALANCE SHEET AND CAPITAL STRUCTURE

Total assets fell to DKK 64.9 billion at 31 December 2015 from DKK 69.4 billion at 31 December 2014.

Lending calculated at amortised cost less impairment charges fell slightly from DKK 43.3 billion at 31 December 2014 to DKK 43.2 billion at year-end 2015. Over the course of the year, there was an increase in new loans of DKK 5.1 billion, against an increase in 2014 of DKK 8.4 billion. In 2015, loans were repaid in the gross amount of DKK 8.7 billion, which is a sharp decrease from DKK 12.6 billion in 2014. For further details on movements in lending, see note 12 to the financial statements.

The total allowance account was reduced from DKK 1,974 million at 31 December 2014 to DKK 1,958 million at year-end 2015. The total allowance account subsequently accounted for 4.3% of total loans and guarantees, which was on a level with the year before.

Issued bonds were unchanged at DKK 45.1 billion at 31 December 2014 against DKK 45.1 billion at year-end 2015. As part of its efforts to maintain a strong liquidity position, Danish Ship Finance issues bonds well in advance of the loan disbursements. This makes the company less sensitive to short-term fluctuations in the capital market. In 2015, ordinary and extraordinary redemption of issued bonds amounted to DKK 8.1 billion against DKK 6.9 billion in 2014. In 2015, new bond issues amounted to DKK 7.0 billion, against DKK 3.0 billion in 2014. Movements in issued bonds and a specification of bond types are set out in note 23 to the financial statements.

The bond portfolio rose to DKK 19.1 billion from DKK 18.7 billion at 31 December 2014. The bond portfolio is specified in notes 15 and 16 to the financial statements.

Including the net profit for the year, the company's equity amounted to DKK 10.4 billion as compared with DKK 11.1 billion at 31 December 2014. Dividends to the shareholders of DKK 413 million have been proposed for 2015 against DKK 1,181 million in 2014. The proposed dividend for the 2015 financial year is included in equity but is expected to be disbursed after the approval by the shareholders at the annual general meeting in March 2016, and the amount has therefore been deducted in total capital in the calculation of the company's capital ratio below.

Danish Ship Finance is subject to the capital adequacy rules through chapter six of the company's own executive order. The capital ratio was 17.3% at the end of 2015 against 16.4% at 31 December 2014. In the calculation of the capital adequacy, the total risk exposure amount has declined by DKK 1.7 billion. Note 27 to the financial statements provides a specification of the company's capital ratio.

IMPACT OF US DOLLAR ON INCOME STATEMENT, BALANCE SHEET AND CAPITAL STRUCTURE

The exchange rate of the USD vis-à-vis DKK was 683.00 at the end of 2015 against 612.14 at the end of 2014, corresponding to an increase of 12% for the year as a whole.

In 2015, movements in the USD/DKK exchange rate, other things being equal, had a positive impact on net interest and fee income of about DKK 77 million based on average exchange rates, and a negative impact on loan impairment charges of DKK 185 million because of the higher year-end exchange rate. The net profit after tax was reduced by DKK 82 million from the change.

Compared with the exchange rate of USD at the beginning of the year, the changing dollar rate increased the total risk exposure amount, which, seen in isolation, triggers a reduction of the capital ratio of 1.3 percentage point.

UNCERTAINTY IN RECOGNITION AND MEASUREMENT

The most significant uncertainty involved in recognition and measurement concerns impairment of loans and valuation of financial instruments. The company estimates that the uncertainty is at a level that is prudent relative to providing a true and fair view of the financial statements. See the description in note 1 to the financial statements, Accounting policies.

PERFORMANCE RELATIVE TO EXPECTATIONS

The company's guidance for 2015 was based on an assumption of a small increase in lending. Despite the expected increase, the company had predicted a setback in earnings from lending because 2014 was characterised by large non-recurring income.

Lending activities were unchanged when measured in DKK, while there was a fall in lending measured by lending currencies, typically USD. Overall, 2015 was not a very active year in terms of new loans, but the appreciation of the USD entailed that overall lending was more or less unchanged relative to 2014.

As expected, total interest and fee income was lower, but actually increased from 2014 to 2015 when disregarding the above-mentioned non-recurring income. Thus, net interest income from lending rose 10%, primarily as a result of the higher USD/DKK exchange rate.

As expected, interest income on the securities portfolio was lower because of the generally lower interest rates. Market value adjustments were negative. Overall, the return on the securities portfolio was moderately positive and, as expected, slightly below the 2014 level.

The company had not provided concrete guidance on loan impairment charges. Loan impairment charges fell when measured by lending currency. Measured by Danish kroner, however, loan impairment charges resulted in a small loss for the year. The risk of loss relates mainly to USD, and an increase in the USD/DKK exchange rate therefore has an adverse impact on the size of loan impairment charges measured in DKK. As in previous years, 2015 was characterised by reversal of loan impairment charges as well as new loan impairment charges of a certain size. The company reversed loan impairment charges concerning the tanker segment, while it had to recognise collective impairment charges in the offshore segment, which suffered from a slump in activity due to the lower oil prices. There was also an increase in loan impairment charges in the dry bulk segment.

As most of the loans are granted in USD, the company anticipated that movements in the USD exchange rate would affect the profit for the year. Since the USD appreciation occurred at the beginning of the year, the company had time to adjust its lending activities. The impact of the USD appreciation was therefore reduced over the course of the year as ordinary repayments reduced the company's lending. As a result, the USD appreciation did not have any noticeable impact on the total capital ratio over the course of the year. Overall, the company's net profit was adversely impacted by the USD appreciation due to the above-mentioned impact on loan impairment charges.

EVENTS AFTER THE BALANCE SHEET DATE

In the period until publication of the annual report, no material events have occurred that affect the financial statements.

OUTLOOK

MARKET EXPECTATIONS

THE SHIPPING MARKET

2016 looks set to become yet another challenging year for several of the major economies. The IMF estimates that the global economy will expand by 3.6% in 2016. The European, Japanese and US economies are expected to experience stronger growth than in 2015, while expectations for the Chinese economy continue to point to a gradual economic slowdown. The IMF expects global trade to grow by 4.1% in 2016, which would be an improvement of 0.9 percentage point relative to 2015. If these forecasts are met, it will have a positive effect on demand for maritime transport.

However, the outlook for international shipping as a whole still does not give rise to optimism. Many segments have experienced a massive fleet renewal in recent years. As a result that there are very few older vessels left to scrap if demand proves unable to absorb the many new vessels that are delivered. In that light, the size of the order books continues to give rise to some concern. Furthermore, a capacity reserve has built up in recent years because of slow steaming by shipowners in many segments, who wish to save bunker costs. The falling oil prices thus involve an inherent risk that vessels will begin to travel at higher speeds. Supply could then grow by more than what the order books would seem to indicate.

A positive trend in freight rates should be driven by stable and positive global economic growth and, hopefully, a more moderate inflow of new vessels. Going into 2016, however, there are only few positive signs in the market, and solutions still need to be found to many of the imbalances in the global economy. The geopolitical tensions are rising in step with the growing immigrant influx and unrest in the Middle East. For the shipping industry to retain a positive momentum, it is therefore essential that no events occur that adversely affect demand for maritime transport.

Even given a stable demand pattern, the individual segments will continue to experience some degree of earnings fluctuations as many other factors may shift the balance between supply and demand.

Shipping is facing new and stricter environmental requirements, some of which apply globally, others only regionally. The requirements concern in particular emissions of hazardous substances from the consumption of fuel and purification of ballast water. The rules have taken effect in some areas, but most of them will be phased in gradually over the next five to ten years. Substantial investment is required to meet these requirements, and that may prove a challenge to shipping companies with less strong balance sheets. The environmental requirements may also partially impact prices of older vessels, because often it will not be financially viable to make the required investment to install new technology in older vessels.

In spite of the challenges facing many segments, a large number of shipowners have managed to navigate the difficult times and have retained a good financial standing. These shipowners will still be the company's target group.

COMPETITIVE SITUATION

The competitive situation is expected to remain largely unchanged. Due to a negative outlook for a number of shipping segments, the shipping industry is not expected to attract new lenders. National export credit institutions will probably seek to support local shipbuilding activities, but it will still be possible for commercial lenders to provide financing for newbuildings from Asia. Furthermore, the company expects another year of strong activity in the refinancing of existing loans and in providing financing for the buying and selling of vessels.

Danish Ship Finance still expects to be able to expand its customer portfolio with some of the creditworthy shipowners that the company has engaged with. The company will retain focus on attracting reputable customers with a good financial standing.

FINANCIAL GUIDANCE

The company's guidance for 2016 is subject to greater uncertainty than in previous years. The decline in loan offer activities in 2015 means that there was a smaller portfolio of loan offers for disbursement going into 2016 than was the case at the beginning of 2015. In other words, financial performance in 2016 is highly dependent on loan offer activities. The company expects a small decline in lending in the first part of the year and an increase as the year progresses. However, lending at the end of 2016 will most likely be at a slightly lower level than at 31 December 2015. Net earnings on new loans are also expected to be below the average of existing loans. Against this background, the company generally expects a small decline in earnings in 2016.

Interest income on the securities portfolio is expected to be in line with that recorded in 2015.

Overall, the company expects a profit before loan impairment charges and market value adjustments slightly below that for 2015.

The duration of the securities portfolio is expected to remain low, and no major market value adjustments are expected. Overall, the return on the securities portfolio is expected to be slightly above the 2015 level.

2016 is expected to be a difficult year for the dry bulk and offshore segments, and loan impairment charges in these segments could go up. Conversely, if the tanker market remains strong, it could further reduce loan impairment charges in this segment. Developments reflect the volatility inherent in the shipping industry. Potential write-offs are expected to be fully covered by existing loan impairment charges.

Developments in the USD/DKK exchange rate will have an impact on the profit for the year and the capital ratio.

CAPITAL MANAGEMENT

Pursuant to the Executive Order on Calculation of Risk Exposure, Own Funds and Solvency Need, Danish Ship Finance must maintain a certain amount of capital relative to its activities, so that the total capital as a minimum matches the company's risk profile and complies with the legislative framework.

There must be capital to cover the requirement at the existing and the expected level of activity in order to comply with the statutory rules and targets determined by the company itself.

CALCULATION METHOD

The company may choose between different methods for calculating its risk-weighted exposures for each of the three overall types of risk included in the determination of the total capital requirement. The company has not applied for a permission from the Danish FSA to apply one of the internal methods. The company applies the standardised approach for calculating the total risk exposure amount and the total capital requirement for credit and market risks. When using the standardised approach, the risk weights are defined in the legislation. In addition, the company applies the basic indicator approach to calculate the risk-weighted exposures for operational risk.

CAPITAL REQUIREMENT, TOTAL CAPITAL AND SOLVENCY

The total capital requirement (also referred to as the Pillar I requirement) is the total capital required to maintain a capital ratio of 8%, which is the current statutory minimum requirement. The total capital is the sum of common equity tier 1 capital, additional tier 1 capital and tier 2 capital, and the relationship between total capital and total risk exposure amount is the capital ratio (previously referred to as the solvency ratio).

CALCULATION OF CAPITAL RATIO

DKKm/%	2015	2014
Total capital less deductions	9,896	9,682
Total risk exposure amount	57,234	58,883
Capital ratio	**17.3**	**16.4**

The company's total capital consists exclusively of common equity tier 1 capital in the form of share capital, tied-up reserve capital and retained earnings from prior years.

INDIVIDUAL SOLVENCY NEED AND ADEQUATE TOTAL CAPITAL

The capital management is anchored in the so-called ICAAP (Internal Capital Adequacy Assessment Process), which is a documentation paper aimed at identifying risks and determining the individual solvency need.

The Board of Directors and the Executive Board ensure that the company maintains adequate total capital. The considerations made by the Board of Directors and Executive Board in this regard must lead to the determination of an individual solvency need. Adequate total capital covers the minimum amount of capital which, in the opinion of the Board of Directors, is required to ensure that the bondholders are only exposed to a minute risk of suffering a loss in case the company becomes insolvent during the next 12 months.

The total capital must consistently be higher than the adequate total capital.

METHODOLOGY

Credit institutions are free to choose the methodology when calculating the adequate total capital provided the resulting solvency need provides a fair view and is prudent. The company follows the Danish FSA's Guidelines on Adequate Total Capital and Solvency Needs for Credit Institutions. The guidelines contribute an interpretation of selected items in Annex 1 to the Danish Executive Order on Calculation of Risk Exposure Amount, Total Capital and Solvency Need. The guidelines stipulate a so-called 8+ approach based on a total capital requirement of 8% (pillar I requirement), which is assessed to cover "normal" risks. Supplements are then added for "higher-than-normal" risks. In its guidelines, the Danish FSA has defined benchmarks for a large number of items with respect to expectations of "higher-than-normal" risks.

The guidelines define benchmarks and calculation methods within seven risk areas that an institution would usually find relevant when determining its adequate total capital. In addition, the Danish Executive Order on Calculation of Risk Exposure Amount, Total Capital and Solvency Need sets out a number of additional factors that must be included in the assessment. The institutions must assess whether there are other relevant risk elements they should consider when calculating their adequate total capital.

The individual solvency need is calculated by dividing the adequate total capital with the total risk exposure amount.

The table below shows the company's solvency need.

INDIVIDUAL SOLVENCY NEED AND ADEQUATE TOTAL CAPITAL

DKKm	2015
Total risk exposure amount	**57,234**
Pillar I requirement (8 per cent of total risk exposure amount)	4,579
Earnings	**-**
Growth in lending	**-**
Credit risk	
- Credit risks for large customers in financial difficulty	333
- Other types of credit risk	-
- Concentration risks	56
Market and liquidity risk	-
Operational and control risk	-
Gearing risk	**-**
Adequate total capital	**4,968**
Solvency need ratio, per cent	**8.7**
Capital conservation buffer	0.0
Countercyclical capital buffer requirement	0.2
Individual solvency need, incl. the combined capital buffer requirement	**8.9**

At 31 December 2015, the adequate total capital and the total risk exposure amount were DKK 4,968 million and DKK 57,234 million, respectively. The total capital less deductions amounted to DKK 9,896 million at 31 December 2015, resulting in a capital ratio of 17.3%. This gives the company an excess cover of DKK 4,928 million relative to the adequate total capital.

At the end of 2014, the adequate total capital and the individual solvency need amounted to DKK 5,023 million and 8.5%, respectively.

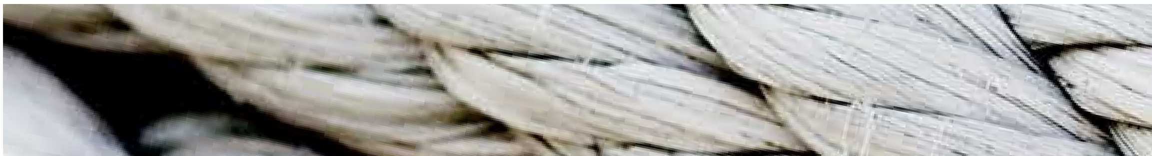
More information on the company's capital management, including a more detailed description of the company's calculation of the adequate total capital, is provided in the Risk report available on the company's website:
www.skibskredit.dk/da/InvestorRelations?sc_lang=en

COMBINED BUFFER REQUIREMENT

In 2015, the capital conservation buffer was 0% in Denmark. At 1 January 2016, the capital conservation buffer will be 0.625% of the total risk exposure amount. When the capital conservation buffer has been fully phased in on 1 January 2019, the capital conservation buffer requirement will be 2.5% of the total risk exposure amount.

A systemic risk buffer may be defined by the Danish Minister for Business and Growth in order to prevent and limit long-term non-cyclical systemic or macroprudential risks not covered by the CRR. The systemic risk buffer was fixed at 0% in 2015.

The institution-specific countercyclical capital buffer may be applied if lending growth results in higher macroprudential risks. The institution-specific countercyclical capital buffer may be between 0-2.5% of the total risk exposure amount.



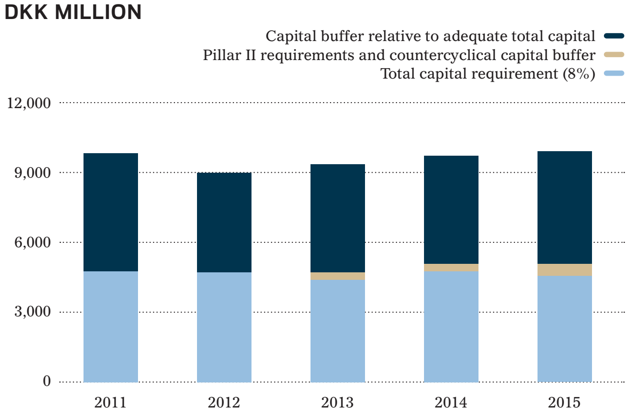
On the basis of the geographical distribution of the company's credit risk, the capital requirement for the countercyclical capital buffer has been calculated at DKK 97 million at 31 December 2015. The capital requirement pertains to the company's exposure in Norway, which has a fixed countercyclical buffer of 1%.

INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

DKKm/%	2015
Total risk exposure amount	57,234
Institution-specific countercyclical buffer requirement	97
Institution-specific countercyclical buffer requirement	0.2

The combined statement of capital is set out below.

STATEMENT OF CAPITAL
DKK MILLION



LIQUIDITY MANAGEMENT

Liquidity management is generally carried out to ensure that the company's cost of funding does not become disproportionately high and to avoid that lack of funding prevents the company from retaining the adopted business model. Ultimately, the purpose of the company's liquidity management is to ensure that it is consistently able to meet its payment obligations.

BALANCE PRINCIPLE

The specific balance principle permits a future cash deficit between issued bonds and loans provided of up to 100% of the total capital. The deficit occurs if the future payments related to bonds issued by Danish Ship Finance, other funding and financial instruments exceed the future incoming payments on loans, financial instruments and investments. Through in-house policies, the company has defined strict requirements for any cash deficits between issued bonds and loans provided.

LIQUIDITY BUFFER

Bonds are typically issued in DKK, whereas most of the loans are disbursed in USD. The company has sourced USD for funding of USD loans disbursed via so-called basis swaps. The risk caused by lack of access to convert DKK funding into USD involves higher financing costs or the loss of business opportunities. The opportunities for sourcing USD liquidity rely on an efficient capital market. Through in-house policies, the company has defined in-house limits for the need for USD over time.

LIQUIDITY POLICY

The company has prepared a Policy for managing liquidity risk (liquidity policy) pursuant to the Executive Order on Governance, Risk Management, etc. for Financial Institutions (Executive order on Governance). The purpose of the policy is to ensure that the company maintains a liquidity risk that matches the overall risk profile. The liquidity policy also serves to ensure adequate handling and management of liquidity, allowing the company at all times to meet its payment obligations, applicable legislation and plans for future activities and growth.

MANAGEMENT, MONITORING AND REPORTING

The company's liquidity management is anchored in the so-called ILAAP (Internal Liquidity Adequacy Assessment Process), which is a documentation paper aimed at identifying liquidity risks and determining liquidity targets.

The Board of Directors determines the overall guidelines for managing liquidity risk through the liquidity policy. The Executive Board is responsible for ensuring that the guidelines established by the Board of Directors are laid down in business procedures that are regularly updated. The Executive Board, the Chief Risk Officer and relevant department managers must approve any changes when the guidelines are updated.

Compliance with the liquidity policy is monitored by Middle Office. Each quarter, the company prepares a financial report on compliance with the policy framework that is submitted to the Board of Directors.

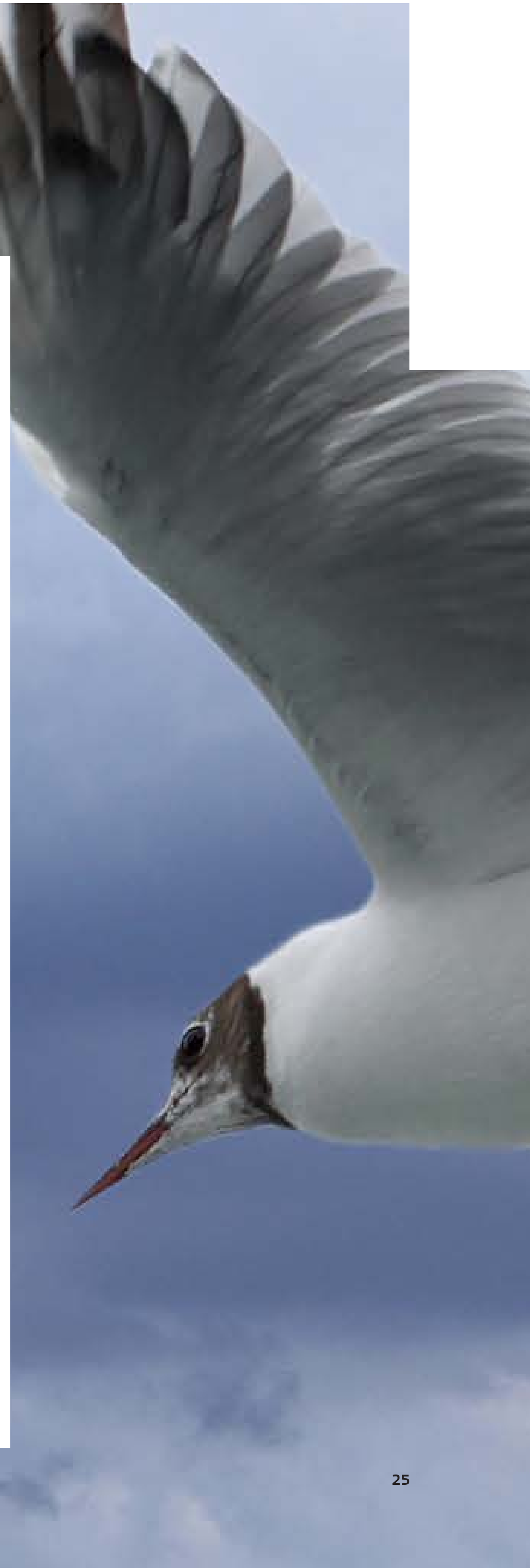
Moreover, a liquidity stress test is performed, consisting of the following components:

- An appreciating USD
- An increase in interest rates
- A widening of credit spreads
- Write-offs

The results of the liquidity stress test are used to manage and adjust in-house limits. Furthermore, the test is used to create an overview of the liquidity profile in an actual and in a stressed scenario.

CONTINGENCY PLANS

Pursuant to the Executive Order on Governance, the company has prepared a liquidity contingency plan, which contains a catalogue of possible courses of action to strengthen the liquidity position in a critical situation. The liquidity contingency plan takes effect if pre-defined triggers are activated.



INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The primary responsibility for the company's risk management and internal controls in relation to the financial reporting process rests with the Board of Directors, including compliance with applicable legislation and other financial reporting regulations.

The company's risk management and internal controls are designed with a view to effectively minimising the risk of errors and omissions. The company's risk management and internal control systems will provide reasonable, but not absolute, assurance that misappropriation of assets, losses and/or significant errors and omissions in the financial reporting are avoided.

The Board of Directors has set up an Audit Committee charged with monitoring and controlling accounting and auditing matters and drafting accounting and audit-related material for use by the Board of Directors.

The Board of Directors, the Audit Committee and the Executive Board currently assess significant risks and internal controls in relation to the company's operations and their potential impact on the financial reporting process.

OVERALL CONTROL ENVIRONMENT

The key components of the control environment are an appropriate organisation, including adequate segregation of functions and internal policies, business processes and procedures.

In accordance with applicable legislation, the Board of Directors, including the Audit Committee, regularly assesses the need for an internal audit function. The Board of Directors has decided that there is no need for an internal audit function and has instead decided to use an internal control function. The Board of Directors finds that the combination of an internal control function, which regularly monitors compliance with the company's in-house business processes and control procedures in all significant areas and attention by the external auditors helps to provide a satisfactory audit and control level.

RISK ASSESSMENT

At least annually, the Board of Directors, the Audit Committee and the Executive Board make a general assessment of risks in relation to the financial reporting process. In addition, management regularly assesses the need for implementing new internal controls to reduce and/or eliminate identified risks.

In connection with the risk assessment, the Board of Directors specifically assesses the company's organisation with respect to risk measurement and risk management, the accounting and budget organisation, internal controls, segregation of functions and the use of IT and IT security. As part of the risk assessment, the Board of Directors also considers the risk of fraud.

The financial reporting organisation has the necessary skills to ensure that internal controls and risk management procedures are managed in an adequate manner.

CONTROL ACTIVITY

The company uses systems and manual resources for monitoring data that forms the basis of the financial reporting process. The purpose of the control activities is to prevent, detect and correct any errors or irregularities. As part of the financial reporting process, control activities are performed to ensure that the financial statements are presented in accordance with current legislation.

INFORMATION AND COMMUNICATION

The Board of Directors has adopted a number of general financial reporting requirements and external financial reporting requirements in accordance with current legislation and applicable regulations. One objective is to ensure that applicable disclosure requirements are met and that disclosures are full, complete and accurate.

MONITORING AND REPORTING

Monitoring takes place by means of regular and/or periodic assessments and controls at all levels of the company. The appropriateness and/or weaknesses of the controls, control failures, cases of non-compliance with adopted policies, frameworks, etc. or other significant deviations are reported upwards in the organisation in accordance with the company's policies and instructions.

WHISTLEBLOWER SCHEME

In accordance with the Danish Financial Business Act, the company has implemented an internal whistleblower scheme, which enables its employees to report any instances of non-compliance with the financial legislation to an independent third party. On receipt of such reports, the independent third party will make a tentative screening of the report to assess whether the instance of non-compliance falls within the scope of the whistleblower scheme.

The company will regularly assess whether to expand the scheme so that the employees may also report any instances of economic crime.

CREDIT RISK

Credit risk reflects the risk of a loss due to default on the part of a counterparty. This applies to counterparties in the form of shipowners and financial institutions.

LENDING

Ship financing is provided against a first mortgage in vessels. On a limited scale, the company also provides financing of shipowners' payment of instalments to a shipyard. The company is a leading provider of ship financing in Denmark, and it focuses primarily on large, reputable shipowners in Denmark and abroad.

The most significant risk facing Danish Ship Finance is believed to be credit risk on the company's loans, which is the risk of losses because the mortgage cannot cover the residual debt if the customers default on their loans.

When considering potential loans, focus will be on vessel characteristics, the financial standing of the borrower, the terms of the loan and the loan's contribution to compliance with the diversification rules.

The credit policy is defined by the Board of Directors and contains specific guidelines for the ongoing management of risks in the loan portfolio. A number of predefined procedures are used in the ongoing credit risk management process, the most important of which are described below.

DIVERSIFICATION

The composition of the loan portfolio is governed by a set of diversification rules. The purpose of the diversification rules is to ensure adequate diversification by vessel type, borrower and country.

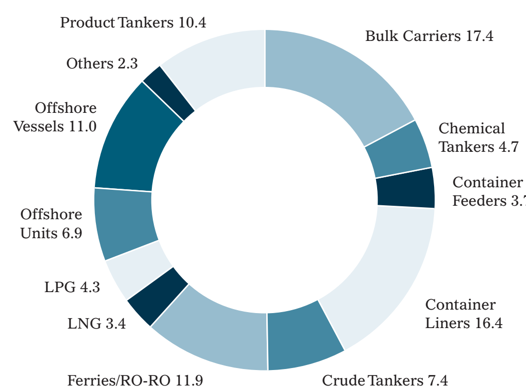
MOVEMENTS IN THE FIVE LARGEST EXPOSURES BEFORE LOAN IMPAIRMENT CHARGES

DKKm	2015	2014
Five largest exposures	15,443	16,533
Total loans and guarantees	45,602	45,912

The five largest exposures at 31 December 2015 were secured by mortgages in 72 vessels comprising 8 vessel types. One exposure is substantially larger than the rest and represented just over 20% of total lending at 31 December 2015.

The risk diversification on borrowers focuses on diversification on vessel types in each loan. The largest exposure was thus secured through mortgage on vessels distributed on three different vessel types (loans for Container Liners represent the majority, and loans for Offshore Units and Offshore Vessels the rest).

LOAN PORTFOLIO BY MORTGAGED VESSELS PERCENTAGE OF TOTAL LENDING



GRANTING OF LOANS

The Executive Board and the Head of Credit have been allocated authorities by the Board of Directors allowing them to grant loans up to pre-determined limits. The granting of loans must be disclosed at the subsequent ordinary board meeting. As in previous years, the Board of Directors approved the majority of all loans granted in 2015.

If the Executive Board or Head of Credit approves loans involving a significant increase of the risk on existing loans, such authorisation must be approved by the Board of Directors.

ONGOING MONITORING
As part of the risk management process, all loans are assessed at least twice a year. All loans are assessed, and the current credit risk is assessed on the basis of current market valuations of the financed vessels and the most recent financial information of the borrower.

In addition, the portfolio is monitored in an ongoing process in relation to the borrowers' fulfilment of the individual loan agreement, comprising:

- Half-yearly updating of the market values of all financed vessels and verifying that any agreed requirements on maximum loan-to-value ratios are complied with.
- Verifying that any other collateral meets the specified minimum requirements.
- Verifying the existence of adequate insurance cover on financed vessels.
- Verifying compliance with all other material loan covenants.

If a loan is deemed to entail increased risk, the monitoring will be intensified to safeguard the company's interests to the best possible extent.

INSURANCE OF SHIP'S MORTGAGES
All vessels mortgaged as collateral for loans must be insured. Insurance is taken out by the borrower. Borrowers' insurances concerning financed vessels are assigned to Danish Ship Finance.

As a general rule, the insurance includes:
- Hull and machinery insurance, which covers damage to the vessel or total loss.
- P&I (Protection & Indemnity) insurance, which is a third party liability insurance to cover damage against persons or equipment.
- War Risks, which covers damage to the vessel, potential total loss and retention, etc. caused by war or war-like conditions.

In addition, most of the loans are covered by Mortgage Interest Insurance and Mortgagee Additional Perils Pollution Insurance. This insurance covers the risk in most situations which the primary insurance policies do not cover, for example if the vessel was not seaworthy at the time of the claim.

INSPECTION OF VESSELS
As a supplement to the half-yearly market valuations, physical inspections of the financed vessels are made on a spot-check basis. The inspection may be performed both during the loan period or prior to submitting a loan offer.

MARKET VALUATIONS
The company values each vessel semi annually. The valuation is generally fixed by an external broker, who fixes a price for the financed vessels on the basis of supply and demand. The company may also determine the value itself, for example on the basis of a specific independent market price or if external assessments have been received for similar vessels.

Market valuations are used for example to determine the loan-to-value ratio on the company's loans and for control purposes in connection with the half-yearly impairment review on loans, advances and receivables.

LOSSES AND IMPAIRMENT CHARGES
Twice a year, all exposures are reviewed in order to re-assess the current need for loan impairment charges. The assessment of any impairment on the individual loans is based on the borrower's present and expected future financial position and on the value of the ship's mortgage and any other collateral.

The overall guidelines for the company's loan impairment charges are laid down in the Executive Order on Financial Reporting. The executive order stipulates that, in addition to individual impairment charges, the company must also make collective impairment charges.

The Danish FSA has accepted that Danish Ship Finance may omit to make collective impairment charges provided that the assessment of the individual loans be planned in such a manner that the assessment in practice covers an assessment consistent with that which would take place in a collective assessment and that impairment charges be made accordingly for each loan. Furthermore, it is a precondition that the assessment of any impairment of the individual loans be made on the basis of a probability weighting of the expected outcome in respect of payments from the borrowers.

Based on the FSA guidelines, all loans have been reviewed in order to identify any objective evidence of impairment (OEI) for the exposure in question. It is also established whether a vessel segment is comprised by OEI for collective impairment charges.

In addition, all loans have been reviewed to evaluate whether the existing classification and probability of default still provides the best estimate of the cash flows due from the specific borrower. Where this is estimated not to be the case, the loan is reclassified.

A distribution of individual and collective impairment charges is provided in note 14 to the financial statements.

OBJECTIVE EVIDENCE OF IMPAIRMENT

Objective evidence of impairment (OEI) is a concept used to express that a loan entails a higher probability of default. The concept is used for calculating individual impairment charges pursuant to Annex 10 of the Executive Order on Financial Reporting and the Danish FSA guidelines.

OEI exists if at least one of the following events has occurred:

- Default, cf. below
- The borrower is experiencing significant financial difficulty
- Past due/arrears, unless the problem is short-term and the amounts concerned are small by comparison to the borrower's financial situation or if due to errors or technical problems
- Loans with more lenient repayment terms, including forbearance, which the company, for reasons relating to the borrower's financial difficulty, would not otherwise have granted

If OEI is established for credit exposures, including loans/receivables without loan impairment charges, the borrower will be downgraded on the company's internal classification scale (12-point scale with 12 being the lowest) to risk category 11 (or risk category 12 if the credit exposure is also in default) with a PD (probability of default) of 100%. Loans with OEI, i.e. loans in risk categories 11 or 12, are referred to by the company as "Problem loans".

When reconstruction, including agreements for composition or conversion of a loan/receivable into share capital/subordinated loan capital has been completed, the OEI period will run for at least 12 months. Subsequently, a new impairment test will be performed on the credit exposure.

DEFAULT

A loan/receivable is deemed to be in default if the borrower is not expected to be able to meet his obligations. That will be the case, if at least one of the following situations has occurred:

- A loss is deemed inevitable
- Bankruptcy or other financial reconstruction
- Past due/arrears in 90 days or more
- Foreclosure
- Non-accrual interest

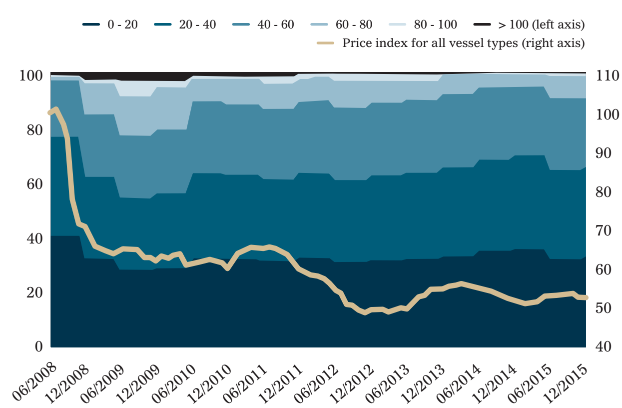
If a credit exposure is in default, the borrower will be downgraded to risk category 12 with a PD of 100%.

The company's accumulated loan impairment charges amounted to DKK 1,958 million at 31 December 2015 against DKK 1,974 million the year before. This represented a decline of DKK 16 million.

The accumulated loan impairment charges accounted for 4.3% of the company's total loans and guarantees, which was on a level with the year before. Danish Ship Finance recorded write-offs in the amount of DKK 90 million in 2015 against DKK 32 million in 2014. Write-offs thus remain at a very low level.

Accumulated losses since the company was established in 1961 were DKK 1,011 million at 31 December 2015. This corresponded to 2.2% of total gross lending at 31 December 2015.

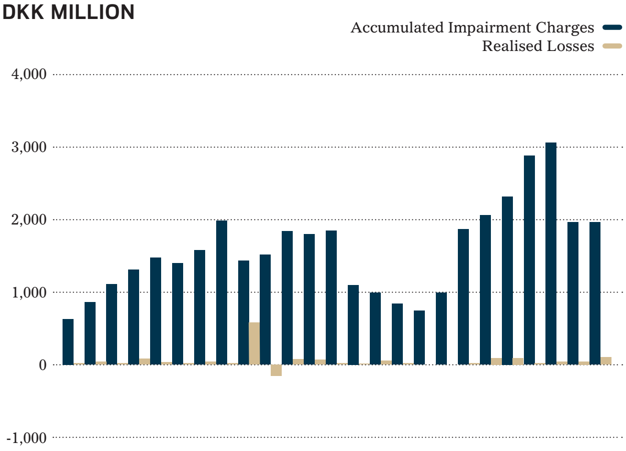
LOAN TO VALUE INTERVALS VS. PRICE INDEX FOR ALL SHIP TYPES INDEX/%



The chart above shows a breakdown of the loan portfolio into loan to value ranges, which are calculated every six months. The Loan-To-Value ranges show the proportion of the loans placed within a given range. For example, 91% of

the loan amounts incl. guarantees and after loan impairment charges are secured by mortgages within 60% of the valuations at the end of 2015. The breakdown is compared with developments in ship prices based on a price index from Clarksons, showing price developments for all vessel types. The chart shows that even major declines in ship prices do not materially change the collateral covering the loan. The reason is that instalments are regularly received and that a number of loan agreements include a right for the company to demand partial prepayment and/or additional collateral if the value of the ship mortgage drops below a pre-arranged minimum threshold (MVC).

LOAN IMPAIRMENT CHARGES AND CREDIT LOSSES
DKK MILLION



ACCOUNTING STANDARDS NOT YET IN FORCE

The IASB (International Accounting Standards Board) has issued a new accounting standard, IFRS 9, on financial instruments to replace IAS 39.

IFRS 9 has not yet been approved by the EU but is expected to be approved by the Commission in 2016 and is expected to be effected for financial years beginning on or after 1 January 2018.

In the second half of 2015, the company started to analyse the need for system adjustments and possible operational procedures pertaining to the implementation of the impairment provisions of IFRS 9. This work will be intensified in 2016.

Provided the Commission approves IFRS 9, the company is planning to implement the standard the first time with effect from the financial year starting on 1 January 2018.

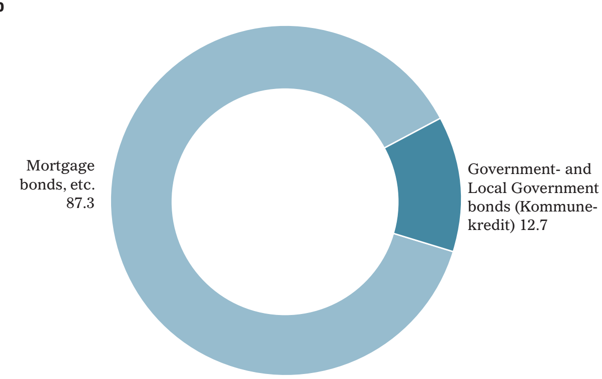
At the end of 2015, the company initially assessed that the accounting standard would have a small negative impact on its loan impairment charges.

FINANCIAL COUNTERPARTIES

In addition to loans, the company's securities portfolio also represents a significant part of the assets. The securities portfolio comprises government and mortgage bonds, money market transactions and interest-sensitive financial instruments.

Most of the portfolio consists of mortgage bonds, which leads to an excess cover relative to the statutory requirement that at least 60% of the total capital requirement must be invested in high grade assets. At 31 December 2015, the company had invested DKK 12,248 million in high grade securities, corresponding to 411% of the statutory requirement.

DISTRIBUTION OF SECURITIES PORTFOLIO
%



Transactions with financial counterparties are made in connection with investing own funds as well as excess liquidity from issued bonds. These transactions involve cash deposits, securities and financial instruments.

Financial contracts may entail a risk of losses if the contract has a positive market value to the company, and the financial counterparty cannot fulfil its part of the agreement. This type of risk also includes settlement risk.

The policy for managing counterparty risk (counterparty policy) quantifies and defines limits for the exposure to individual financial counterparties and the countries in which such counterparties are residents. The counterparty policy is used in connection with the management of market risk and liquidity risk defines limits for maximum receivables (lines) under loans to and guarantees from credit institutions, export guarantee institutions and insurance companies.

Emphasis is on financial counterparties having high credit ratings, as a substantial proportion of business transactions with the counterparties involves long-term contracts with a potentially large increase in market value. Bilateral collateral agreements (CSA) have been signed with a number of bank counterparties, which reduce the credit risk.

GRANTING OF LINES

Financial counterparties are granted lines on the basis of defined criteria. Such grants are made on the basis of, among other things, ratings assigned by recognised international rating agencies, when such ratings are available. Once a year and when the creditworthiness of the counterparty changes, the allocated lines are re-assessed.

The Executive Board and the Head of Credit have been allocated authorities by the Board of Directors allowing them to grant lines to financial counterparties within certain limits. Such authorities must within specific limits be disclosed at the subsequent board meeting. Lending over and above the predefined limits are granted by the Board of Directors.

LEGAL FRAMEWORK

The legal framework for transactions with financial counterparties is based primarily on market standards such as ISDA and GMRA agreements, which allow netting in the case of default on the part of the financial counterparty. Furthermore, Danish Ship Finance has entered into agreements on market-value adjustments or collateral (CSA agreements) with a number of its counterparties in connection with derivative trading.

ONGOING MONITORING

Exposures to each counterparty are monitored in an ongoing process, partly to ensure that the financial counterparties consistently comply with the requirements, partly to ensure compliance with the granted lines. The responsibility for ongoing monitoring is independent of the executing departments.

MARKET RISK

Market risk is the risk of losses caused by changes in the market value of assets and liabilities as a result of changing market conditions. The overall market risk is calculated as the sum of fixed income and exchange rate positions. The most significant market risks are associated with the securities portfolio, as the company is governed by the limits set out in Executive Order on bond issuance, the balance principle and risk management (Bond Executive Order), which includes restrictions on interest rate, exchange rate and liquidity risk between the bond issues (funding) and the loans.

The company pursues a market risk policy approved by the Board of Directors to manage its market risks. The policy lays down clear and measurable limits for interest rate and exchange rate risks and builds on the provisions of the Bond Executive Order, among other things. The guidelines for market risks may be stricter than such external provisions.

INTEREST RATE RISK

Interest rate risk is the risk that the company will incur a loss as a result of a change in interest rates. Rising interest rates have an adverse impact on the market value of the securities portfolio.

Pursuant to the Bond Executive Order, the interest rate risk between funding and lending must not exceed 1% of the total capital. The company seeks to minimise the interest rate risk between funding and lending by applying conservative principles, but a loss or a gain may arise due to changes in interest rates.

The Bond Executive Order also stipulates that the interest rate risk on the company's assets, liabilities and off-balance sheet items must not exceed 8% of the company's total capital. Furthermore, interest rate risks are adjusted using a minimum and a maximum for the option-adjusted duration. The current maximum option-adjusted duration on the securities portfolio, including financial instruments, has been restricted to four years. Danish Ship Finance has calculated the option-adjusted duration at approximately 1.9 years at 31 December 2015.

Using the Danish FSA's guidelines for calculating interest rate risks, the risk was calculated at DKK 665 million at 31 December 2015, corresponding to 6.7% of the total capital, against DKK 539 million in 2014.

As the company is governed by the rules of the Bond Executive Order, it only has limited exposure to interest rate risk outside the trading portfolio.

EXCHANGE RATE RISK

The Bond Executive Order stipulates that the combined foreign exchange risk on assets, liabilities and off-balance sheet items must not exceed 2% of the total capital.

The market risk policy does not accept currency risks arising due to mismatch of funding and lending except for inevitable, limited foreign exchange risks resulting from the ongoing liquidity management. The company's lending margin is collected in the same currency in which the loan was granted. Accordingly, net interest income from lending is affected by exchange rate fluctuations. The primary impact derives from the USD, which is the currency in which the vessels primarily generate earnings and are valued, and therefore also the preferred lending currency.

EQUITY RISK

Apart from small holdings of sector shares and shares received in connection with the reconstruction of credit exposures, the company has no shareholding interests in other companies.

DERIVATIVES

Danish Ship Finance uses derivatives in specific areas. The market risk policy specifies which derivatives the company may use and for which purposes. These are transactions made to hedge risks between funding and lending and in connection with investment activities.

LIQUIDITY RISK

The company's liquidity management efforts and the liquidity requirements defined by law are aimed at reducing the liquidity risk to the greatest extent possible.

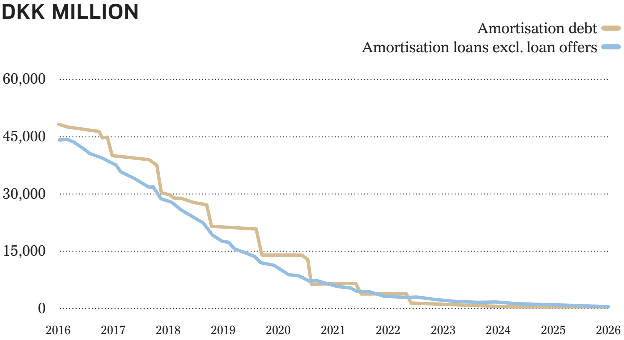
Liquidity risk involves the risk of:

- a disproportionate rise in the cost of funding;
- lack of funding which prevents the company from maintaining its current business model; and
- the company ultimately not being able to meet its payment obligations due to lack of funding.

Through bond issues and the existence of a liquid portfolio of bonds, the company has secured ample liquidity coverage for all existing loans and loan offers until expiry. The company is therefore not exposed to any refinancing risk. A potential downgrade of the company's external rating would not change its robust liquidity situation, but it is expected to lead to higher funding costs in connection with new loans.

The average maturity of issued bonds exceeds the average maturity of the loans.

DEVELOMPENTS IN ISSUED BONDS RELATIVE TO LOANS DKK MILLION



LIQUIDITY COVERAGE RATIO

Effective 1 October 2015, the CRR introduced a requirement on adequate liquidity over a period of 30 days in a stressed scenario (LCR requirement). The LCR requirement will be phased in over a number of years.

Shown below is the LCR requirement for 2015:

$$\text{Liquidity Coverage Ratio} = \frac{\text{Liquid Assets}}{\text{Net liquidity outflows over a 30 days stress period}} \geq 60\%$$

The company's LCR at 31 December 2015 has been calculated at 907%.

In the calculation of liquid assets, covered bonds may not account for more than 70%, and at least 30 percentage points thereof must be covered bonds with a rating corresponding to credit category 1, which corresponds to Standard & Poor's AAA to AA- rating.

The 70% cap on covered bonds entails that the company has a substantial volume of mortgage bonds which are not eligible for inclusion as liquid assets. If these mortgage bonds are sold and government bonds are purchased instead, it would significantly increase the LCR.

PLEDGED ASSETS

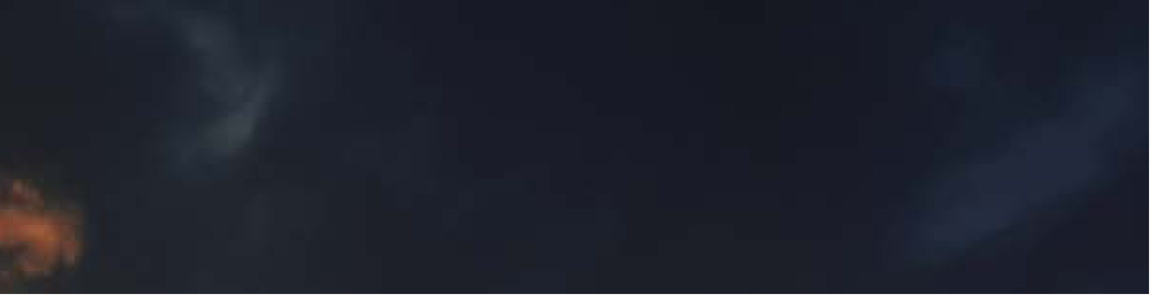
The procurement of capital is made via issuance of ship mortgage bonds on Nasdaq Copenhagen. The company is a component of the OTC market. As a result of this set-up, some assets will be pledged.

The primary sources of pledging assets are:

- Issuance of ship mortgage bonds
- CSA collateral

Combined, pledged assets account for 73.9% of total assets plus collateral received that may be subject to pledging.

A specification of pledged assets is set out in annex 7 to the risk report.



OPERATIONAL RISK

Operational risk is the risk of direct or indirect losses as a result of insufficient or faulty internal processes, human error, system error or losses resulting from external events. Operational risk is often associated with specific and one-off events.

The Executive Order on Governance contains rules on the management of operational risks. Against this background, the company has defined a policy in this area. The Board of Directors will update the policy at least once a year. In addition, operational risks are managed through business procedures and internal controls. The control is performed, among others, by the company's internal control function, which is independent of the executing departments.

The key operational risks relate to credit and finance functions, compliance and the use of information technology.

In the credit function, the risk relates to the handling of agreements and security documents and regular follow-up on loan covenants. In addition, the risk relates to the handling of any non-performing credit exposures.

In the finance function, the risk relates to the conclusion and implementation of financial contracts, deposits and general money transfers.

In the compliance area, there is a risk that sanctions will be imposed on the company, a risk of loss of reputation or that the company or its stakeholders suffer material financial losses due to lack of compliance with applicable legislation, market standards or internal rules.

In the area of information technology, the risk relates to the derived consequences of a system breakdown or serious system errors.

BOND ISSUANCE

FUNDING

The rules governing bond issuance are described in the Act and the Executive Order as well as in the Bond Executive Order. The lending operations are funded through previous issuance of debenture bonds, issuance of ship mortgage bonds, through lending of own funds and through proceeds from loans raised in money markets and capital markets. Individual borrowers have no direct obligations towards the bondholders.

Covered bonds as defined by the CRD

Like banks and mortgage credit institutions, Danish Ship Finance may issue covered bonds. The term covered bonds is used to describe particularly secure bonds issued to finance lending secured by real property, ships or government risks within defined loan limits. The company can only issue covered bonds against ship's mortgages.

The company has still not used the possibility of issuing covered bonds. This possibility is based on the Danish act on covered bonds from 1 June 2007.

Ship mortgage bonds

Since 1 January 2008, the company has issued new bonds in the form of ship mortgage bonds.

The rules on issuing ship mortgage bonds are similar to the previous rules that apply to debenture bonds, except that there is a possibility of, but not a requirement, issuing ship mortgage bonds in one or more separate capital centres.

Issued bonds

Issued bonds are primarily bullet loans denominated in DKK. The issued bonds amounted to DKK 45,067 million at amortised cost at 31 December 2015, of which about 89% are DKK-denominated issues, while the remainder are CIRR bonds, most of which are issued in USD. With the exception of CIRR bonds, all of the bonds are listed and traded on Nasdaq Copenhagen.

The company's total issues of new bonds in 2015 amounted to nominally DKK 7.1 billion with an average maturity of 5.4 years.

At the end of 2015, Danish Ship Finance's portfolio of own bonds amounted to DKK 462 million. These are relatively short-term bonds and were acquired in connection with the issuance of longer-term bonds. Depending on market conditions, the bonds are expected to be withdrawn from circulation or resold to the market. For accounting purposes, the portfolio of own bonds is in principle treated as if the bonds were drawn on the date of purchase.

RATING

In 2015, Danish Ship Finance was assigned the following ratings by Moody's, which has regularly assigned a credit rating to the company:

Bond rating	Baa2
Issuer rating	Baa2
Outlook	Stable

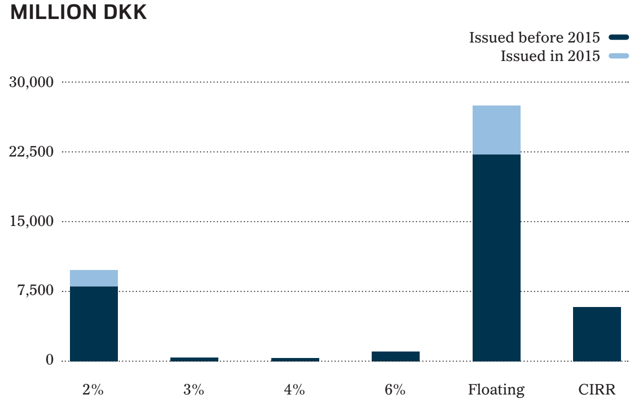
In the period from the balance sheet date until the publication of the annual report, it was announced that Standard & Poor's ("S&P") has announced a rating of all listed bonds issued by Danish Ship Finance.

The company's bonds were assigned an A rating, stable outlook. S&P applied its criteria for rating covered bonds. S&P also announced an Issuer Credit Rating of the issuer, assigning a rating of BBB+, stable outlook. The rating is based on the current bond issuance practice. As a result, the structure of the company's operations and the collateral underlying the bond issuance will continue in their present form.

Bond rating	A
Issuer rating	BBB+
Outlook	Stable

As a consequence of the new S&P rating, the company has terminated its collaboration with Moody's and requested that Moody's remove all ratings of Danish Ship Finance, including bonds issued by Danish Ship Finance. Moody's has rated the company since 1998.

CIRCULATING BONDS BY BOND TYPE
MILLION DKK



ISSUED BONDS

Debenture bonds
Bonds issued before 1 January 2008. By definition, the bonds are covered bonds (as defined by the CRD) until maturity, even though there is no requirement for regular compliance with loan values.

Ship mortgage bonds
Bonds issued after 1 January 2008 which do not qualify for the covered bond designation.

All bonds issued by Danish Ship Finance are on the European Commission's list of bonds meeting the gilt-edged requirements of Article 52 (4) of the UCITS directive (the "Investment Directive").

SHARE CAPITAL

Shareholders of Danish Ship Finance
The company's ambition is to generate a risk-weighted return that is satisfactory to its shareholders. The Board of Directors continually assesses whether the company's share and capital structure are consistently aligned with the interests of the shareholders and the company. The Board of Directors believes that the company has an appropriate share and capital structure given its level of activity.

The share capital of the company amounts to DKK 333 million, nominal value, and is divided into A shares with a nominal value of DKK 300 million and B shares with a nominal value of DKK 33 million. Each A share of DKK 1 carries ten votes, and each B share of DKK 1 carries one vote. Other than that, there are no restrictions on the number of votes or shares relative to each shareholder. The shares are not listed for trading in a regulated market.

The following of the company's shareholders hold at least 5% of the total voting rights or own at least 5% of the shares. The shareholders are listed alphabetically.

A.P. Møller – Mærsk A/S
Danmarks Nationalbank
Danske Bank A/S
Den Danske Maritime Fond
Nordea Bank AB (publ.).

None of the company's shareholders have controlling influence on Danish Ship Finance.

Dividends
At the annual general meeting in 2015, the Board of Directors' proposal on dividends of DKK 1,181 million based on the financial statements for 2014 was adopted.

Based on the financial statements for 2015, the Board of Directors recommends that the company pays DKK 351 million in dividends to the company's A shareholders and DKK 62 million in dividends to the company's B shareholder, Den Danske Maritime Fond.

If the shareholders approve the dividend proposal for 2015, the company will, since its conversion to a public limited company in 2005, have paid total dividends of DKK 588 million to the B shareholder, Den Danske Maritime Fond. The funds are used to develop and promote Danish shipping and the Danish shipbuilding industry.

ORGANISATION, MANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITY

MANAGEMENT STRUCTURE

The supreme authority of the company is the general meeting. The Board of Directors consists of nine members. The general meeting elects six members. These are elected for terms of one year. The employees elect three employee representatives to the Board of Directors. They are elected for terms of four years. The rules on employee representatives are available on the company's website.

The Board of Directors defines the overall principles for the company's operations and appoints the Executive Board.

The Executive Board is in charge of the company's senior, day-to-day management. The Executive Board reports to the Board of Directors.

Annual general meeting
The Board of Directors and the Executive Board seek to promote active ownership, including participation by the shareholders at the general meeting, and efforts are made to ensure that all members of the Board of Directors and the Executive Board are present at general meetings.

The next annual general meeting will be held at the company's address on 31 March 2016.

Board of Directors
Executive Vice President Peter Lybecker acts as chairman, and Jesper T. Lok acts as vice chairman.

The Board of Directors defines strategies and guidelines for the company. Each year, the Board of Directors also defines its principal tasks in respect of financial and management control of the company, which help ensure control with all important areas.

Board meetings are held whenever deemed necessary or when so requested by a member of the Board of Directors or the Executive Board. Ordinary board meetings are held six to nine times a year. Dates and agendas for the meetings are to the extent possible fixed for one year at a time.

In 2015, the Board of Directors held eight ordinary meetings and two extraordinary meetings with an average participation rate of 92%. In addition, the Board of Directors held a number of electronic board meetings in connection with the processing of credit recommendations of a standard nature.

The Executive Order on Governance stipulates requirements about an annual evaluation of the board members' experience and competencies The Board of Directors has assessed that the board members together represent the competencies deemed necessary to ensure a competent management of the company. The necessary competencies are knowledge of:

- Banking
- Financial derivatives
- International maritime industry and shipping
- IT
- Credit granting processes
- Management experience from a relevant financial enterprise
- Legislation
- Macroeconomics
- Bond issuance
- Shipowning operations
- Risk management in a financial institution
- Finance and accounting

ELECTION OF NEW BOARD MEMBERS

The Board of Directors operates within the framework of a shareholders agreement when recruiting new board member candidates. The shareholders agreement contains rules on the election of board members at the annual general meeting. When new board members are elected, consideration is given to the composition of the board, including in relating to diversity.

DIVERSITY

The company seeks to ensure diversity at all management levels, including in relation to international experience, professional experience and gender.

When recruiting new members of management, the company seeks to attract people with skills that may contribute to the competent management of the company.

Targets and policies with respect to the under-represented gender

The company has defined targets and policies for the gender composition of the management team.

The company's shareholders nominate candidates for the Board of Directors. This means that the Board of Directors has no direct influence on which candidates are nominated. To the extent possible, the Board will seek to influence the process.

When defining targets for the under-represented gender, the company takes into consideration the size of the Board of Directors, the industry in which the company operates, and the issue of rounding.

The company's Board of Directors consists of nine members, of whom six are elected by the shareholders in general meeting and three are elected by the employees. Of the shareholder-elected board members, two are women and four are men. The company has defined a target of having a gender distribution of 50/50. The company aims to achieve this target by 2017.

More information on the company's efforts for the under-represented gender is provided in the CSR report on the company's website:
http://skibskredit.dk/en/OM-SELSKABET/CSR

Management

The day-to-day management consists of CEO Erik I. Lassen, CFO and member of the Executive Board, Per Schnack, Senior Vice President and Head of Customer Relations, Peter Hauskov, and Senior Vice President and Head of Credit, Flemming Møller.

CORPORATE GOVERNANCE

As the company has no shares listed for trading on Nasdaq Copenhagen, it is not subject to the corporate governance rules. However, the company has resolved to follow the recommendations issued by the Committee on Corporate Governance.

The recommendations issued by the Committee on Corporate Governance build on a "comply or explain" principle. The principle entails that listed Danish companies have the option of either complying with the recommendations or explaining the reasons for any non-compliance

The company also complies with the corporate governance code of the Danish Bankers Association. The code of the Danish Bankers Association is more comprehensive than the recommendations of the Corporate Governance Committee and also builds on a "comply or explain" principle.

The Board of Directors continually assesses the company's rules, policies and practice in relation to the Corporate Governance recommendations.

The corporate governance report and the code of the Danish Bankers Association must be published at least once a year. The corporate governance report and the code of the Danish Bankers Association are published on the company's website in connection with the publication of the company's annual report.

Additional information about corporate governance is provided in the corporate governance report and the code of the Danish Bankers Association on the company's website: www.skibskredit.dk/en/InvestorRelations/Corporate-Governance.

Remuneration

Danish Ship Finance has defined a remuneration policy the purpose of which is to determine its guidelines for remuneration of:

- The Board of Directors
- The Executive Board
- Employees whose activities have a material impact on the company's risk profile
- Employees in special functions

The aim of the remuneration policy is to ensure that the company's remuneration of management and employees whose activities have a material impact on the company's risk profile does not lead to excessively risk-tolerant behaviour. In addition, the remuneration policy reflects the fact that the interests of the shareholders and the company have been aligned with the company's circumstances, and it seeks to create a balance between the assignments and the responsibility undertaken.

Owing to the company's size, the Board of Directors has not set up a remuneration committee.

The company does not have any incentive programmes for members of the Board of Directors, the Management Board or employees whose activities have a material impact on the company's risk profile. The remuneration policy also states that the remuneration of members of the Executive Board and other risk-takers should not contain any variable salary components.

The remuneration policy is adopted by the shareholders in general meeting.

The total payments concerning remuneration for the Board of Directors and the Executive Board are described in note 8 to the financial statements.

Additional information on the remuneration policy is available on the company's website: www.skibskredit.dk/en/InvestorRelations/Corporate-Governance.

AUDIT COMMITTEE

The company has set up a statutory audit committee consisting of members of the Board of Directors. In composing the audit committee, the company has ensured that the chairman of the Board of Directors does not act as the chairman of the Audit Committee. It has also been ensured that the Committee has professional capabilities and experience in financial matters and in finance and accounting.

The Audit Committee consists of Senior Vice President Fatiha Benali, Head of Group Finance and Risk Management Jan B. Kjærvik and member of the Executive Board Glenn Söderholm. Fatiha Benali (chairman), who is the independent member with competencies in finance and accounting, qualifies by being the former CFO of a company that presents financial statements in accordance with the Danish Financial Business Act and IFRS.

The duties of the Audit Committee are defined in the terms of reference of the Audit Committee. The Audit Committee is to assist the Board of Directors in monitoring the financial reporting process, monitoring the efficiency of the company's internal control systems and risk management systems, monitoring the audit of the annual report, and monitoring and verifying the independence of the auditors. The Audit Committee is thus a preparatory and monitoring body.

The Audit Committee holds ordinary meeting three times a year, of which two meetings are prior to the presentation of the annual and half-yearly report, respectively. The Committee reports to the Board of Directors, and minutes of the Committee's meetings are discussed at the first-coming ordinary board meeting after the Audit Committee's meeting.

Additional information on the company's Audit Committee is available on the company's website:
www.skibskredit.dk/en/OM-SELSKABET/Revisionsudvalg.

CORPORATE SOCIAL RESPONSIBILITY

The company has implemented a corporate social responsibility (CSR) policy. As part of the company's endeavours to run a professional, trustworthy and sustainable business, it focuses on corporate social responsibility. The company seeks to the extent possible to incorporate CSR considerations in its day-to-day work. The CSR initiatives build on the following principles:

- Aligning our policies to Danish standards.
- Focusing on CSR initiatives for in-house use.
- CSR is to form an integral part of the corporate culture.

The company is involved in the following three CSR categories: "Employees", "The environment and climate" and "corruption and unusual gifts".

The purpose of the company's CSR work is to contribute to a general value increase to society at large and to Danish Ship Finance as a business. This is to be secured through:

- Minimising harmful impacts to the environment and the climate.
- A fruitful in-house working environment.
- Value creation based on motivated employees.
- Guidelines to counter corruption and bribery.

In its CSR report, the company reports on its efforts to reduce consumption and emissions with an adverse impact on the climate and the environment. The report states that the company's customers must comply with the applicable standards for shipping activities issued by national or international bodies and comply with the rules on human rights in accordance with international conventions.

Other than this, the company has not adopted any additional policies on the climate and the environment or policies on human rights.

Additional information on the corporate social responsibility is provided in the CSR report on the company's website:
www.skibskredit.dk/en/OM-SELSKABET/CSR.

HUMAN RESOURCES

At the end of 2015, Danish Ship Finance had 71 employees, of whom 30 were women and 41 were men.

For the company to retain its position as the leading ship financing institute, it is important that it is able to attract and retain competent employees. In order to create an attractive framework for its employees, Danish Ship Finance offers its staff a number of insurance and healthcare schemes. The company remains focused on employee well-being and work-life balance. The company's working environment committee is dedicated to promoting attention to this balance. The company also has a social staff association that arranges various events for the employees.

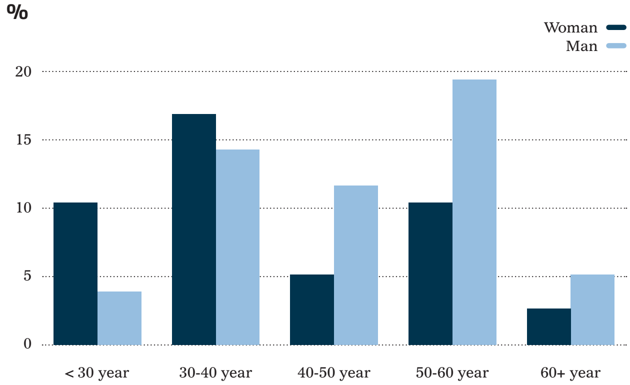
The employees generally have an extensive educational background and are specialists in their fields. In order to develop employee competencies, the company spends resources on training for each employee. In 2015, expenses for training courses and other training amounted to 1.2% of total staff costs. Training courses are intended to ensure professional and personal development. The employees have a high degree of influence with respect to selecting continuing training and courses. The purpose of training is to further develop employee qualifications and to motivate and challenge the employees.

The company generally records a high level of job satisfaction. An employee satisfaction survey conducted at the end of 2015 showed a very high degree of satisfaction and also showed an increase relative to the previous survey conducted in 2014. The company will continue to seek to retain this high level of satisfaction.

Additional information on the employee satisfaction survey is provided in the CSR report on the company's website: www.skibskredit.dk/en/OM-SELSKABET/CSR.

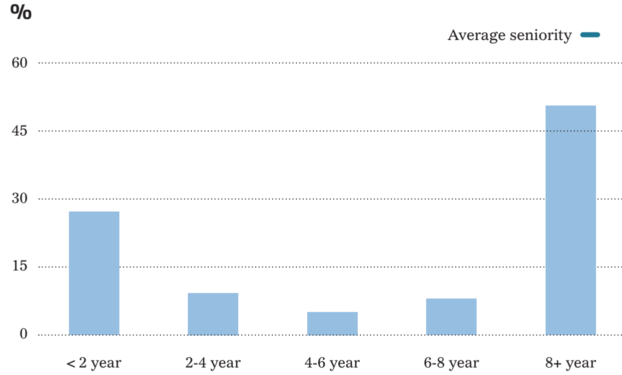
DISTRIBUTION BY AGE AND GENDER

%



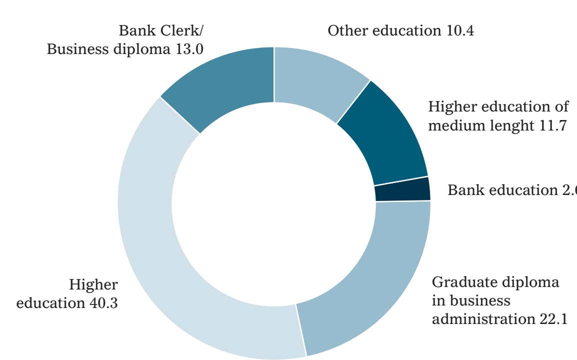
SENIORITY

%



EDUCATIONAL BACKGROUND

%



MANAGEMENT AND DIRECTORSHIPS

DIRECTORSHIPS – BOARD OF DIRECTORS

The information set out below describes positions held by board members, other directorships, other senior management positions and fiduciary positions at the date of publication of the annual report for 2015. The text also describes how long each member has held a seat on the Board of Directors and the special competencies held by each member.

Executive Vice President Peter Lybecker
Nordea Bank Danmark A/S
Chairman
Date of birth: 08.10.1953
Nationality: Danish
Considered to be a non-independent board member.
Elected to the Board of Directors on 08.04.2013
Board meeting participation rate: 100%
Member of the board of directors of:
Bankernes Kontantservice A/S (Chairman)
VP Securities A/S (Chairman)
Nordea Kredit Realkreditaktieselskab A/S (Chairman)
Fionia Asset Company A/S (Chairman)
The Danish Bankers Association (Vice Chairman)
Nordea Finans Danmark A/S (Vice Chairman)
Nordea Finance Sweden Plc (Vice Chairman)
Nordea Finance Finland Ltd. (Vice Chairman)
LR Realkredit A/S
VISA Europe
Competencies:
Broad knowledge of macroeconomics, financial matters, legislation, financial risk management and general management of international companies through his position as Executive Vice President with Nordea Bank Danmark A/S and directorships with a number of financial and non-financial businesses.

Jesper T. Lok
Vice Chairman (since 26.03.2015)
Date of birth: 25.08.1968
Nationality: Danish
Considered to be an independent board member.
Elected to the Board of Directors on 26.03.2015
Board meeting participation rate: 66.7%
Member of the board of directors of:
ESVAGT A/S (Chairman)
Danish Crown A/S (Vice Chairman)
J. Lauritzen A/S
Inchape Shipping Services
Competencies:
Broad knowledge in the areas of shipping, macroeconomics and general management of international businesses.

Senior Vice President, Claims, Fatiha Benali
Tryg A/S
(Chairman of the Audit Committee)
Date of birth: 17.02.1969
Nationality: Danish
Considered to be an independent board member.
Elected to the Board of Directors on 16.04.2009
Board meeting participation rate: 100%
Participation rate for audit committee meetings: 100%
Competencies:
Broad knowledge of finance and accounting and IT through her position as Senior Vice President, Claims and former Business Financial Officer of Tryg A/S.

Chief Executive Officer Jenny N. Braat
Danske Maritime
Date of birth: 26.04.1966
Nationality: Danish
Considered to be an independent board member.
Elected to the Board of Directors on 29.03.2012
Board meeting participation rate: 87.5%
Member of the board of directors of:
Den Danske Maritime Fond
Competencies:
Broad knowledge of the international shipping industry with particular focus on shipbuilding and the national and international legislative framework for shipbuilding through her position as CEO of Danske Maritime.

Senior Relationship Manager Marcus F. Christensen
Danmarks Skibskredit A/S
Date of birth: 20.11.1979
Nationality: Danish
Elected to the Board of Directors on 29.03.2012
Board meeting participation rate: 100%
Competencies:
Broad knowledge of credit granting, ship financing and problem handling through his position as Senior Relationship Manager with Danish Ship Finance.

The members elected by the shareholders hold office for terms of one year at a time, and members elected by the employees are elected every four years.

Head of Group Finance and Risk Management
Jan B. Kjærvik
A.P. Møller-Mærsk A/S
(Member of the Audit Committee)
Date of birth: 12.04.1957
Nationality: Norwegian
Considered to be a non-independent board member.
Elected to the Board of Directors on 26.03.2015
Board meeting participation rate: 66.7%
Participation rate for audit committee meetings: 100%
Member of the board of directors of:
Maersk Insurance A/S (Chairman)
Hoegh Autoliner A/S (Vice Chairman)
Britannia PI Club, UK
VP Securities
Competencies:
General competencies: Broad knowledge of banking, credit, insurance and financing, shipping, financial risk management, debt markets and management of an international business through his position as Head of Group Finance and Risk Management at A.P. Møller-Mærsk A/S.

Head of Research Christopher Rex,
Danmarks Skibskredit A/S
Date of birth: 28.01.1979
Nationality: Danish
Elected to the Board of Directors on 29.03.2012
Board meeting participation rate: 100%
Competencies:
Broad knowledge of macroeconomics, financial risk management and international shipping through his position as Head of Research with Danish Ship Finance.

Member of the Executive Board Glenn Söderholm
Danske Bank A/S
(Member of the Audit Committee)
Date of birth: 26.07.1964
Nationality: Swedish
Considered to be a non-independent board member.
Elected to the Board of Directors on 07.11.2013
Board meeting participation rate: 87.5%
Participation rate for audit committee meetings: 0 per cent
Competencies:
Broad knowledge of financial risk management, financial markets and general management through his position as member of the Executive Board of Danske Bank A/S.

Senior Relationship Manager Henrik R. Søgaard,
Danmarks Ship Finance
Date of birth: 09.02.1959
Nationality: Danish
Elected to the Board of Directors on 24.04.2008
Board meeting participation rate: 87.5%
Competencies:
Broad knowledge of credit granting, ship financing and problem handling through his position as Senior Relationship Manager with Danish Ship Finance.

EXECUTIVE BOARD

Chief Executive Officer Erik I. Lassen
Member of the Executive Board since 09.04.2008
Directorships and other managerial positions:
None.

Executive Vice President Per Schnack
Member of the Executive Board since 09.04.2008
Directorships and other managerial positions:
None.

STATEMENT BY THE EXECUTIVE BOARD AND THE BOARD OF DIRECTORS

The Board of Directors and the Executive Board have today considered and adopted the annual report of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year ended 31 December 2015. The annual report has been prepared in accordance with the Danish Financial Business Act. Furthermore, the annual report has been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

In our opinion, the management's review includes a fair review of developments in the activities and financial position of the company and fairly describes significant risk and uncertainty factors that may affect the company.

Furthermore, in our opinion, the financial statements give a true and fair view of the company's assets and liabilities and financial position at 31 December 2015 and of the results of the company's operations for the financial year ended 31 December 2015.

We recommend the annual report for adoption at the annual general meeting to be held on 31 March 2016.

Copenhagen, 25 February 2016

EXECUTIVE BOARD

Erik I. Lassen
Chief Executive Officer

Per Schnack
Executive Vice President

BOARD OF DIRECTORS

Peter Lybecker
Chairman

Jesper T. Lok
Vice Chairman

Fatiha Benali

Jenny N. Braat

Marcus F. Christensen

Jan B. Kjærvik

Christopher Rex

Glenn Söderholm

Henrik R. Søgaard

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF DANISH SHIP FINANCE A/S

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year ended 31 December 2015, comprising an income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including accounting policies. The financial statements are presented in accordance with the Danish Financial Business Act. Furthermore, the financial statements are presented in accordance with additional Danish disclosure requirements for interim reports of issuers of listed bonds.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for preparing financial statements that give a true and fair view in accordance with the Danish Financial Business Act. Management is also responsible for the internal control that it considers necessary for preparing 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 the financial statements based on our audit. We conducted our audit in accordance with international standards on auditing and additional requirements under Danish audit regulation. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 judgement, 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 preparation of financial statements that give a true and fair view. The purpose of this is to design procedures that are appropriate in the circumstances but not to express an opinion on the effectiveness of the company'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 opinion.

Our audit did not result in any qualification.

OPINION

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31 December 2015 and of the results of the company's operations for the financial year ended 31 December 2015 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds.

STATEMENT ON THE MANAGEMENT'S REPORT

Pursuant to the Danish Financial Business Act, we have read the Management's report. We have not performed any other procedures in addition to the audit of the financial statements.

On this basis, it is our opinion that the information provided in the Management's report is consistent with the financial statements.

Copenhagen, 25 February 2016

DELOITTE

Statsautoriseret Revisionspartnerselskab
Company registration (CVR) no. 33 96 35 56

Henrik Wellejus	Thomas Hjortkjær Petersen
State-authorised public accountant	State-authorised public accountant

FINANCIAL STATEMENTS

INCOME STATEMENT

NOTE	1 JANUARY - 31 DECEMBER DKK MILLION	2015	2014
3	Interest income	1,886	2,061
4	Interest expenses	(1,021)	(1,241)
5	**Net interest income**	**865**	**820**
	Dividends on shares, etc.	0	0
6	Fee and commission income	41	114
	Fees and commissions paid	0	0
	Net interest and fee income	**906**	**934**
7	Market value adjustments	(177)	123
8,9	Staff costs and administrative expenses	(113)	(98)
19,20	Depreciation and impairment of property, plant and equipment	(1)	(1)
14	Impairment charges on loans and receivables	(46)	1,103
	Profit/loss before tax	**569**	**2,061**
10	Tax	(156)	(493)
	Profit/loss for the year	**413**	**1,568**
	Other income	-	-
	Total income for the year	**413**	**1,568**
	PROPOSED ALLOCATION OF PROFIT		
	Dividend for the financial year	413	1,181
	Retained earnings	0	387
	Total	**413**	**1,568**

BALANCE SHEET

NOTE	AT 31 DECEMBER DKK MILLION	2015	2014
	ASSETS		
11	Due from credit institutions and central banks	731	5,409
12,13,14	Loans at amortised cost	43,171	43,347
15,16,17	Bonds at fair value	19,100	18,680
18	Shares, etc.	19	9
19	Land and buildings		
	Domicile property	64	64
20	Other tangible assets	9	9
	Current tax assets	89	0
25	Deferred tax assets	157	82
21	Other assets	1,533	1,774
	Total assets	**64,873**	**69,374**
	LIABILITIES AND EQUITY		
	Liabilities		
22	Due to credit institutions and central banks	4,229	8,604
23	Issued bonds at amortised cost	45,067	45,077
	Current tax liabilities	0	60
17, 24	Other liabilities	5,200	4,487
	Total liabilities	**54,496**	**58,228**
26	**Equity**		
	Share capital	333	333
	Tied-up reserve capital	8,343	8,343
	Revaluation reserves	10	10
	Retained earnings	1,279	1,279
	Dividend proposed for the financial year	413	1,181
	Total equity	**10,378**	**11,146**
	Total liabilities and equity	**64,873**	**69,374**
	Off-balance sheet items		
28	Contingent liabilities	312	386
29	Other binding agreements	2,330	4,940
	Total off-balance sheet items	**2,642**	**5,326**

STATEMENT OF CHANGES IN EQUITY

DKK MILLION	Share capital	Tied-up reserve capital	Retained earnings	Proposed dividends for the financial year	Total
Equity at 1 January 2014	**333**	**8,343**	**902**	**405**	**9,983**
Dividends distributed	-	-	-	(405)	(405)
Profit/loss for the period	-	-	387	1,181	1,568
Equity at 31 December 2014	**333**	**8,343**	**1,289**	**1,181**	**11,146**
Dividends distributed	-	-	-	(1,181)	(1,181)
Profit/loss for the period	-	-	0	413	413
Equity at 31 December 2015	**333**	**8,343**	**1,289**	**413**	**10,378**

LIST OF NOTES

NOTE 1

ACCOUNTING POLICIES

General
The annual report has been prepared in accordance with the Danish Financial Business Act. Furthermore, the financial statements have been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

The accounting policies are consistent with those applied last year.

Accounting estimates and judgments
The preparation of the annual report is based on the management's estimates and judgments of future events that will significantly affect the carrying amounts of assets and liabilities. The amounts most influenced by the critical estimates and assessments are:

- Fair value of financial instruments
- Valuation and loan impairment charges

The estimates and assumptions are based on premises that management finds reasonable but which are inherently uncertain and unpredictable. The assumptions could for example be unexpected future events or circumstances that arise. Therefore, such estimates and assumptions are difficult to make and will always entail some degree of uncertainty, even under stable macroeconomic conditions, when they involve transactions with customers and other counterparties. Accounting estimates and judgments made on the balance sheet date express management's best estimate of such events and circumstances.

Fair value of financial instruments
Measurements of financial instruments for which prices are quoted in an active market or which are based on generally accepted models with observable market data are not subject to material estimates.

Measurement of financial instruments that are only to a limited extent based on observable market data, are subject to estimates. This applies to unlisted shares and shares acquired through reconstruction of credit exposures as well as certain bonds for which an active does not exists. See Determination of fair value below for a more detailed description.

Valuation (measurement) and loan impairment charges
Loan impairment charges are subject to material estimates with respect to the time when objective evidence of impairment (OEI) occurs.

Loan impairment charges with a collective component especially involve estimates associated with assessing in which segments OEI exists. Individual charges especially involve estimates associated with assessing when debtors experience substantial financial difficulty.

Once OEI exists, estimates are associated with estimating realisable values from ship mortgages etc. and expected dividends from the individual loans.

Segment information
There is no meaningful segment information about the company's business areas as per the definitions of the executive order on financial reporting. Thus, the company's internal reporting does not include any segmentation.

Offsetting
Amounts due to and from the company are offset when the company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

NOTE 1

Translation of transactions in foreign currency
The financial statements are presented in Danish kroner, and the functional currency is Danish kroner.

On initial recognition, transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the transaction date. Gains and losses on exchange rate differences arising between the transaction date and the settlement date are recognised in the income statement.

Monetary assets and liabilities in foreign currency are translated at the exchange rates at the balance sheet date. Exchange rate adjustments of monetary assets and liabilities arising as a result of differences in the exchange rates applying at the transaction date and at the balance sheet date are recognised in the income statement. Exchange rate adjustments are included in the fair value adjustment of the asset or liability.

Rounding
All figures in the financial statements are expressed in millions of kroner with no decimals unless otherwise stated. Totals in the financial statements have been calculated on the basis of actual amounts. A recalculation of the totals may in some cases result in rounding differences because the underlying decimals are not disclosed in the financial statements.

Financial instruments – general
Purchases and sales of financial instruments are measured at their fair value as at the settlement date, which is usually the same as the transaction price. See the description under the individual items. Before the settlement date, changes in the value of financial instruments are recognised. Financial instruments are derecognised on the settlement date when the right to receive (obligation to pay) cash flows from the financial asset or liability has expired, or if it has been transferred, and the company has also transferred substantially all risks and rewards of ownership.

Classification
Financial instruments are divided into financial assets and financial liabilities.

At the date of recognition, financial assets are divided into the following two categories:
- Trading portfolio measured at fair value
- Loans and other financial receivables, measured at amortised cost

At the date of recognition, financial liabilities are divided into the following two categories:
- Trading portfolio measured at fair value
- Other financial liabilities, measured at amortised cost

The trading portfolio, which is measured at fair value, comprises the following financial assets and liabilities:
- Bonds at fair value
- Shares, etc.
- Derivatives (Other assets and Other liabilities)

Hedge accounting
The company uses derivatives to hedge the interest rate risk on fixed-rate liabilities measured at amortised cost.

Hedged risks that meet specific criteria qualify for fair value hedge accounting and are treated accordingly. The interest rate risk on the hedged liabilities is measured at fair value through profit or loss. The accounting treatment of the hedged risk subsequently corresponds to the accounting treatment of the hedging instrument, which is also recognised at fair value through profit or loss.

NOTE 1

If the criteria for hedge accounting cease to be met, the accumulated value adjustment of the hedged item is amortised over the remaining term to maturity.

Determination of fair value
The fair value of financial assets and liabilities is measured on the basis of quoted market prices of financial instruments traded in active markets. If an active market exists, fair value is based on the most recently observed market price at the balance sheet date.

If the market for one or more financial assets or liabilities is illiquid or if there no publicly recognised price, the institution will determine the fair value using recognised valuation techniques. Such techniques comprise the use of similar recent transactions between independent parties, reference to other similar instruments, discounted cash flow analyses and other models based on observable market data.

If no active market exists, the fair value of standard and simple financial instruments such as interest rate and currency swaps and unlisted bonds, is measured according to generally accepted valuation techniques. Market-based parameters are used for measuring fair value, and the fair value of derivatives is subject to credit valuation adjustment (CVA) derived from changes to financial counterparty credit risk.

The fair value of more complex financial instruments, such as swaptions, interest rate caps and floors and other OTC products and unlisted holdings is measured on the basis of internal models, many of which are based on valuation techniques generally accepted within the industry.

The fair value of shares, etc. is measured on the basis of listed market prices at the balance sheet date.

BALANCE SHEET

Amounts due from credit institutions and central banks
Amounts due from credit institutions and central banks include amounts due from other credit institutions. Reverse transactions, that is purchases of securities from credit institutions to be resold at a later date, are recognised as amounts due from credit institutions and central banks. On subsequent recognition, amounts due from credit institutions and central banks are measured at amortised cost, which corresponds to the nominal amount.

Loans
Loans consist of credit exposures which have been disbursed directly to the borrower and credit exposures arising through syndication. Loans comprise traditional loans against mortgages in ships and financing for building ships.

On initial recognition, loans are measured at fair value plus transaction costs less origination fees and other charges. Subsequently, loans are measured at amortised cost according to the effective interest method, less any impairment charges if there is objective evidence of impairment. See below. The difference between the value at initial recognition and the nominal value is amortised over the term to maturity and recognised under Interest income.

Impairment charges
The company makes impairment charges to account for any impairment that occurs after initial recogni-

NOTE 1

tion. Impairment charges are made both as individual charges and collective charges and rely on a number of estimates. Irrespective of the category, impairment charges are made at an individual loan level.

Individual loan impairment charges are made when objective evidence of impairment (OEI) has been ascertained pursuant to Annex 10 of the Executive Order on Financial Reporting and the Danish FSA guidelines and the discounted value of the expected future cash flows is lower than the carrying amount of the loan. In other words, the loan is impaired.

OEI on individual loans exists if at least one of the following events has occurred:

- Default if at least one of the following situations has occurred:
  - A loss is deemed inevitable
  - Bankruptcy or other financial reconstruction
  - Past due/arrears in 90 days or more
  - Foreclosure
  - Non-accrual interest
- The borrower is experiencing significant financial difficulty
- Past due/arrears, unless the problem is short-term and the amounts concerned are small by comparison to the borrower's financial situation or if due to errors or technical problems
- Loans with more lenient repayment terms, including forbearance, which the company, for reasons relating to the borrower's financial difficulty, would not otherwise have granted

OEI exists for groups of loans when the outlook for a vessel segment is considered to be of such a nature that, based on experience, it involves a higher risk of loss.

The impairment charge on the individual loan made in case of OEI either individually or collectively is determined by multiplying the probability of default (PD), fixed on the basis of a specific assessment of the borrower's creditworthiness, by the loss given default (LGD) on the loan. Loss given default is calculated as the difference between the market value of the loan and the estimated mortgage value (Sx) of the mortgaged vessel(s) in a weak market and any other collateral. In a few situations where the model is believed to either overestimate or underestimate the impairment, an adjustment will be made on the basis of a management judgement.

The mortgage value of ship mortgages is calculated by discounting the expected earnings per day in a weak market for the specific vessel type. The calculation is made on the basis of a fixed amount used throughout the estimate residual life of the vessel, and an expected sale within six months. The interest rate originally agreed for the loan is used as the discount factor. Subsequently, estimated costs to sell are deducted. The earnings of a vessel fall throughout the life of the vessel because of increased maintenance work, relatively poorer operating economy etc. The value of earnings per day in a weak market is thus adjusted by an adjustment factor over the estimated residual life of the vessel. Ongoing efforts are made to improve the calculation method for the sales value of the ship mortgages in a weak market.

When calculating the value of the ship mortgages, a deduction is therefore made relative to the obtained or fixed market value to reflect that the sale in such situations is typically made in a weak market. The deduction has been adjusted and broken down on relevant sub-segments, for example according to vessel size.

Bonds at fair value
Bonds at fair value comprises financial assets in the form of debt instruments acquired or concluded with a view to a subsequent sale or repurchase.

NOTE 1

The bonds are measured on initial recognition at fair value excluding transaction costs and subsequently at fair value with value adjustment over the income statement.

Shares, etc.
Shares, etc. comprises investments in sector shares and shares acquired through reconstruction of loan exposures.

The shares are measured on initial recognition at fair value excluding transaction costs and subsequently at fair value with value adjustment over the income statement.

Shares acquired through reconstruction of credit exposures are measured at cost less impairment charges.

Land and buildings
Land and buildings consist of the company's domicile property located at Sankt Annæ Plads 1-3, DK-1250 Copenhagen, Denmark.

Domicile property
On initial recognition, domicile properties used for the company's own operations are measured at cost. Domicile property is subsequently measured at the revalued amount plus property improvement expenditures and less depreciation and impairment charges.

The straight-line depreciation of the property is based on the expected scrap value and an estimated useful life of 100 years.

Impairment charges
Domicile property is tested for impairment if evidence of impairment exists, and the property is written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Other tangible assets
Other tangible assets consist of operating equipment, vehicles and furniture, which is recognised at cost less accumulated depreciation and impairment charges. Depreciation is provided on a straight-line basis over the expected useful life of the assets considering the assets' residual values. The expected useful life is typically 3 years.

Other assets
Other assets include interest and commission due, prepayments and derivatives with a positive market value. Future payments that the company is likely to receive are recognised as amounts due at present value.

Due to credit institutions and central banks
Amounts due to credit institutions and central banks include amounts received under repo transactions, that is, sales of securities to be repurchased at a later date. Amounts due to credit institutions and central banks are measured at amortised cost, which corresponds to the nominal amount.

Issued bonds at amortised cost
Issued bonds comprise the ship mortgage bonds and debenture bonds issued by the company, which are recognised at amortised cost with the addition of the fair value of the hedged interest rate risk.

Issued bonds are measured at amortised cost (i.e. including discount at issuance and any commission that is considered an integral part of the effective rate of interest).

Pursuant to the rules on hedge accounting, the fair value of the hedged interest rate risk for fixed-rate issued bonds is recognised.

The portfolio of own bonds is deducted from the line item Issued bonds at amortised cost using the amortised cost with the addition of the value of any hedging transaction attaching thereto.

NOTE 1

Interest income from the portfolio of own bonds is set off against interest expenses for own bonds.

Subordinated debt
Subordinated debt consists of liabilities in the form of subordinated loan capital and other capital contributions which, in the event of the company's voluntary or compulsory winding up, will not be repaid until after the claims of ordinary creditors have been met. On initial recognition, it is measured at fair value less direct costs associated with the raising of such debt. Subsequently, subordinated debt is measured at amortised cost.

Other liabilities
Other provisions are recognised and measured as the best estimate of the costs required to settle the liabilities at the balance sheet date. Provisions with an expected term of more than a year after the balance sheet date are measured at discounted value. Other liabilities include accrued interest, prepayments, derivatives with a negative market value and other provisions such as provisions relating to guarantees. The liability is recognised at the present value of expected payments.

Deferred tax assets and deferred tax liabilities
Deferred tax is calculated in accordance with the balance sheet liability method on all temporary differences between the tax base of the assets and liabilities and their carrying amounts. Deferred tax is recognised in the balance sheet under Deferred tax assets and Deferred tax liabilities on the basis of the tax rates at which they are expected to crystallise.

Deferred tax assets arising from unused tax losses are recognised to the extent that it is probable that such losses can be offset against taxable income in the following financial year. Therefore, recognition of deferred tax assets requires that management assess the probability and size of future taxable income.

Equity
Equity comprises issued share capital, tied up reserve capital, retained earnings, revaluation reserves and the profit/loss for the period.

Proposed dividends
The Board of Directors' proposal for dividends for the year submitted to the general meeting is recognised as a component of the profit/loss for the period in equity. Dividend is recognised as a liability when the annual general meeting has adopted the proposal to distribute dividends.

OFF-BALANCE SHEET ITEMS

Contingent liabilities
Contingent liabilities comprise guarantee commitments made as part of the lending activities.

Owing to its business volume, the company may be a party to various lawsuits. Such lawsuits are regularly assessed and the necessary provisions are made on the basis of an assessment of the risk of incurring a loss.

Other binding agreements
rights on loans with revolving credit facilities provided as part of the lending activities.

NOTES

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

NOTE 1

Interest income and expenses
Interest income and expenses in respect of interest-bearing financial instruments measured at amortised cost are recognised in the income statement applying the effective interest method based on the cost of the financial instrument. Interest includes amortisation of fees which are an integral part of the effective yield of the financial instrument, including origination fees, and amortisation of any additional difference between cost and redemption price.

Interest income and expenses also include interest on financial instruments measured at fair value.

Recognition of interest on loans with impairment is made on the basis of the value after impairment.

Fees and commission income and expenses
Fee and commission income and expenses are generated by activities. Commission for services provided over a period of time, such as guarantee commissions and commitment fees, are accrued over the period.

Market value adjustments
Market value adjustments comprise realised and unrealised market value adjustments of financial instruments at fair value, i.e. shares, bonds and derivatives and exchange rate adjustments.

STAFF COSTS AND ADMINISTRATIVE EXPENSES

Staff costs
Salaries and other consideration expected to be paid for work carried out during the year are expensed under Staff costs and administrative expenses. This item comprises salaries, bonuses, holiday allowances, jubilee bonuses, pension costs, payroll tax and other consideration

Bonuses and share-based payments
Bonuses are expensed as they are earned. The company has no share-based payments.

Pension costs
The company's contributions to defined contribution plans are recognised in the income statement as they are earned by the staff. The company has no defined benefit plans.

Depreciation and impairment of tangible assets
The item consists only of depreciation and impairment of the domicile property and other tangible assets.

Loan impairment charges
The item includes losses on and impairment charges of loans, amounts due from credit institutions and guarantees.

Tax
Current and deferred tax calculated on the profit for the year adjusted for tax on the taxable income of previous years are recognised in the income statement. Income tax for the year is recognised in the income statement on the basis of the current income tax rate, adjusted for non-taxable income and non-deductible expenses

NOTE 2

KEY FIGURES AND RATIOS DKK MILLION	2015	2014	2013	2012	2011
Net interest income from lending	623	565	541	439	348
Net interest income from asset management	242	255	350	447	476
Total net interest income	865	820	891	886	824
Net interest and fee income	906	934	937	940	886
Market value adjustments	(177)	123	(25)	105	(135)
Staff costs and administrative expenses	(113)	(98)	(97)	(94)	(90)
Impairment charges on loans and receivables	(46)	1,103	(166)	(523)	(333)
Profit/loss before tax	569	2,061	647	427	326
Profit/loss for the year	413	1,568	477	314	244
Loan	43,171	43,347	42,383	46,364	46,948
Bonds	19,100	18,680	21,066	30,091	26,944
Subordinated debt	-	-	-	-	899
Equity	10,378	11,146	9,983	9,773	9,666
Total assets	64,873	69,374	67,222	83,002	78,998

RATIOS	2015	2014	2013	2012	2011
Capital ratio	17.3	16.4	17.0	15.2	16.3
Common equity tier 1 capital ratio	17.3	16.4	17.0	15.1	16.3
Return on equity before tax (%)	5.3	19.5	6.5	4.4	3.4
Return on equity after tax (%)	3.8	14.8	4.8	3.2	2.5
Income/cost ratio (DKK) *)	4.5	(1.1)	3.4	1.7	1.8
Income/cost ratio (ex. impairment charges)	6.4	10.6	9.3	11.0	8.3
Foreign exchange position (%)	7.1	8.5	11.5	9.5	6.9
Gearing of loans	4.2	3.9	4.2	4.7	4.9
Annual growth in lending (%)	(0.4)	2.3	(8.6)	(1.2)	(5.1)
Impairment ratio for the year	0.1	(2.4)	0.4	1.0	0.7
Accumulated impairment ratio	4.3	4.3	6.7	5.8	4.6
Rate of return on assets (%)	0.6	2.3	0.7	0.4	0.3

The key figures are calculated in accordance with Appendix 5 of the Danish FSA's instructions for financial reporting in credit institutions, etc.

*) *In accordance with the instructions, the cost/income ratio must be calculated including loan impairment charges. The list of key figures also includes a cost/income ratio in which the impairment charges are not included.*

NOTES

	DKK MILLION	2015	2014
NOTE 3	**INTEREST INCOME**		
	Due from credit institutions	33	18
	Loans and other receivables	1,407	1,327
	Bonds	404	464
	Other interest income	0	0
	Derivatives		
	Interest rate contracts	38	252
	Foreign exchange contracts	3	1
	Total interest income	**1,886**	**2,061**
	Of this amount, income from genuine purchase and resale transactions recognised in:		
	Due from credit institutions and central banks	25	0
	Interest from own bonds recognised in:		
	Bonds	1	2
NOTE 4	**INTEREST EXPENSES**		
	Credit institutions	(4)	0
	Issued bonds	(828)	(1,045)
	Other interest expenses	(189)	(196)
	Total interest expenses	**(1,021)**	**(1,241)**
	Of this amount, interest expenses on genuine sale and repurchase transactions recognised in:		
	Due from credit institutions and central banks	(1)	0
	Interest from own bonds recognised in:		
	Issued bonds	(1)	(2)

NOTES

NOTE 5

NET INTEREST INCOME

DKK MILLION	2015	2014
Net interest income from lending		
Loans and other receivables	1,407	1,327
Bonds	16	37
Due from credit institutions	4	13
Interest to credit institutions	(2)	0
Issued bonds	(827)	(1,052)
Other interest expenses	(17)	(12)
Derivatives		
Interest rate contracts	38	252
Foreign exchange contracts	3	1
Total net interest income from lending	**623**	**565**
Net interest income from asset management		
Bonds	387	435
Due from credit institutions	29	4
Other interest income	0	0
Interest to credit institutions	(2)	0
Other interest expenses	(172)	(185)
Total net interest income from asset management	**242**	**255**
Total net interest income	**865**	**820**

NOTES

	DKK MILLION	2015	2014
NOTE 6	**FEE AND COMMISSION INCOME**		
	Guarantee commission	6	5
	Fee and other commission income	36	109
	Total fee and commission income	**41**	**114**
NOTE 7	**MARKET VALUE ADJUSTMENTS**		
	Market value adjustment of bonds	(560)	316
	Market value adjustment of shares	20	10
	Exchange rate adjustments	33	24
	Market value adjustment of financial instruments	331	(226)
	Total market value adjustments	**(177)**	**123**
NOTE 8	**STAFF COSTS AND ADMINISTRATIVE EXPENSES**		
	Remuneration of Board of Directors and Executive Board		
	Executive Board	(6)	(6)
	Board of Directors	(2)	(2)
	Total remuneration of Board of Directors and Executive Board	**(8)**	**(8)**
	Staff costs		
	Wages	(53)	(52)
	Pensions	(5)	(5)
	Social security costs and financial services employer tax	(14)	(12)
	Total staff costs	**(73)**	**(69)**
	Other administrative expenses	(32)	(21)
	Total staff costs and administrative expenses	**(113)**	**(98)**
	Number of employees - full-time equivalents	68	67
	Average number of employees - full-time equivalents	67	62

DKK '000

NOTE 8, CONTINUED

REMUNERATION OF THE BOARD OF DIRECTORS

2015		**Ordinary fee**	**Committee fee**	**Total fees**
Peter Lybecker, Chairman		350		350
Jesper Teddy Lok (member and Vice Chairman as of 26 March 2015)		131		131
Hugo Frey Jensen (retired as of 26 march 2015)		131		131
Fatiha Benali	*)	175	58	233
Jenny N. Braat		175		175
Glenn Söderholm	*)	175	58	233
Jan B. Kjærvik (member as of 26 March 2015)	*)	88	29	117
Trond Ø. Westlie (retired as of 26 March 2015)		88	29	117
Henrik Rohde Søgaard	**)	175		175
Marcus Freuchen Christensen	**)	175		175
Christopher Rex	**)	175		175
Total		**1,837**	**174**	**2,011**

2014		**Ordinary fee**	**Committee fee**	**Total fees**
Peter Lybecker, formand (Chairman from 10 April 2014)		306	29	335
Jens Thomsen, (retired as of 10 April 2014)		175		175
Hugo Frey Jensen (member and Vice Chairman as of 10 April 2014)		131		131
Fatiha Benali	*)	175	58	233
Jenny N. Braat		175		175
Glenn Söderholm	*)	175	29	204
Trond Ø. Westlie	*)	175	58	233
Henrik Rohde Søgaard	**)	175		175
Marcus Freuchen Christensen	**)	175		175
Christopher Rex	**)	175		175
Total		**1,837**	**174**	**2,011**

*) Member of Audit Committee
**) Employee representative

NOTES

NOTE 8, CONTINUED

DKK '000	2015	2014
REMUNERATION OF EXECUTIVE BOARD		
Erik I. Lassen		
Contractual remuneration	2,864	2,752
Pension	353	340
Tax value of car	149	151
Total	**3,366**	**3,243**
Per Schnack		
Contractual remuneration	2,577	2,477
Pension	318	306
Tax value of car	144	104
Total	**3,038**	**2,887**

Executive Board's pension scheme is a contribution scheme and there are no unusual severance terms for members of the Executive Board.

The company has no further pension obligations towards members of the Executive Board.

INFORMATION ON REMUNERATION POLICY

Information about remuneration policy and practice for the Board of Directors, the Executive Board and other employees whose activities have a material impact on the company´s risk profile.

The Board of Directors of Danish Ship Finance A/S has approved the remuneration policy for 2015, which was adopted by the company's annual general meeting on 26 March 2015. The remuneration policy is available on the company's website.

It appears from the remuneration policy that it has been resolved for 2015 that no variable remuneration will be disbursed to members of the Board of Directors, the Executive Board and other employees whose activities have a material impact on the company´s risk profil.

With reference to the "Danish Executive Order on remuneration policy and disclosure obligations about remuneration in financial enterprises and financial holding companies", the company discloses the following information:

2015	**Fixed / remuneration/fee**	**Variable remuneration**	**Total remuneration/fee**	**Number of recipients**
Board of Directors	2,011	-	2,011	11
Executive Board	6,405	-	6,405	2
Other employees whose activities have an impact on the company's risk profile	9,342	-	9,342	6
Total	**17,758**	**-**	**17,758**	

NOTES

	DKK MILLION	2015	2014
NOTE 9	AUDIT FEES		
	Audit fees, statutory audit	(1)	(1)
	Tax consulting service	0	0
	Non-audit services	0	0
	Other assurance engagements	0	0
	Total fees	**(1)**	**(1)**
NOTE 10	TAX		
	Tax on profit/loss for the year		
	Estimated tax on profit/loss for the year	(227)	(413)
	Changes in deferred tax	82	(84)
	Adjustment for reduction of corporation tax rate	(6)	4
	Adjustment of prior-year tax charges	(4)	1
	Total tax	**(156)**	**(493)**
	Effective tax rate	**Pct.**	**Pct.**
	Tax rate in Denmark	23.5	24.5
	Non-taxable income and non-deductible expenses	0.1	(0.1)
	Adjustment for reduction of corporation tax rate	1.9	(0.5)
	Adjustment of prior-year tax charges	2.0	0.0
	Effective tax rate	**27.4**	**23.9**

	DKK MILLION	2015	2014
NOTE 11	**DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS**		
	Genuine purchase and resale transactions (repo reverse)	0	1,948
	Other receivables	731	3,461
	Total due from credit institutions and central banks	**731**	**5,409**
	Broken down by due date:		
	Demand deposits	76	61
	Up to 3 months	655	5,348
	Total due from credit institutions and central banks	**731**	**5,409**

The company has no term deposits with central banks.

		2015	2014
NOTE 12	**LOANS AT AMORTISED COST**		
	At 1 January	43,347	42,383
	Additions	5,139	8,440
	Ordinary repayments and redemptions	(6,681)	(5,174)
	Extraordinary repayments	(2,000)	(7,431)
	Net change concerning revolving credit facilities	(1,236)	(4)
	Exchange rate adjustment of loans	4,578	4,066
	Change in amortised cost for the year	7	(30)
	Depreciation, amortisation and impairment for the year	16	1,097
	At 31 December	**43,171**	**43,347**

NOTE 13	DKK MILLION	2015	2014
	LOANS AT AMORTISED COST		
	Gross loans at exchange rates at the balance sheet date	45,128	45,321
	Accumulated loan impairment charges	(1,958)	(1,974)
	Total loans	**43,171**	**43,347**
	Total loans broken down by due date:		
	Up to 3 months	2,312	1,624
	From 3 months to 1 year	5,118	5,772
	From 1 to 5 years	28,868	28,391
	Over 5 years	6,873	7,560
	Total loans	**43,171**	**43,347**
	Total loans		
	Loans at fair value	43,478	43,889
	Loans at amortised cost	43,171	43,347
	Loans at fair value is an approximation based on amortised cost with the addition of the value of fixed-rate loans,		
	Loans subject to individual impairment charges		
	Value of loans with objective evidence of impairment.		
	Loans with more lenient repayment terms, including forbearance	2,653	3,047
	Loan impairment charges	(875)	(1,214)
	Total loans with more lenient repayment terms, including forbearance	**1,777**	**1,833**
	Other loans with objective evidence of impairment	1,521	901
	Impairment charges	(172)	(150)
	Total other loans with objective evidence of impairment	**1,349**	**751**
	Total loans and receivables subject to individual impairment charges	**3,127**	**2,584**

Reference is made to note 37 setting out LTV ranges for the entire loan portfolio and for loans subject to individual impairment charges.

NOTE 14 IMPAIRMENT CHARGES

DKK MILLION	2015	2014
The following impairment charges were made on loans		
Individual impairment charges	1,047	1,364
Impairment charges with a collective component	910	610
Total impairment charges	**1,958**	**1,974**
As a percentage of loans and impairment charges and guarantee commitments		
Individual impairment charges	2.3	3.0
Loan impairment charges with a collective component	2.0	1.3
Total impairment charges	**4.3**	**4.3**
Distribution of impairment charges		
Amount set off against loans	1,958	1,974
Provisions made for other liabilities	-	-
Total impairment charges	**1,958**	**1,974**
Movements in impairment charges		
At 1 January	1,974	3,071
Additions	805	327
Reversal of impairment charges from previous years	(731)	(1,393)
Losses covered by impairment charges from previous years	(90)	(32)
Total loan impairment charges	**1,958**	**1,974**
Losses on and loan impairment charges on receivables		
New impairment charges	(805)	(327)
Reversed impairment charges	731	1,393
Reclassification of interest	27	37
Realisation of acquired assets	-	-
Received on claims previously written off	0	0
Total losses on and impairment charges on receivables	**(46)**	**1,103**

NOTES

	DKK MILLION	2015	2014
NOTE 15	**BONDS AT FAIR VALUE**		
	Bond portfolio		
	Own non-callable bonds	457	958
	Non-callable bonds	9,539	9,886
	Callable bonds	9,561	8,794
	Portfolio of bonds, total before offsetting own bonds	**19,557**	**19,638**
	Own bonds (offset against issued bonds at amortised cost)	(457)	(958)
	Total bond portfolio	**19,100**	**18,680**
	Bond portfolio		
	Own bonds	457	958
	Government bonds and bonds issued by Kommune Kredit	2,773	772
	Mortgage bonds	16,327	17,908
	Portfolio of bonds, total before offsetting own bonds	**19,557**	**19,638**
	Own bonds (offset against issued bonds at amortised cost)	(457)	(958)
	Total bond portfolio	**19,100**	**18,680**
NOTE 16	**BOND HOLDINGS BY TIME TO MATURITY**		
	Bond portfolio		
	Own bonds with a maturity up to and including 1 year	0	448
	Own bonds with a maturity over 1 year and up to and including 5 years	457	461
	Own bonds with a maturity over 5 years and up to and including 10 years	0	49
	Bonds with a maturity up to and including 1 year	905	2,987
	Bonds with a maturity over 1 year and up to and including 5 years	6,812	6,244
	Bonds with a maturity over 5 years and up to and including 10 years	826	494
	Bonds with a maturity over 10 years	10,557	8,956
	Portfolio of bonds, total before offsetting own bonds	**19,557**	**19,638**
	Own bonds (offset against issued bonds at amortised cost)	(457)	(958)
	Total bond holdings specified by time to maturity	**19,100**	**18,680**

DKK MILLION	2015	2014

NOTE 17 CSA COLLATERAL

	2015	2014
Collateral entered under CSA agreements		
Received collateral	305	356
Providet collateral	(213)	-
Net value of collateral entered under CSA agreements	**91**	**356**

The bonds received and sent have been recognised in the balance sheet so that they reduce the market values under derivative financial instruments by the market value of the bonds on the balance sheet date, and the portfolio of bonds at fair value is adjusted correspondingly by the net market value hereof.

NOTE 18 SHARES, ETC.

	2015	2014
Unit trust certificates (shares) listed on Nasdaq Copenhagen A/S	16	5
Unlisted shares/unit trust certificates recognised at fair value	3	4
Total shares, etc.	**19**	**9**

NOTE 19 LAND AND BUILDINGS

	2015	2014
Domicile property		
Revaluation, 1 January	65	65
Property improvements during the year	0	0
Revaluation incl. improvements, 31 December	**65**	**65**
Accumulated depreciation, 1 January	1	1
Depreciation for the year	0	0
Accumulated depreciation, 31 December	**1**	**1**
Total revaluation, 31 December	**64**	**64**

The domicile property comprises the office property at Sankt Annæ Plads 1-3, Copenhagen, the public valuation of which was assessed at DKK 79 million at 1 October 2015.

The domicile property has been valued based on existing budgets for property and the rent level for similar properties in the area. Consequently, no changes have been made to the recognised value. External experts were not involved in valuing the domicile property.

NOTES

	DKK MILLION	2015	2014
NOTE 20	**OTHER TANGIBLE ASSETS**		
	Cost, 1 January	27	26
	Additions during the year	2	2
	Disposals during the year	(1)	0
	Cost, 31 December	**28**	**27**
	Accumulated depreciation, 1 January	19	18
	Disposals during the year	0	0
	Depreciation during the year	1	1
	Accumulated depreciation, 31 December	**20**	**19**
	Total other tangible assets	**9**	**9**
NOTE 21	**OTHER ASSETS**		
	Interest receivable	272	274
	Prepayments to swap counterparties	17	15
	Receivables concerning CIRR financing	0	17
	Derivatives	1,233	1,460
	Miscellaneous receivables	11	8
	Total other assets	**1,533**	**1,774**
NOTE 22	**DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS**		
	Repo transactions	3,892	8,595
	Other amounts due	337	9
	Total due to credit institutions and central banks	**4,229**	**8,604**
	Broken down by due date:		
	On demand	337	9
	Up to 3 months	3,892	8,595
	Total due to credit institutions and central banks	**4,229**	**8,604**

NOTES

NOTE 23

DKK MILLION	2015	2014
ISSUED BONDS AT AMORTISED COST		
At 1 January	45,077	48,657
Additions in conjunction with block issues	7,021	2,994
Amortisation of cost	88	(221)
Adjustment for hedge accounting	(195)	666
Exchange rate adjustment	647	710
Own bonds	505	(863)
Ordinary and extraordinary redemptions	(8,076)	(6,867)
At 31 December	**45,067**	**45,077**
Specification of issued bonds		
Bonds issued in DKK		
Bullet bonds	39,627	39,291
Amortising CIRR bonds	854	970
Total Danish bonds	**40,481**	**40,261**
Bonds issued in foreign currency		
Amortising CIRR bonds, at year-end exchange rates	5,048	5,778
Total bonds issued in foreign currency	**5,048**	**5,778**
Own bonds	(462)	(962)
Total issued bonds	**45,067**	**45,077**
Broken down by term to maturity:		
Up to 3 months	0	1,310
From 3 months to 1 year	1,582	4,537
From 1 to 5 years	30,058	20,030
Over 5 years	13,889	20,162
Issued bonds, total before settin off against portfolio of own bonds	**45,529**	**46,039**
Own bonds	(462)	(962)
Total issued bonds	**45,067**	**45,077**

	DKK MILLION	2015	2014
NOTE 24	**OTHER LIABILITIES**		
	Interest payable	255	421
	Derivatives	4,910	4,044
	Other liabilities	35	23
	Total other liabilities	**5,200**	**4,487**
NOTE 25	**DEFERRED TAX**		
	Deferred tax, 1 January	(82)	(162)
	Estimated deferred tax on the profit for the year	(82)	84
	Adjustment for reduction of corporation tax rate	6	(4)
	Total deferred tax	**(157)**	**(82)**

	2015	2015	2015	2014
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax net**	**Deferred tax net**
Property, plant and equipment	0	4	4	4
Loans	(39)	-	(39)	(38)
Shares, etc.	-	-	-	(3)
Issued bonds	(133)	-	(133)	(40)
Employee obligations	0	-	0	(1)
Balance of tax losses	-	-	-	-
Adjustment for reduction of corporation tax rate	11	0	11	(4)
Total deferred tax	**(161)**	**4**	**(157)**	**(82)**

NOTE 26	DKK MILLION	2015	2014
	EQUITY		
	Share capital		
	A shares	300	300
	B shares	33	33
	Total share capital	**333**	**333**
	Tied-up reserve capital	8,343	8,343
	Revaluation reserves	10	10
	Retained earnings	1,279	1,279
	Dividend proposed for the financial year	413	1,181
	Total equity	**10,378**	**11,146**

The share capital is divided into the following denominations:

A shares 300,000,000 shares of DKK 1.00 each
B shares 33,333,334 shares of DKK 1.00 each

Each A share of DKK 1.00 entitles the holder to 10 votes.
Each B share of DKK 1.00 entitles the holder to 1 vote.

NOTE 27 CAPITAL ADEQUACY

DKK MILLION	2015	2014
Common equity tier 1 capital		
Share capital	333	333
Tied-up reserve capital	8,343	8,343
Retained earnings	1,692	2,460
Revaluation reserves	10	10
Total common equity tier 1 capital	**10,378**	**11,146**
Deductions in Tier 1 capital		
Retained earnings	413	1,181
Additional straining relative to the Executive Order on a Ship Finance Institute	41	85
Prudent valuation pursuant to Article 105 of CRR	27	198
Total deductions in tier 1 capital	**481**	**1,464**
Tier 1 capital	**9,896**	**9,682**
Common equity tier 1 capital	**9,896**	**9,682**
Weighted items		
Weighted items not included in the trading portfolio	44,108	45,405
Weighted off-balance sheet items	1,475	2,858
Weighted items involving counterparty risk outside the trading portfolio	1,470	1,356
Weighted items involving market risk	8,494	7,382
Weighted items involving operational risk	1,687	1,884
Total weighted items	**57,234**	**58,883**
Common equity tier 1 capital ratio of total risk-weighted items	**17.3**	**16.4**
Capital ratio	**17.3**	**16.4**
Weighted items with market risk, consist of:		
Items with position risk: Debt instruments	7,756	6,541
Items with position risk: Shares	39	17
Total currency position	700	824
Total weighted items with market risk	**8,494**	**7,382**

	DKK MILLION	2015	2014
NOTE 28	CONTINGENT LIABILITY		
	In the ordinary course of its lending operations,		
	Danish Ship Finance has undertaken guarantee commitments of	309	381
	Payment guarantee provided to the Danish Securities Centre	2	3
	Guarantees provided to the Danish Securities Centre	1	1
	Total contingent liabilities	**312**	**386**
NOTE 29	OTHER BINDING AGREEMENTS		
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken commitments in relation to unutilised drawing rights on loans with revolving credit facilities in the amount of	481	413
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken commitments relating to irrevocable credit commitments on loans with revolving credit facilities in the amount of	0	0
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken commitments relating to irrevocable credit commitments on other loans in the amount of	1,850	4,528
	Total other binding agreements	**2,330**	**4,940**

NOTE 30

RELATED PARTIES

Related parties comprise members of the company's Executive Board and Board of Directors. Related parties also comprise shareholders who hold more than 20% of the shares or more than 20% of the voting rights in the company.

Transactions with the Executive Board and Board of Directors only concern remuneration. See note 8.

Other related-party transactions involving deposits and debt and transactions with financial instruments in the form of swap agreements, forward currency agreements, forward rate agreements and forward securities transactions, etc. are made on an arm's length basis. In special cases, however, the terms and conditions are made in accordance with shipyard subsidy schemes or international rules on government participation in the financing of newbuildings.

The company has no related parties with a controlling influence.

DKK MILLION

NOTE 31

HEDGE ACCOUNTING

The company regularly hedges the interest rate risk on fixed-rate assets and liabilities. The effectiveness of such hedges is measured on a regular basis.

2015	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	11,024	11,764	11,511
Total commitments	**11,024**	**11,764**	**11,511**
Derivatives			
Interest rate swaps	(11,024)	(999)	(999)
Total derivatives	**(11,024)**	**(999)**	**(999)**
Net	**0**	**10,766**	**10,512**

2014	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	14,424	15,235	14,984
Total commitments	**14,424**	**15,235**	**14,984**
Derivatives			
Interest rate swaps	(14,424)	(1,270)	(1,270)
Total derivatives	**(14,424)**	**(1,270)**	**(1,270)**
Net	**0**	**13,965**	**13,713**

	DKK MILLION	2015	2014
NOTE 32	**NOTIONAL PRINCIPALS OF OUTSTANDING DERIVATIVES**		
	Swap agreements		
	Swap agreements have been made with the following parties to hedge the exchange rate exposure on loans and issued bonds:		
	Receivables	854	970
	Credit institutions	40,829	48,712
	Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:		
	Receivables	668	604
	Credit institutions	40,341	48,212
	Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:		
	Credit institutions	38,366	23,942
	Forward interest rate and currency agreements:		
	Forward interest rate and currency agreements have been made with the following parties to hedge interest rate and exchange rate risk:		
	Credit institutions	19,748	16,603

NOTE 33

DKK MILLION	2015 POSITIVE	2015 NEGATIVE	2014 POSITIVE	2014 NEGATIVE
MARKET VALUES OF OUTSTANDING DERIVATIVES				
Swap agreements				
Swap agreements have been made with the following parties to hedge the exchange rate exposure on loans and issued bonds:				
Receivables	159	-	51	-
Credit institutions	398	4,665	396	3,226
Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:				
Receivables	0	36	1	57
Credit institutions	1,058	193	1,295	305
Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:				
Credit institutions	608	1,072	559	1,360
Forward interest rate and currency agreements				
Forward interest rate and currency agreements have been made with the following parties to hedge interest rate and exchange rate risk:				
Credit institutions	99	8	118	37
Netting of exposure value				
The positive gross fair value of financial contracts after netting, pursuant to appendix 17 to the Danish Executive Order on Capital Adequacy				
Counterparty with risk weight of 0%	-		-	
Counterparty with risk weight of 20%	11		20	
Counterparty with risk weight of 50%	674		800	
Counterparty with risk weight of 100%	160		52	
Value of total counterparty risk calculated according to the market valuation method for counterparty risk				
Counterparty with risk weight of 0%	-		-	
Counterparty with risk weight of 20%	523		40	
Counterparty with risk weight of 50%	1,641		2,329	
Counterparty with risk weight of 100%	160		51	

DKK MILLION

NOTE 34

EXCHANGE RATE RISK AND USE OF DERIVATIVES AT 31 DECEMBER 2015

The total unhedged foreign currency position at 31 December 2015, translated at year-end exchange rates into DKK amounts to DKK 700 million (DKK 824 million at 31 December 2014).

All amounts are translated into DKK at the year-end exchange rates.

The net position is specified as follows

	USD	OTHER CURRENCIES	TOTAL CURRENCY	DKK	TOTAL
Loans at year-end exchange rates	38,643	5,148	43,791	1,337	45,128
Loan impairment charges				(1,958)	(1,958)
Loans as per the balance sheet					**43,171**
Due from credit institutions and central banks	269	10	280	452	731
Bond portfolio	0	264	264	18,837	19,100
Interest receivable, etc.	249	15	263	27	290
Other assets			0	1,580	1,580
Total assets as per the balance sheet	**39,161**	**5,436**	**44,598**	**20,276**	**64,873**
Issued bonds at year-end exchange rates	(5,047)	0	(5,047)	(40,020)	(45,067)
Issued bonds as per the balance sheet					**(45,067)**
Due to credit institutions and central banks	0	(596)	(596)	(3,632)	(4,229)
Interest payable	(117)	(8)	(125)	(222)	(347)
Other payables				(4,853)	(4,853)
Total equity				(10,378)	(10,378)
Total liabilities as per the balance sheet	**(5,164)**	**(604)**	**(5,769)**	**(59,105)**	**(64,873)**
Derivatives					
- receivables	2,280	4,638	6,918		
Derivatives					
- payables	(35,948)	(9,099)	(45,048)		
Total net position	**329**	**370**	**700**		
(translated into DKK)					

DKK MILLION	2015	2014

NOTE 35

MARKET RISK SENSITIVITY

Interest rate risk
The company has substantial equity, which is invested primarily in Danish government and mortgage bonds. Some of the bond investments are in fixed-rate claims where the interest rate risk is partly hedged using DKK or EUR interest rate swaps. In the company's internal calculations, EUR rates and DKK rates are assumed to be fully correlated.

	2015	2014
Calculated in accordance with internal calculation methods, the interest rate risk associated with a 1 percentage point increase in interest rates would technically lead to:	(244)	(42)
Calculated in accordance with internal calculation methods, the interest rate risk associated with a 1 percentage point decrease in interest rates would technically lead to:	150	42

Exchange rate risk
Most of the company's loans are denominated in USD. Most of the ship mortgages provided as collateral for the loan are also denominated in USD. When calculating the mortgage value of the ship mortgages for determining the level of impairment, a deduction is made relative to the market value of the vessel. See note 1 Accounting policies. For loans on which loan impairment charges have been made, there will typically be a difference in USD between the size of the credit exposure and the mortgage values. Other things being equal, the loan impairment charges will therefore be adversely affected in case of an increase and positively affected by a fall in the USD/DKK exchange rate. Since a small proportion of the loans are denominated in currencies other than USD, while the ship mortgage in question is valued in USD, the total positive net effect from a fall in the USD/DKK exchange rate is reduced, and the sensitivity is thus not symmetric in case of changes in the USD/DKK exchange rate.

Furthermore, earnings from lending is primarily denominated in USD, which means that, other things being equal, an increase in the USD/DKK rate would result in higher earnings from lending and vice versa if the USD/DKK rate falls.

	2015	2014
An appreciation of the USD exchange rate vis-à-vis DKK		
Change in profit/loss and equity	(88)	(133)
Percentage change in solvency	(1.6)	(1.6)
A depreciation of the USD exchange rate vis-à-vis DKK		
Change in profit/loss and equity	34	133
Percentage change in solvency	1.9	1.6

	DKK MILLION	2015	2014

NOTE 35, CONTINUED

The impact on the profit/loss and equity from a change in the exchange rate of USD assumes a permanent changeof DKK 1 for an entire financial year. The impact comprises the change in the value of ongoing net interest and fee income as well as the change in the need for impairment charges due to the change in the exchange rate of USD.

The impact on solvency on a change in the exchange rate of USD will occur immediately after the exchange rate change, as most of the loans, guarantees and loan offers are made in that currency.

NOTE 36

FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

Financial instruments are measured in the balance sheet at fair value or amortised cost.

The difference between carrying amounts and fair-value based values, which are not recognised in the income statement and which are attributable to the difference between the amortised cost and the calculated fair value is shown below.

DKK MILLION	2015	2014
Loans		
Measured at amortised cost	43,171	43,347
Measured at fair value	43,478	43,889
Difference between carrying amounts and fair-value based	**307**	**542**

For loans, the fair value is calculated as an approximation based on amortised cost for unmatched loans with the addition of the fair value of fixed-rate matched loans

DKK MILLION	2015	2014
Issued bonds		
Measured at amortised cost, incl, hedging	45,067	45,077
Measured at fair value	44,809	45,344
Difference between carrying amounts and fair-value based value of issued bonds total	**(258)**	**267**

For issued bonds, the fair value is calculated on the basis of quoted market prices. For unlisted bonds, the fair value is calculated on the basis of observable market data.

DKK MILLION	2015	2014
NOTE 37 CREDIT RISK		
Credit exposure, loans and guarantees		
Balance sheet		
Loans at amortised cost	43,171	43,347
Other receivables	165	210
Allowance account	1,958	1,974
Total balance sheet items	**45,293**	**45,531**
Off-balance sheet items		
Guarantees	309	381
Total off-balance sheet items	**309**	**381**
Total loans and guarantees	**45,602**	**45,912**
Financial exposure		
Due from credit institutions and central banks	731	5,409
Bonds at fair value	19,100	18,680
Shares, etc.	19	9
Derivatives	1,233	1,460
Total financial exposure	**21,084**	**25,558**

CREDIT RISK IN THE LOAN PORTFOLIO

Exposures before loan impairment charges broken down by classification intervals, measured in terms of nominal debt (DKKm)

CLASSIFICATION	LOANS AND GUARANTEES 2015	LOANS AND GUARANTEES 2014
1 - 2	0	0
3 - 4	10,144	10,415
5 - 6	11,493	16,852
7 - 8	17,198	11,385
9 - 10	2,593	3,274
11	3,864	3,977
12	310	9
I alt	**45,602**	**45,912**

Classifications 11 and 12 are loans with OEI.

NOTE 37, CONTINUED

CREDIT RISK

Maximum credit risk without regard to collateral
All loans have been reviewed to identify any evidence of impairment. The company believes that the carrying amount of loans subsequently stated best represents the maximum credit risk without regard to collateral in the form of ship's mortgages.

Description of collateral
All loans are granted against collateral and, except for building loans, are granted against a first mortgage in ships, assignment in respect of the ship's primary insurances and where relevant, supplementary collateral.

Percentage distribution of loans and guarantees after impairment calculated in the LTV intervals, measured in terms of nominal debt.

LOAN-TO-VALUE INTERVAL	SHARE OF LOANS 2015	SHARE OF LOANS 2014
0 - 20%	33%	36%
20 - 40%	33%	34%
40 - 60%	25%	25%
60 - 80%	8%	5%
80 - 90%	1%	0%
90 - 100%	0%	0%
Over 100%	0%	0%

Loans for shipbuilding financing is included in the"over 100%"category in the table above. No mortgage is registered on vessels during the building period, but the company receives a guarantee from the borrower, and is secured through assignment and subrogation in the building contract and subrogation in the refundment guarantee provided by the shipyard's bank. Loans for shipbuilding accounted for 0.0% of the loan portfolio at 31 December 2015 (0.1% in 2014).

It appears from the table above that 91% (95% in 2014) of the loan amounts is secured through mortgages within 60% of the most recently calculated market value of the mortgage, and 99% (100% in 2014) of the loans are within 80% of the most recently calculated market value of the mortgage.

The weighted loan-to-value ratio on the loan portfolio was 63% (59% in 2014) after impairment charges. The market value of the ships in the loan portfolio has aggregately decreased by 2.4% since the end of December 2014 measured in DKK and declined by 12.6% in USD. The values are affected by developments in the exchange rate of the US dollar, which resulted in a larger decline in USD than in DKK.

Credit quality on loans neither subject to default or impairment
All loans have been reviewed to identify any evidence of impairment, and the company has made the impairment charges it considered necessary.

The credit quality of loans that are subsequently not subject to impairment or arrears, is considered strong.

Arrears
There are no loans in arrears on which the company has not made impairment charges.

NOTE 37, CONTINUED

CREDIT RISK

Percentage distribution of loans and guarantees subject to individual impairment charges, cf. note 13. The distribution is made after impairment charges calculated in the LTV ranges (by nominal debt).

LOAN-TO-VALUE INTERVAL	SHARE OF LOANS 2015	SHARE OF LOANS 2014
0 - 20%	35%	35%
20 - 40%	35%	36%
40 - 60%	22%	27%
60 - 80%	8%	2%
80 - 90%	0%	0%
90 - 100%	0%	0%
Over 100%	0%	0%

It appears from the table above that 92% (98% in 2014) of the loan amounts is secured through mortgages within 60% of the most recently market value of the mortgage, and 100% (100% in 2014) of the loans are within 80% of the most recently calculated market value of the mortgage.

The weighted loan-to-value ratio on loans subject to individual charges was 62% after impairment charges (58% in 2014).

NOTE 38

SUPPLEMENTARY NOTES WITHOUT REFERENCE

FINANCIAL RISKS AND POLICIES FOR FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT

Danish Ship Finance is exposed to different types of risk.

The most important types of risk are:

- Credit risk: The risk of loss because counterparties fail to meet all or part of their payment obligations
- Market risk: The risk of loss resulting from changes in the fair value of the Group's assets and liabilities as a result of changes in market conditions.

CREDIT RISK

Credit risk is the risk of loss because counterparties fail to meet all or part of their payment obligations, including risk associated with customers in financial difficulty, large exposures, concentration risk and risk on granted, unexercised loans.

The overall credit risk is managed on the basis of the company's credit policy, which the Board of Directors determines together with the overall risk management framework. The key objective of the credit policy is to ensure that earnings and risks are balanced, and that the assumption of risk is always quantified.

The credit process is controlled centrally. The Executive Board and the Head of Credit have been allocated authorities by the Board of Directors allowing them to grant loans up to pre-determined limits. Other loans are granted by the Board of Directors. The granting of loans must be disclosed at the subsequent ordinary board meeting. Note 37 includes a more detailed description of credit risk.

Danish Ship Finance has developed IT tools for managing and monitoring credit risks. The credit analysis system is used for monitoring purposes and it records key data regarding credit exposures and customers' financial standing.

This is done to detect danger signals for credit exposures at an early stage as well as to monitor portfolios and organisational units.

In addition, a number of risk events have been defined as representing objective evidence of impairment.

NOTE 38, CONTINUED

MARKET RISK

Market risk is defined as the risk of changes in the market value of the company's assets and liabilities because of changes in market conditions.

Market risk can be divided into interest rate risk, equity price risk, currency risk and liquidity risk.

The Board of Directors determines the general policies, frameworks and principles for risk management. The policies cover the identification and calculation of various types of market risk. The frameworks indicate specific limits on the extent of risk the company is ready to assume. The principles establish the methods to be used in calculating the various risk targets. The Board of Directors receives continuous reporting on risk developments and the utilisation of allocated risk limits.

The purpose of the company's market risk policy is to ensure that the market risk at all times is appropriate in relation to the total capital. The objective of the market risk policy is also to ensure that the company consistently maintains adequate and appropriate handling and management of market risk.

The Middle Office function of the Finance Department is responsible for calculating, monitoring, controlling and reporting market risk to the Board of Directors and Executive Board. The market risks are managed and monitored via a risk management system. The company follows up on all types of market risk with respect to all units subject to instructions, and failure to comply with instructions are reported upstream in the hierarchy.

Notes 34-35 include more detailed descriptions of exchange rate risk and market risk sensitivity.

For further information, please see the unaudited Risk Report at www.shipfinance.dk

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