DANISH SHIP FINANCE

ANNUAL REPORT 2016

CVR NO. 27 49 26 49

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OBJECTIVE AND VISION

The objective of Danish Ship Finance is to provide ship financing in Denmark. In addition, the company provides ship financing on 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".

DANISH SHIP FINANCE AT A GLANCE

Danish Ship Finance is a ship finance institute which uses a simple and effective business model for financing vessels against a first priority 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 own funds, which ensures liquidity for lending throughout the maturity. The company is thus not dependent on ongoing refinancing of outstanding loans.

FINANCIAL PERFORMANCE AND EVENTS DURING THE YEAR

At 31 December 2016, Danish Ship Finance had loans of DKK 39,811 million, total assets of DKK 62,621 million and equity of DKK 9,164 million, including proposed dividends for the financial year and after extraordinary distribution of DKK 1,000 million in December 2016. The company had first priority mortgages in 521 vessels at 31 December 2016.

Net profit for the year was DKK 188 million, which was a decline relative to last year's net profit of DKK 413 million. Fair value adjustment of the domicile property resulted in a DKK 15 million revaluation, which is recognised as "other comprehensive income", bringing the comprehensive income for the year to DKK 200 million. The capital ratio was 17.2% at 31 December 2016 after proposed dividends.

The tier 1 capital ratio was also 17.2%. The solvency need capital ratio was 9.8% at the end of 2016. The combined capital buffer requirement at 31 December 2016 was calculated at 0.9%. After recognition of the combined capital buffer requirement, the solvency need buffer was 6.5 percentage points.

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 liquidity situation remains robust.

The company expects to pay dividends of DKK 199 million to its shareholders, of which Den Danske Maritime Fond will receive just under DKK 28 million.

In the fourth quarter of 2016, the majority of the shares in Danish Ship Finance A/S was transferred to a consortium consisting of the private equity fund Axcel and the pension funds PFA and PKA. The transfer will not lead to any changes of the business model, and the prudent approach to ship financing will remain unchanged.

KEY FIGURES AND RATIOS

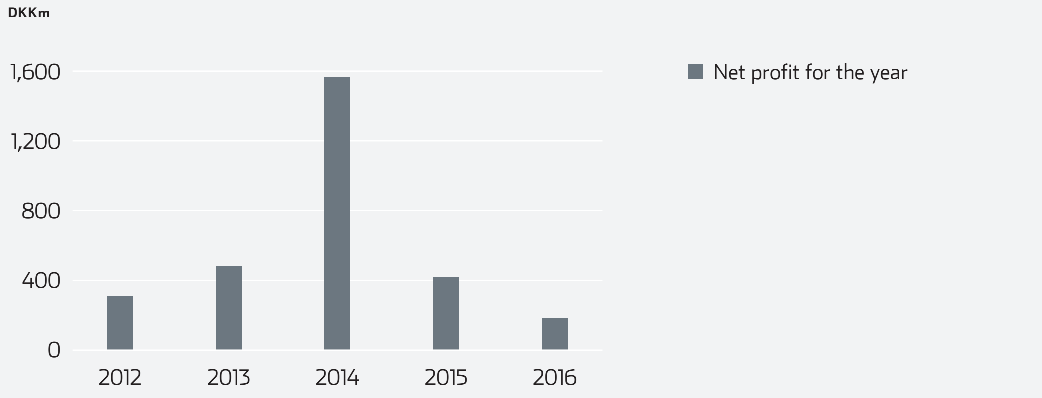
KEY FIGURES, DKK MILLION	**2016**	**2015**	**2014**	**2013**	**2012**
Net interest income from lending	589	623	565	541	439
Net interest income from finance activities	228	242	255	350	447
Total net interest income	817	865	820	891	886
Net interest and fee income	849	906	934	937	940
Market value adjustments	124	(177)	123	(25)	105
Staff costs and administrative expenses	(120)	(113)	(98)	(97)	(94)
Loan impairment charges	(610)	(46)	1,103	(166)	(523)
Profit before tax	241	569	2,061	647	427
Net profit for the year	188	413	1,568	477	314
Loans	39,811	43,171	43,347	42,383	46,364
Bonds	19,730	19,100	18,680	21,066	30,091
Equity	9,164	10,378	11,146	9,983	9,773
Total assets	62,621	64,873	69,374	67,222	83,002

RATIOS	**2016**	**2015**	**2014**	**2013**	**2012**
Net interest and fee income from lending (DKKm)	621	664	679	586	488
Return on equity after tax (%)	1.9	3.8	14.8	4.8	3.2
Return on finance activities (%) *)	3.0	0.3	2.8	2.9	4.7
Tier 1 capital after deductions (DKKm)	8,781	9,896	9,682	9,312	8,963
Common equity tier 1 capital ratio	17.2	17.3	16.4	17.0	15.2
Solvency need capital ratio incl. capital buffer	10.7	8.9	8.5	8.5	5.9
Cost/income ratio (%) **)	11.9	15.0	9.0	10.1	8.7
Equity as a % of lending	23.0	24.0	25.7	23.6	21.1
Write-offs on loans as a % of lending	0.2	0.2	0.1	0.1	0.0
Allowance account as a % of loans	5.9	4.3	4.3	6.7	5.8
Weighted Loan-to-Value ratio after loan impairment charges	66	64	59	62	67
Proportion of loans covered within 60% of market value (%)	88	91	95	92	89

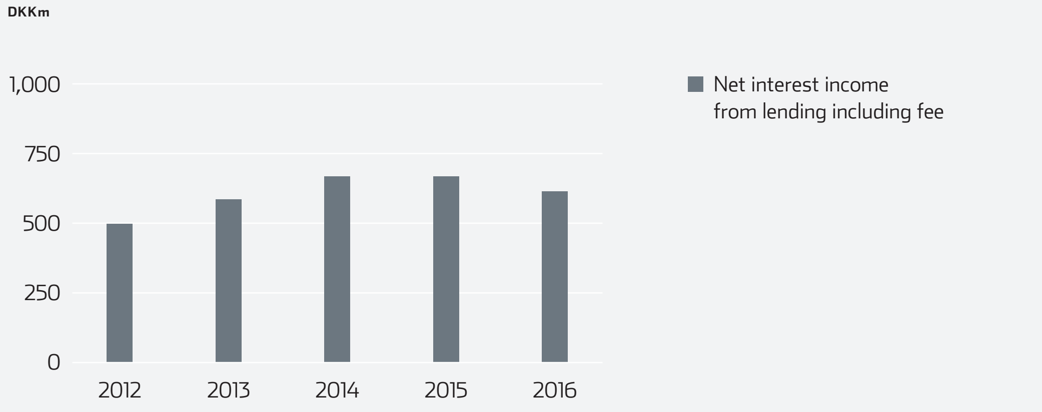
**) Return on finance activities is calculated exclusive of return from shares and currency.*
***) The calculation of the cost/income ratio does not include loan impairment charges.*

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.

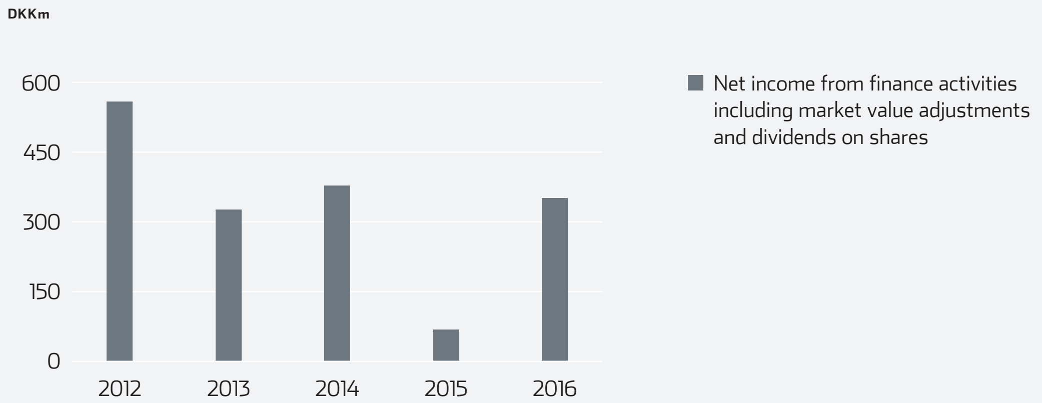
NET PROFIT FOR THE YEAR



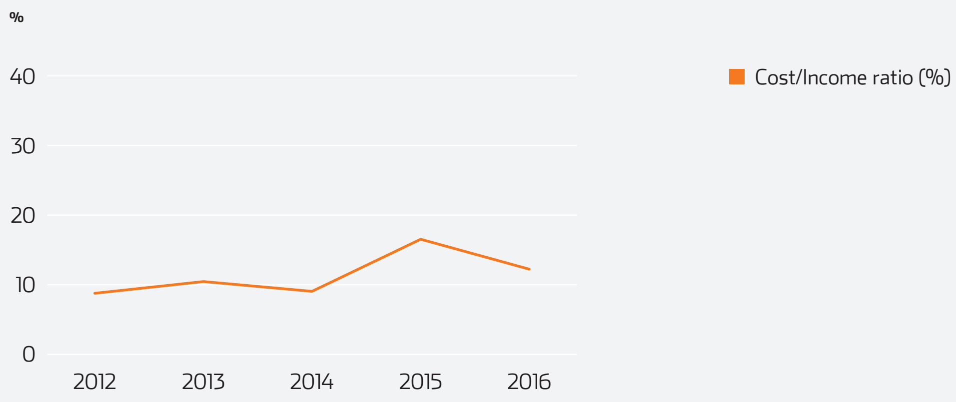
NET INCOME FROM LENDING



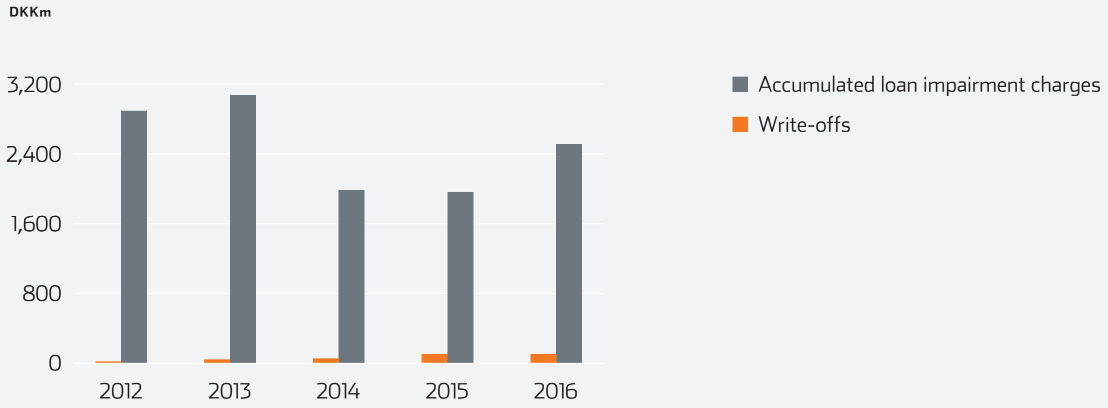
NET INCOME FROM FINANCE ACTIVITIES



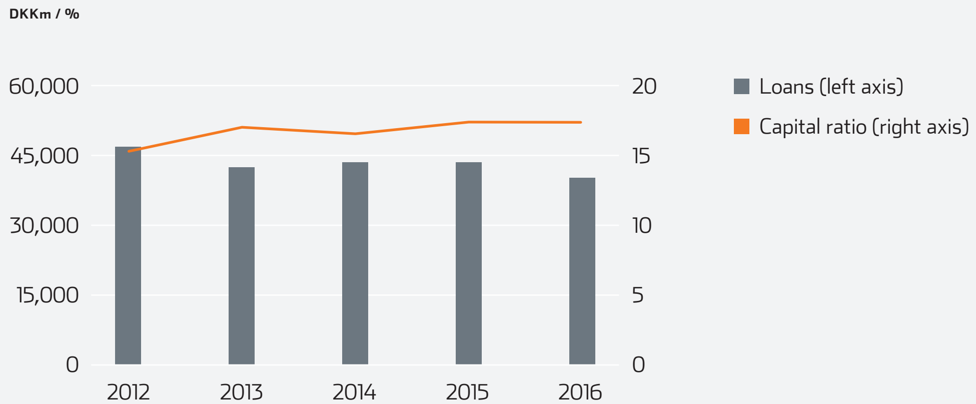
COST/INCOME RATIO



ACCUMULATED LOAN IMPAIRMENT CHARGES AND WRITE-OFFS



LOANS/CAPITAL RATIO



2016

Weak global economic growth and geopolitical tension were dominant factors in 2016. The International Monetary Fund (IMF) lowered its global growth projection on several occasions in 2016, ending up with an estimate of 3.1%. This was lower than in the three preceding years.

Especially the developed economies experienced an economic slowdown. The US economy is estimated to have expanded by 1.6% in 2016, against 2.6% in 2015, while economic growth in the EU slipped from 2.0% in 2015 to 1.7% in 2016. The emerging market economies, on the other hand, emerged stronger from 2016, driven primarily by the fact that recession is slowly loosening its grip on Russia.

Global trade was visibly affected by the sluggish economic growth and mounting geopolitical uncertainty. According to the WTO, world trade rose by 1.7% in 2016, which was 1 percentage point lower than in 2015.

In other words, world trade rose by a much lower margin than the global economy in 2016.

THE SHIPPING MARKET

Subdued growth in world trade and relatively stable commodity prices caused demand for maritime transport to soften. It is estimated that demand for maritime transport rose by 1.6%, while the global fleet grew by about 3%. As a result, the problems of excess capacity in many of the large shipping segments were also aggravated. The falling freight rates experienced by the dry bulk, container and offshore markets in 2015 continued into 2016. The tanker and gas markets experienced rising freight rates in 2015, but this changed in 2016 when freight rates in these segments also came under pressure. Clarksons ClarkSea Index, the leading freight rate index, thus fell by an average of USD 5,000 per day to USD 9,400 per day. This was a decline of 34% relative to 2015.

The effect of the lower freight rates in 2015 were cushioned by falling oil prices, which reduced fuel costs. However, oil prices generally trended upward in 2016 and thus did not contribute to dampen the effect of the low freight rates to the same extent they did in 2015.

Container freight rates hit a new low in the first half of 2016 because many new and large vessels were added to the fleet, while growth in demand remained modest. The container market was weak for most of the year. Finding it difficult to employ their vessels with the line operators, tonnage providers came under particular pressure. The low freight rates brought contracting of new vessels to a standstill, prompting a substantial increase in scrapping activity.

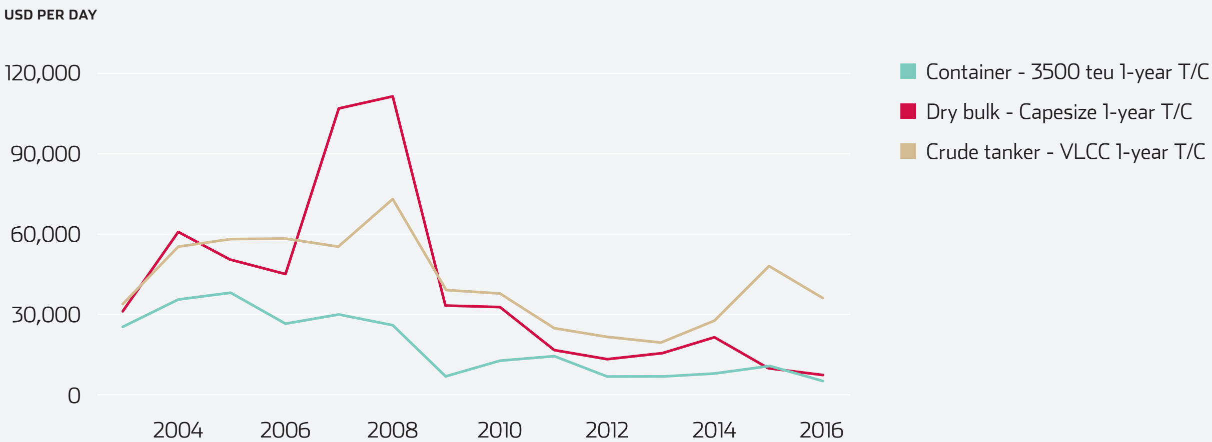
The dry bulk market had a challenging year in 2015, but the market reached a new low in the first quarter of 2016. Baltic Dry Index, the leading dry bulk index, collapsed, and vessel prices took another significant dip. The second half of the year, on the other hand, brought higher freight rates and a small increase in vessel prices, although they remain at low levels.

The tanker segments experienced a huge drop in freight rates and vessel prices in 2016 because the supply of vessels outgrew demand. The individual sub-segments still have relatively large order books relative to the proportion of vessels that may be considered scrapping candidates.

The chemical carrier market also experienced a heavy pressure on freight rates in 2016. There was a noticeable increase in the supply of vessels and a marginal drop in demand. Furthermore, the setback in the product tanker market made many product tankers turn to the lighter chemical cargoes for employment. This, in turn, put the chemical carriers under pressure.

The LPG market saw strong fleet growth that exceeded otherwise strong growth in demand. This caused a large decline in freight rates in the segment, especially for the large vessels.

TIMECHARTER RATES BY SEGMENT

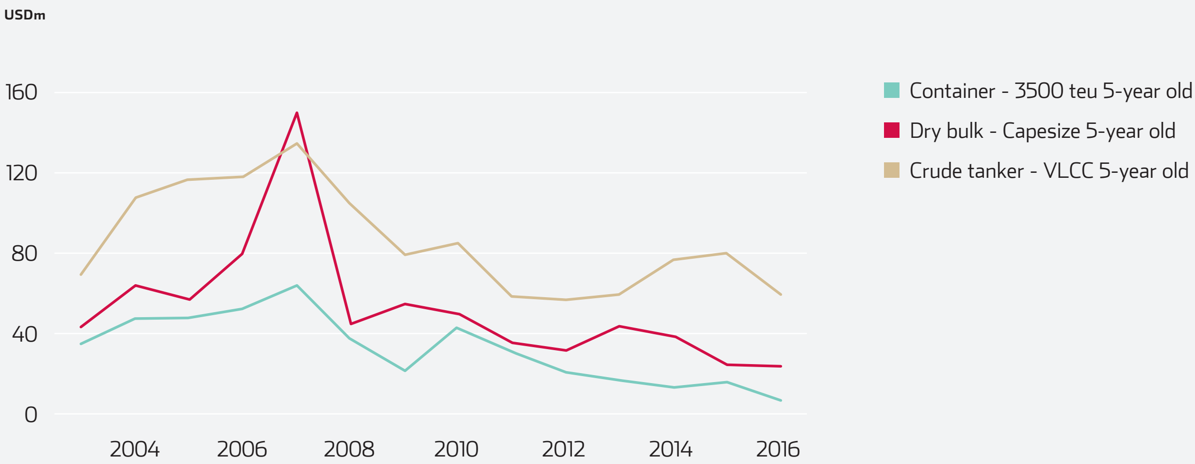


Source: Clarksons, Danish Ship Finance

The offshore segments continue to struggle with dramatically falling demand. Falling oil prices since 2014 have strongly reduced oil companies' investment in new oil fields. With rates and ship prices under pressure, the year brought a sharp increase in the number of vessels being laid up, causing a wave of restructurings among offshore shipowners.

Overall, 2016 was a challenging year for international shipping. The shipping industry remains at the trough of a very prolonged economic cycle. Some segments are probably past the worst, while others are expected to have even more excess capacity in 2017. On a positive note, however, the small amount of new vessels ordered in 2016 has caused a decline in global order books. In addition, many vessels have been scrapped. These developments will have to continue before we can expect higher freight rates and sustainable ship prices for an extended period of time.

VESSEL PRICES BY SEGMENT



Source: Clarksons, Danish Ship Finance

THE FINANCIAL MARKET

2016 was characterised by continued historically low monetary policy rates from the major central banks, falling inflation – driven primarily by declining oil and commodity prices – and political instability with Brexit and the result of the US presidential election taking the financial markets by surprise.

Spurred by falling inflation in Europe, the European Central Bank (ECB) extended its asset purchase programme (QE) to EUR 80 billion per month from the original EUR 60 billion. The ECB also reiterated that it will use all instruments within its mandate to work towards the inflation target. The ECB programme for purchasing mortgage and government bonds was extended to credit bonds rated BBB- or higher, and the ECB's possible ownership share of the individual bond series was raised from 25% to 33%. The ECB's actions contributed to falling credit premiums on European credit bonds.

Low relative spreads on EUR bonds triggered extraordinary EUR issuance from issuers such as US corporates, resulting in demand for swaps back to USD. This demand contributed to pushing up the price of swapping loans both in EUR and DKK to USD to historical highs. The cost of swapping 5-10 year maturity loans from EUR to USD was at times 50-55bps, and the cost of converting loans from DKK to USD for similar maturities was 80-85bps. Vessels are primarily traded in USD, and the dollar is also the preferred borrowing currency among shipowners. Loans are granted against ship mortgages, and by granting loans in USD the company establishes a currency match between the loan and the underlying mortgage. The company takes out DKK-denominated loans in the Danish bond market and enters into currency swaps to create a match between the bond issuance in DKK and lending in USD. Even though funding is taken out on competitive terms in this way, the above-mentioned market situation caused an increase in funding costs for the company and also for our European peers without any corresponding increase in lending margins. The result was declining net income from new lending.

In 2016, yield spreads between government bonds from southern Europe and Germany traded within a relatively narrow range despite the greater political uncertainty. The UK decision to leave the EU caused financial market turbulence, and a certain amount of funds were channelled to safe-haven assets and resulted in 10-year German Bunds trading at historical lows of minus 18-20bps. The US presidential election triggered greater volatility in the fixed income and currency markets. From the election results were announced in November 2016 and until the end of the year, USD rates climbed some 60-70bps, and the exchange of the USD vis-à-vis DKK rose from about 665 to 705. The US Federal Reserve hiked interest rates by 25bps in December, and the yield spread between German and US government bonds traded at a historical high of 225-235bps at the end of the year.

In Denmark, the Danish krone strengthened against the euro, causing the Danish central bank to intervene in the currency market by actively selling DKK. Danish government bonds with maturities of up to ten years traded at yields of about 0%, and measured against German Bunds the yield spread narrowed by 15-20bps in 2016. During periods of extensive economic instability, Danish government bonds have been considered particularly safe.

Returns on mortgage bonds were at low levels at the beginning of 2016 but picked up from March onwards. Mortgage bonds delivered decent returns especially in the third and fourth quarters. Callable bonds ended the year with an excess return relative to government bonds, which were at their lowest level since 2014.

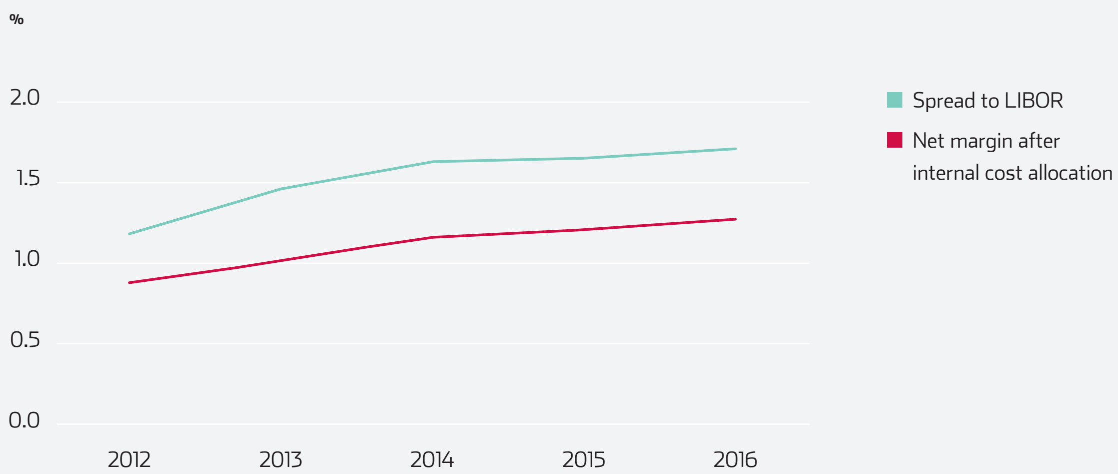
Danish Ship Finance's securities portfolio was invested in Danish government (including KommuneKredit) and mortgage bonds with a relatively low interest rate risk but with a relatively high dependence of return on mortgage bonds.

LOAN MARKET

It is estimated that there was a slump in both demand and supply of funding for financing of vessels in 2016. The demand side declined because of a large drop in the volume of ordered vessels and a general reduction in ship prices. On the supply side, many banks continue to scale down or discontinue their ship financing operations.

A small increase in loan margins was recorded, but loan terms for reputable shipowners were largely unchanged. Small shipowners with weak capital structures may still find it difficult to source funding, while established players with an acceptable creditworthiness do not face that challenge.

MARGIN EARNINGS ON LOANS



ACTIVITIES DURING THE YEAR

In 2016, loan offers with a counter value (year-end exchange rates) of DKK 4.2 billion were accepted, up from DKK 3.5 billion in 2015. Income from the loans that these loan offers concern was more or less unchanged from 2015. The loan offers will result in loans being disbursed during the period 2016-2017.

Loans disbursed in 2016 amounted to DKK 4.6 billion, against DKK 5.1 billion in 2015. A few new customers were added to the loan portfolio.

There was an unsatisfactory increase in the number of problem loans in 2016, primarily due to developments in the offshore segment. A number of exposures had to be restructured to create a debt repayment profile that give the companies the financial strength to withstand a prolonged period of low rates and laid-up vessels. These developments are reflected in the loan impairment charges for the year.

At the end of 2016, loans with objective evidence of impairment before loan impairment charges amounted to DKK 7.0 billion, against DKK 4.2 billion at the end of 2015. The weighted loan-to-value ratio after loan impairment charges for loans with objective evidence of impairment was 66%.

Net write-offs for the year amounted to DKK 89 million. Write-offs since the crisis broke out in 2008 thus remain at a satisfactory low level.

BOND ISSUANCE AND RATING

On 4 February 2016, the company was given a new and higher bond rating by Standard & Poor's Financial Services LLC (S&P). Ship mortgage bonds were assigned a Covered Bond rating of A from S&P. The rating is based on the current bond issuance practice, and the structure of the company's operations and the collateral underlying the bond issuance will continue in their present form. As a result of the rating upgrade, ship mortgage bonds with an outstanding amount of more than EUR 250 million meet the LCR requirement for level 2A assets. This means that bonds will to a greater extent qualify as liquidity resources in credit institutions. At the end of 2016, most of the listed ship mortgage bonds met the requirement for inclusion in LCR.

Immediately after the assignment of the Covered Bond rating from S&P, the company terminated its collaboration with Moody's Investors Service Inc. (Moody's). However, until further notice Moody's will maintain an unsolicited rating of the issued bonds based on publicly available information.

In the primary market, the positive sentiment in the Danish mortgage bond market has rubbed off on ship mortgage bonds. New bonds for DKK 6.3 billion were issued with an average maturity of about 4.4 years.

In 2016, the company purchased ship mortgage bonds with 1.25-year maturities for DKK 6.9 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 2016, the weighted duration of issued bonds was approximately 3.2 years, against approximately 2.9 years for the loans.

The terms and conditions of the bond issues are considered favourable, allowing the company to continue to provide competitive financing to the shipping industry.

The company maintains a robust cash position, which entails low sensitivity to short-term developments in the capital markets.

After the company's new ownership structure was announced in September 2016, S&P revised its outlook for all ratings from stable to negative.

Issuer Credit Rating	BBB+
Covered Bond rating	A
Seniority	Covered Bonds
Outlook	Negative

Under the Investment Directive, bonds issued by Danish Ship Finance or by Danish mortgage-credit institutions are considered "gilt-edged" bonds and designated as covered bonds. The rules stipulate that proceeds from the bond issuance should be invested in assets which, during the entire period of validity of the bonds, are capable of covering claims attaching to the bonds.

In case of bankruptcy, the company's own act therefore provides that the assets corresponding to the bonds shall be used on a priority basis to satisfy claims by bondholders and creditors in agreements on financial instruments entered into by the company to hedge interest rate and exchange rate differences between the issued bonds and the loans.

CHANGE OF OWNERSHIP

In June 2015, 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 financing operations and improving the marketability of the company's shares.

At the end of September 2016, it was announced that a consortium consisting of the private equity fund Axcel and the pension funds PFA and PKA had acquired 72% of the company's shares from the previous principal shareholders. After the submission of an offer to the remaining A shareholders, it was ascertained in mid-November 2016 on completion of the sale that the consortium had acquired almost 87% of the shares and a little more than 95% of the voting rights in Danish Ship Finance A/S. The shares are held by a newly formed company, which changed its name to Danmarks Skibskredit Holding A/S at the end of 2016. The shares in the holding company are equally distributed between Axcel, PFA and PKA.

Den Danske Maritime Fond still owns the B shares, which account for 10% of the total share capital.

INSPECTION BY THE DANISH FSA

In September, the Danish Financial Supervisory Authority performed an inspection of the credit area.

The FSA had no comments on the internal classification of customers, the size of the loan impairment charges made or the calculation of the solvency need capital ratio.

The report from the Danish FSA is available on the company's website: www.shipfinance.dk

INCOME STATEMENT AND BALANCE SHEET

INCOME STATEMENT

The net profit for the year amounted to DKK 188 million compared with DKK 413 million in 2015. The fall was due especially to an increase in loan impairment charges.

Net earnings from lending including fee income amounted to DKK 621 million in 2016, against DKK 664 million in 2015. The decline in net earnings was primarily due to lower lending.

Net interest income from finance activities fell to DKK 228 million in 2016 from DKK 242 million in 2015.

Net interest and fee income totalled DKK 849 million, down from DKK 906 million in 2015. The decline was primarily due to lower lending in 2016.

Market value adjustments of securities and foreign exchange amounted to an income of DKK 124 million in 2016 compared with an expense of DKK 177 million in 2015. The income was largely due to a contraction of the credit spread on the company's portfolio of mortgage bonds. The return on the securities portfolio was 3.0%, corresponding to DKK 353 million. This is considered satisfactory given the risks assumed and market developments.

Staff costs and administrative expenses rose to DKK 120 million in 2016 from DKK 113 million in 2015. Part of the increase was due to expenses relating to the strategy considerations. The average number of employees (full-time equivalents) rose by one person from 67 to 68.

Loan impairment charges amounted to a net expense of DKK 610 million compared with a net expense of DKK 46 million in 2015. Higher loan impairment charges were required especially for the offshore and dry bulk segments.

The accumulated collective loan impairment charges fell from DKK 910 million at the end of 2015 to DKK 540 million at 31 December 2016, while the accumulated individual impairment charges rose from DKK 1,047 million at the end of 2015 to DKK 1,976 million at 31 December 2016. The total allowance account thus increased from DKK 1,958 million at the end of 2015 to DKK 2,516 million at 31 December 2016, corresponding to 5.9% of total loans.

The decline in the accumulated collective impairment charges was due to a number of factors. First of all, there was a negative rating migration because customers, especially within the offshore segment, comprised by collective impairment charges individually experienced objective evidence of impairment and thus were covered by the individual impairment charges. Secondly, the company has recalibrated the PDs applied in its impairment model. The recalibrated PDs were determined on the basis of own records over an extensive period of time, whereas they were previously based on general rating agency data. The PDs are still conservatively assessed.

Net write-offs amounted to DKK 89 million in 2016, down from DKK 90 million in 2015. Write-offs remain at a very low level.

Tax on the net profit for the year represents an expense of DKK 57 million against an expense of DKK 156 million in 2015. For 2016, the expense in the income statement translates into an effective tax rate of 23.6% against 27.4% in 2015.

BALANCE SHEET AND CAPITAL STRUCTURE

Total assets fell to DKK 62.6 billion at 31 December 2016 from DKK 64.9 billion at 31 December 2015.

Lending calculated at amortised cost less loan impairment charges fell from DKK 43.2 billion at 31 December 2015 to DKK 39.8 billion at year-end 2016. Over the course of the year, there was an increase in new loans of DKK 4.6 billion, against an increase in 2015 of DKK 5.1 billion. In 2016, loans were repaid in the gross amount of DKK 8.4 billion, which is a decrease from DKK 8.7 billion in 2015.

The allowance account was increased to DKK 2,516 million from DKK 1,958 million at the end of 2015. The allowance account subsequently accounted for 5.9% of total loans and guarantees, which is an increase from 4.3% in 2015.

Issued bonds fell to DKK 42.4 billion at 31 December 2016 from DKK 45.1 billion at 31 December 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 2016, ordinary and extraordinary redemption of issued bonds amounted to DKK 9.5 billion, against DKK 8.1 billion in 2015. In 2016, new bond issues amounted to DKK 6.3 billion, against DKK 7.0 billion in 2015.

At the end of 2016, the securities portfolio consisted primarily of Danish mortgage bonds, while a small proportion was invested in Danish government bonds and bonds issued by Kommunekredit.

The bond portfolio rose to DKK 19.7 billion from DKK 19.1 billion at 31 December 2015. The bond portfolio relates to the company's investment of its equity, allowance account, placing of funds not yet used for lending and repo activities.

Including the net profit for the year and proposed dividend, the company's equity amounted to DKK 9.2 billion as compared with DKK 10.4 billion at 31 December 2015. The decline was primarily due to the disbursement of extraordinary dividends of DKK 1.0 billion in December 2016 in connection with the company's change of ownership.

Dividends to the shareholders of DKK 199 million have been proposed for 2016, against DKK 413 million in 2015. The proposed dividend for the 2016 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 2017, and the amount has therefore been deducted in own funds in the calculation of the capital ratio below.

Danish Ship Finance is subject to the capital adequacy rules through chapter six of the its own executive order. The capital ratio was 17.2% at the end of 2016 against 17.3% at 31 December 2015. In the calculation of the capital adequacy, the total risk exposure amount has declined by DKK 6.2 billion.

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

The exchange rate of the USD vis-à-vis DKK was 705.28 at the end of 2016, against 683.00 at the end of 2015, corresponding to an increase of some 3% for the year as a whole.

In 2016, movements in the USD/DKK exchange rate, other things being equal, had a positive impact on net interest and fee income of about DKK 4 million based on average exchange rates, and a negative impact on loan impairment charges of DKK 16 million because of the higher year-end exchange rate. The net profit after tax was reduced by DKK 10 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, has triggered a reduction of the capital ratio of 0.6 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 2016 was based on an assumption of a small decline in lending and slightly lower net earnings on new lending than the average on the existing loan book at the end of 2015.

Measured both in DKK and the lending currency, typically USD, the company recorded a decrease in lending. Overall, 2016 was not a very active year in terms of new loans, but the appreciation of the USD entailed that the total decline in lending measured in DKK was less than 3%.

As expected, total interest and fee income was lower.

The company had not provided specific guidance on loan impairment charges. Measured by both lending currencies and Danish kroner, the year ended with a higher negative effect on expense from loan impairment charges.

The company reversed loan impairment charges concerning the tanker segment, while it had to recognise loan 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 net profit for the year. Since the USD appreciation occurred towards the end of the year, it only had a limited positive impact on earnings from lending, while the appreciation had a full impact on loan impairment charges, which are calculated at the exchange rate at the balance sheet date at the end of 2016.

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

THE SHIPPING MARKET

2017 looks set to become yet another challenging year for several of the major economies. The IMF estimates that the global economy will expand by 3.4% in 2017, which is 0.3 percentage point more than in 2016. Europe is expected to experience slightly weaker growth in 2017, whereas both the US and Japanese economies are expected to see stronger growth than in 2016. Expectations for the Chinese economy continue to point to a gradual slowdown. The WTO expects global trade to grow more rapidly in 2017 than in 2016. If these forecasts are met, it will have a small positive effect on demand for maritime transport.

However, the outlook for international shipping as a whole still does not give rise to near-term optimism. Many segments have experienced a massive fleet renewal in recent years. As a result, there are very few older vessels left to scrap if demand proves unable to absorb the many new vessels that are regularly delivered. In that light, the size of the order books may still give rise to concern in a number of segments, especially for the largest vessels. Overall, the size of the order books is expected to continue to decrease in 2017.

If oil prices rise further in 2017, it may entail that vessels will begin to travel at lower speeds to save fuel. Such developments could reduce the supply of vessels and would contribute to improving the balance between supply and demand.

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 2017, 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. Geopolitical tensions continue to rise, and the signs of growing protectionism would jeopardise international shipping.

In the last couple of years, the shipping industry has met with stricter environmental requirements, some of which apply globally, others regionally. The new ballast water management convention was ratified in 2016, and the upper limit for sulphur emissions from shipping is set to take effect already from 2020. These initiatives may have severe consequences for the industry as it may prove a challenge for shipping companies with less strong balance sheets to carry out the necessary investments. Consequently, 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 financial performance for 2017 is expected to be impacted by a lower return on the securities portfolio than in 2016. Interest rates remain low, and opportunities for realising capital gains are expected to be limited.

The company expects a small decline in lending, which will have an impact on earnings from lending. Lending is expected to decline in the first half of 2017, after which the company expects lending to rise again. Average lending is thus set to be slightly below the level of 2016, which will explain a decline in earnings from lending. However, the company does not expect any major decline.

Overall, the company expects a profit before loan impairment charges and market value adjustments slightly below that for 2016.

2017 is expected to be a difficult year especially for the offshore segment, and loan impairment charges in this segment could increase further. Conversely, an improvement in other segments could reduce loan impairment charges in these segments. It is doubtful, however, whether an improvement will occur in 2017, so the company expects loan impairment charges to have an adverse impact on its full-year 2017 financial performance. Write-offs in 2017 are expected to be fully covered by existing loan impairment charges.

Developments in the USD/DKK exchange rate will have an impact on the net 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 own funds 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 own funds 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 own funds requirement for credit and market risks. When using the standardised approach, the risk weights are defined in the legislation. In addition, the basic indicator approach is applied to calculate the risk-weighted exposures for operational risk.

CAPITAL REQUIREMENT, OWN FUNDS AND SOLVENCY

The own funds requirement (also referred to as the Pillar I requirement) is the own funds required to maintain a capital ratio of 8%, which is the current statutory minimum requirement.

The own funds is the sum of common equity tier 1 capital, additional tier 1 capital and tier 2 capital, and the relationship between own funds and total risk exposure amount is the capital ratio.

CALCULATION OF CAPITAL RATIO

DKKm / %	2016	2015
Own funds less deductions	8,781	9,896
Total risk exposure amount	50,995	57,234
Capital ratio	17.2	17.3

Own funds consists primarily of common equity tier 1 capital in the form of share capital, tied-up reserve capital and retained earnings from prior years.

SOLVENCY NEED CAPITAL RATIO AND ADEQUATE OWN FUNDS

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

The Board of Directors and the Executive Board ensure that the company maintains adequate own funds. The considerations made by the Board of Directors and Executive Board in this regard must lead to the determination of a solvency need capital ratio. Adequate own funds covers the minimum amount of capital which, in the opinion of the Board of Directors and Executive Board, 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 own funds must consistently be higher than the adequate own funds.

METHODOLOGY

Credit institutions are free to choose the methodology when calculating the adequate own funds provided the resulting solvency need provides a fair view and is prudent. The company follows the Danish FSA's Guidelines on Adequate Own Funds and Solvency Needs for Credit Institutions. The guidelines contribute an interpretation of Annex 1 to the Danish Executive Order on Calculation of Risk Exposure Amount, Own Funds and Solvency Need. The guidelines stipulate a so-called 8+ approach based on an own funds 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 own funds.

In addition, the Executive Order defines a number of aspects that should also be included in the assessment.

Institutions must assess whether there are other relevant risk elements they should consider when calculating their adequate own funds.

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

The table below shows the calculation of the solvency need capital ratio.

SOLVENCY NEED CAPITAL RATIO AND ADEQUATE OWN FUNDS

DKKm / %	
Total risk exposure amount	**50,995**
Pillar I requirement (8 % of total risk exposure amount)	4,080
Earnings	-
Growth in lending	-
Credit risk	
- Credit risks for large customers in financial difficulty	375
- Other types of credit risk	-
- Concentration risks	57
Market and liquidity risk	-
Operational and control risk	502
Gearing risk	-
Other risks	-
Adequate own funds, total	**5,014**
Solvency need capital ratio, %	**9.8**
Capital conservation buffer, %	0.6
Countercyclical capital buffer requirement, %	0.2
Solvency need capital ratio, including the combined capital buffer requirement, %	**10.7**

The adequate own funds and the total risk exposure amount at 31 December 2016 were DKK 5,014 million and DKK 50,995 million, respectively. The own funds less deductions amounted to DKK 8,781 million at 31 December 2016, resulting in a capital ratio of 17.2%. This gives the company an excess cover of DKK 3,339 million relative to the adequate own funds including the combined capital buffer requirement.

At the end of 2015, the adequate own funds and the solvency need capital ratio amounted to DKK 4,968 million and 8.7%, respectively.

More information on the company's capital management, including a more detailed description of the company's calculation of the adequate own funds, is provided in the Risk Report available on the company's website: www.shipfinance.dk/investor-relations/risk-and-capital-mangement/

COMBINED CAPITAL BUFFER REQUIREMENT

In 2016, the capital conservation buffer was 0.625% in Denmark. At 1 January 2017, the capital conservation buffer will be 1.25% 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 is 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 Capital Requirements Regulation (CRR). The systemic risk buffer was fixed at 0% in 2016.

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 credit risk, the capital requirement for the countercyclical capital buffer has been calculated at DKK 110 million at 31 December 2016. The capital requirement pertains to exposures in Norway, Sweden and Hong Kong, which have fixed the following countercyclical buffers:

- Sweden 1.5%
- Norway 1.5%
- Hong Kong 0.6%

INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

DKKm / %	2016	2015
Total risk exposure amount, DKKm	50,995	57,234
Institution-specific countercyclical buffer requirement, DKKm	110	97
Institution-specific countercyclical buffer requirement, %	0.2	0.2

LIQUIDITY MANAGEMENT

Liquidity management is generally carried out to ensure that the 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 own funds.

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.

In-house policies govern the maximum limits for the need of USD over time.

LIQUIDITY POLICY

The company has prepared a policy for managing liquidity risk (liquidity policy) pursuant to the Executive Order on Governance.

The purpose of the liquidity policy is to ensure that the liquidity risk at any time 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 the Risk Management function. Each quarter, the company prepares a financial report on compliance with the policy framework that is submitted to the Board of Directors.

LIQUIDITY MANAGEMENT

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 predefined triggers are activated.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The primary responsibility for 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, including in 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.

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.

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 priority 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, 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.

In connection with the management of large exposures, the company has defined guidelines for the extent to which and the assumptions on which the company will assume large exposures that exceed given limits in the credit policy relative to the own funds, including exposures that exceed 25% of the own funds.

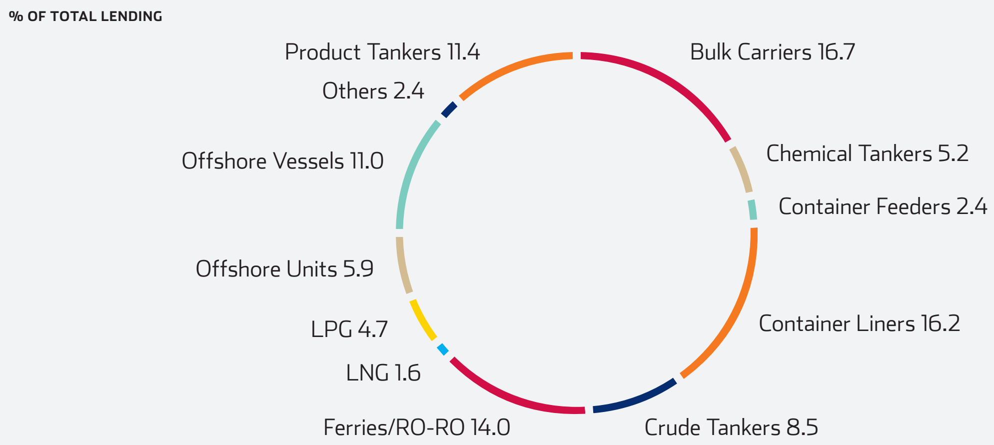
MOVEMENTS IN THE FIVE LARGEST EXPOSURES BEFORE LOAN IMPAIRMENT CHARGES

DKKm	2016	2015
Five largest exposures	13,686	15,443
Loans and guarantees	42,699	45,602

The five largest exposures at 31 December 2016 were secured by mortgages in 77 vessels, comprising 8 vessel types. One exposure is substantially larger than the rest and represented just over 20% of total loans and guarantees at 31 December 2016.

The risk diversification on borrowers also focuses on diversification on vessel types in each loan. The largest exposure was thus secured through mortgage on 27 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



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 2016.

For existing loans, pre-defined limits have been established when approvals by the Executive Board or the Head of Credit must subsequently be reported to 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 on vessels are, for example, used to determine the loan-to-value ratio on the company's loans and for control purposes, when reassessing the security value of a vessel, in connection with the company's half-yearly loan impairment review.

WRITE-OFFS AND LOAN 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 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 loan 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 loan in question. It is also established whether a vessel segment is comprised by OEI for collective impairment charges.

All loans are 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 has been 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 without loan impairment charges, the borrower will be downgraded on the company's internal classification scale (12-point scale with 12 being the weakest) 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 as "Problem loans".

When reconstruction, including agreements for composition or conversion of a loan 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 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 in-court reconstruction
- Past due/arrears in 90 days or more
- Foreclosure
- Non-accrual interest

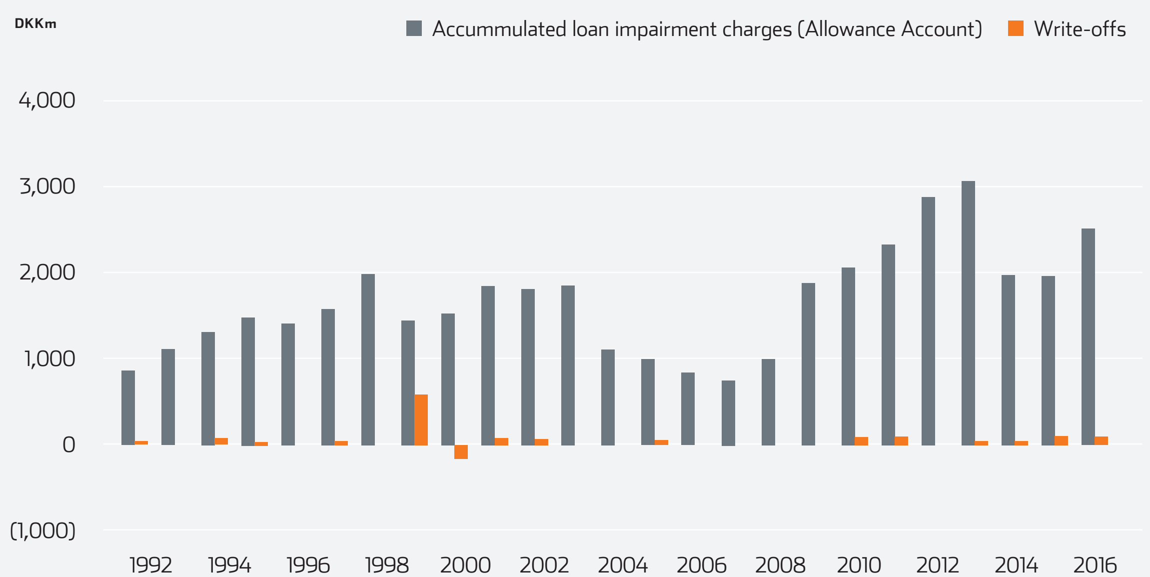
If a credit exposure is in default, the borrower will be downgraded to risk category 12 with a PD of 100%.

The accumulated loan impairment charges amounted to DKK 2,516 million at 31 December 2016, against DKK 1,958 million at 31 December 2015.

The accumulated loan impairment charges accounted for 5.9% of total loans and guarantees at 31 December 2016, against 4.3% at the end of 2015. Danish Ship Finance recorded net write-offs in the amount of DKK 89 million in 2016, against DKK 90 million in 2015. Write-offs thus remain at a very low level.

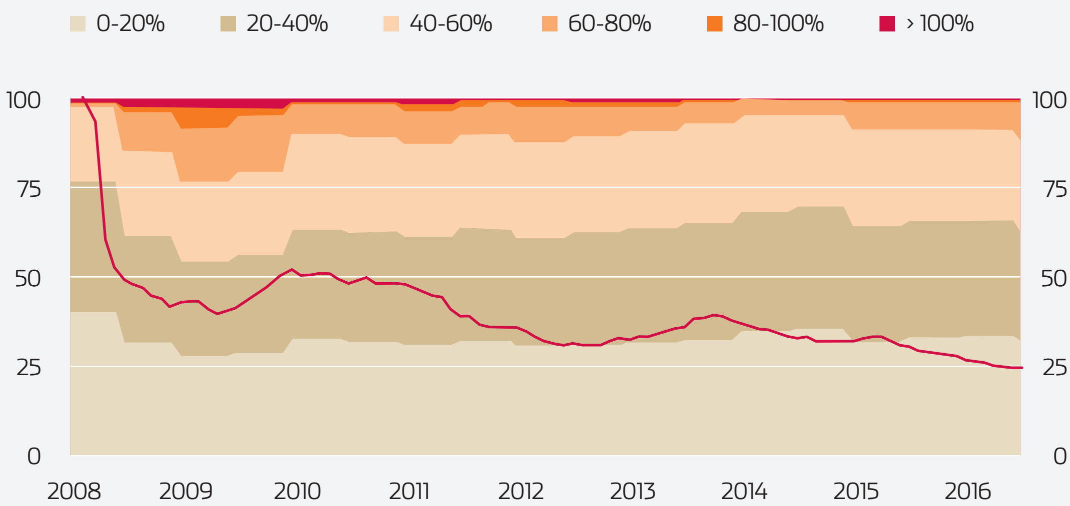
Accumulated write-offs since the company was established in 1961 were approximately DKK 1.1 billion at 31 December 2016. This corresponded to 2.6% of total gross lending at 31 December 2016.

ACCUMULATED LOAN IMPAIRMENT CHARGES AND WRITE-OFFS



LOAN TO VALUE RATIO VS PRICE INDEX FOR ALL VESSEL TYPES

LOAN TO VALUE RATIO % OF TOTAL LOAN PORTFOLIO
PRICE INDEX FOR ALL VESSEL TYPES JUNE 2008 = INDEX 100



The chart above shows a breakdown of the loan portfolio into LTV intervals, which are calculated every six months. The LTV intervals show the proportion of the loans placed within a given interval. For example, 88% of total lending including guarantees and after loan impairment charges are secured by mortgages within 60% of the valuations at the end of 2016. 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 vessel 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 vessel mortgage drops below a agreed minimum threshold (MVC).

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 was approved by the European Commission on 22 November 2016 and is expected to be effected for financial years starting on 1 January 2018.

For the past 18 months, the company has analysed the need for system adjustments and possible operational procedures pertaining to the implementation of the impairment provisions of IFRS 9. This work will be finalised in 2017. IFRS 9 is scheduled to be implemented in the Executive Order on Financial Reporting during 2017 and have effect for financial years starting on 1 January 2018.

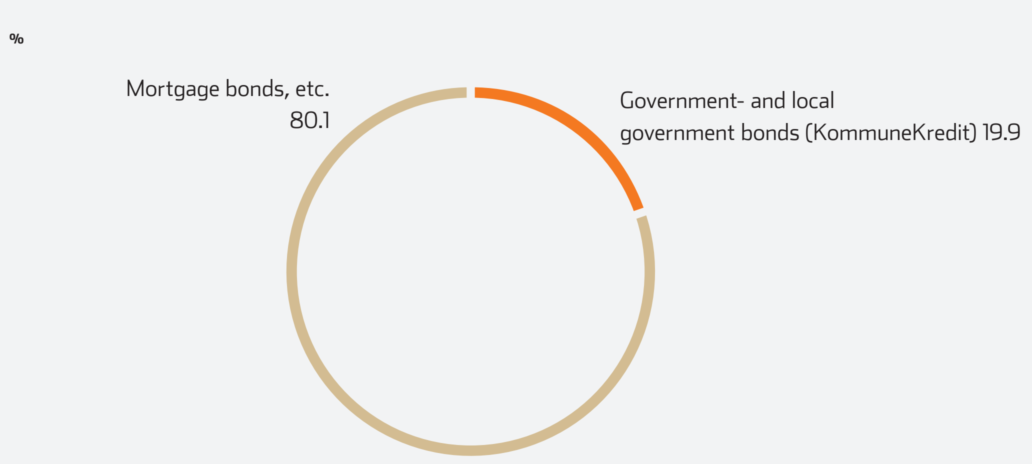
At the end of 2016, the company initially assessed that the new accounting standard would have a small negative impact on its accumulated loan impairment charges.

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 own funds requirement must be invested in high grade assets. At 31 December 2016, the market value of DKK 20,347 million was invested in high grade securities, corresponding to 371% 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, 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. The policy also includes the Executive Board's guidelines and options for delegating granting authorities.

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 approvals 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. As a general rule, the approval of such lines must be disclosed at the subsequent board meeting. Lines over 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 of the 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 own funds. 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 company has only moderate exposure to interest rate risk outside the trading portfolio because of the balance principle. At 31 December 2016, interest rate risk outside the trading portfolio was calculated at DKK 33 million, against DKK 76 million in 2015.

The Bond Executive Order also stipulates that the interest rate risk on assets, liabilities and off-balance sheet items must not exceed 8% of the own funds. 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 year at 31 December 2016.

Using the Danish FSA's guidelines for calculating interest rate risks (trading book), the risk was calculated at DKK 226 million in 2016, corresponding to 2.5% of the own funds, against DKK 665 million in 2015.

EXCHANGE RATE RISK
The Bond Executive Order stipulates that the combined exchange rate risk on assets, liabilities and off-balance sheet items must not exceed 2% of the own funds.

The market risk policy does not accept exchange rate 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.

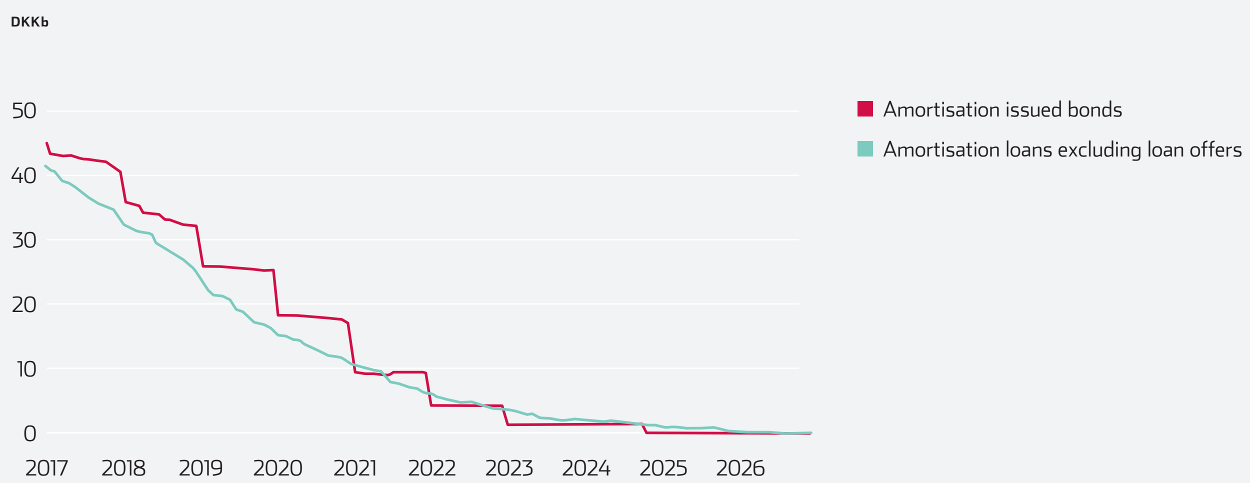
Liquidity risk involves the risk of:

- A disproportionate rise in the cost of funding;
- The company 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



LIQUIDITY COVERAGE RATIO

Effective on 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 2016:

$$\text{Liquidity Coverage Ratio} = \frac{\text{Liquid Assets}}{\text{Net liquidity outflows over a 30 days stress period}} \geq 70\%$$

The company's LCR at 31 December 2016 has been calculated at 631%.

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 S&P'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.

OPERATIONAL RISK

The Board of Directors has defined a policy for operational risk, the purpose of which is to create an overview of operational risks and minimise the number of errors with a view to reducing losses caused by operational errors.

Operational risk is managed across the organisation through a comprehensive system of business procedures and control measures developed to ensure a satisfactory process environment.

Efforts to mitigate operational risk include segregation of functions between execution and control of the activity.

Operational errors are divided into three main groups by value:

- Small errors (<DKK 25,000)
- Medium-sized errors (DKK 25,000 – DKK 5 million)
- Large errors (> DKK 5 million)

Small errors are reported to the head of department. Medium-sized and large errors are reported to the Executive Board, and the Board of Directors must be informed about large errors.

The capital requirement needed to cover the operational risks is calculated using the basic indicator approach. In 2016, the operational risk amounted to 3,4% of the total risk exposure amount, resulting in a capital requirement of DKK 138 million.

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 previously issued 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.

In 2016, the company applied for a permission from the Danish FSA to issue covered bonds.

SHIP MORTGAGE BONDS

Since 1 January 2008, new issuance has been 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. The company has opted not to use independent capital centres for the issuance of ship mortgage bonds.

ISSUED BONDS

Issued bonds are primarily bullet loans denominated in DKK. The issued bonds amounted to DKK 42,352 million at amortised cost at 31 December 2016, of which about 91% 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 total issues of new bonds in 2016 amounted to nominally DKK 6.3 billion with an average maturity of 4.4 years.

At the end of 2016, Danish Ship Finance had no portfolio of own bonds, against an own portfolio of DKK 462 million at the end of 2015. These were relatively short-term bonds and were acquired in connection with the issuance of longer-term bonds. The bonds were withdrawn from circulation in the first half of 2016. For accounting purposes, the portfolio of own bonds is in principle treated as if the bonds were drawn on the date of purchase.

ISSUED BONDS

Debenture bonds

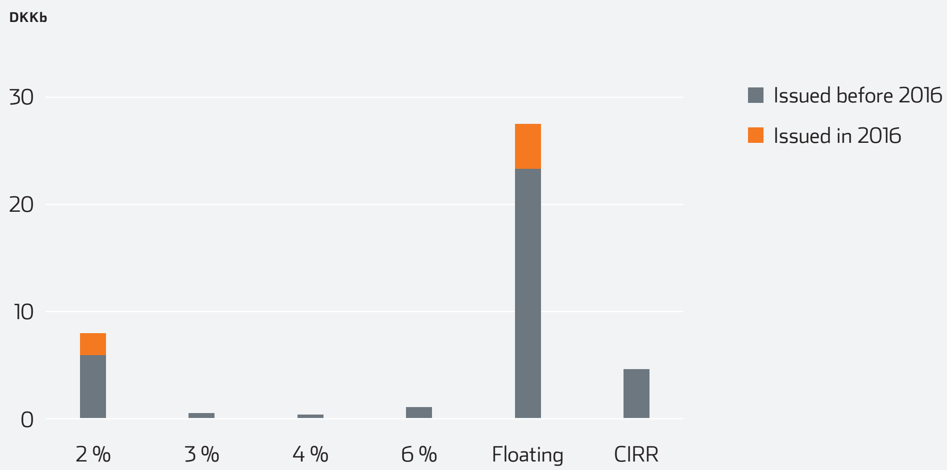
Bonds issued before 1 January 2008. By definition, the bonds are covered bonds (as defined by the CRD) until maturity, even though there is no requirement for regular compliance with loan values.

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”).

CIRCULATING BONDS BY BOND TYPE



RATING

Danish Ship Finance has been assigned the following ratings by S&P, which regularly assigns a credit rating to the company:

Issuer rating	BBB+
Bond rating	A
Outlook	Negative

The bond issues were assigned an A rating, negative 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+, negative outlook. The rating is based on the current bond issuance practice, and the structure of the company's operations and the collateral underlying the bond issuance will continue in their present form.

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 share and capital structure are consistently aligned with the interests of the shareholders and the company. The Board of Directors believes that the share and capital structure is appropriate given the company's level of activity.

The share capital 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.

Danish Ship Finance Holding A/S owns 86.6% of the shares of Danish Ship Finance A/S. Den Danske Maritime Fond owns 10% of the shares, and the remaining 3.4% is owned by a small number of minority shareholders.

Danish Ship Finance Holding A/S is owned equally by Axcel, PFA and PKA.

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

- AX IV HoldCo P/S
- Den Danske Maritime Fond
- The Social Workers', Social Pedagogues' and Office Staff Pension Fund
- The Healthcare Professionals' Pension Fund
- The State Registered Nurses' and Medical Secretaries' Pension Fund
- PFA A/S

DIVIDENDS

At the annual general meeting 31 March 2016, the Board of Directors' proposal on dividends of DKK 413 million based on the financial statements for 2015 was adopted.

In 2016, the company also paid extraordinary dividends of DKK 1 billion in connection with the company's change of ownership.

Based on the financial statements for 2016, the Board of Directors proposes that dividends of DKK 199 million be paid. The total dividend payment consists of the net profit for the year of DKK 188 million and distributable reserves of DKK 11 million.

As a result of the Board's proposal, the company's A shareholders will receive dividends of just under DKK 172 million, while the B shareholder, Den Danske Maritime Fond, will receive dividends of just under DKK 28 million.

If the shareholders approve the dividend proposal for 2016, the company will, since its conversion to a public limited company in 2005, have paid total dividends of DKK 616 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 Danish Ship Finance A/S 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 27 March 2017.

BOARD OF DIRECTORS

Eivind Kolding acts as Chairman of the Board of Directors, and Peter Nyegaard acts as Vice Chairman of the Board of Directors.

The Board of Directors defines the overall strategies and guidelines. 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.

The combined participation rate for the board members was 79% in 2016.

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 and mortgage lending
- Financial derivatives
- International maritime industry and shipping
- IT
- Credit approval 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.

TARGETS AND POLICIES WITH RESPECT TO THE UNDER-REPRESENTED GENDER

The company has defined targets and defined a policy for the gender composition of the Board of Directors.

Shareholders select candidates for the Board of Directors. Hence, the Board does not have a direct influence on which candidates get nominated. However, the Board will try to influence the process where possible.

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. All the board members are male. The target is to have elected at least one female board member by the annual general meeting in 2019.

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

More information on the company's efforts for the under-represented gender is provided in the CSR report on the company's website:
www.shipfinance.dk/company/

MANAGEMENT

The senior 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 vast majority of 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 FinanceDenmark. The code of FinanceDenmark is more comprehensive than the recommendations of the Corporate Governance Committee and also builds on a "comply or explain" principle.

Through Danish Ship Finance Holding A/S, the company is partly owned by a private equity fund, which is a member of the Danish Venture Capital and Private Equity Association (DVCA), and the company is therefore subject to the DVCA guidelines. These guidelines build on a "comply or explain" principle and are available on DVCA's website: www.dvca.dk. The company also complies with these guidelines.
The corporate governance report based on the Corporate Governance recommendations, the DVCA guidelines and the code of FinanceDenmark must be published at least once a year. The reports are published on the company's website in connection with the publication of the annual report.

Detailed information about corporate governance is provided in the reports on the company's website: www.shipfinance.dk/investor-relations/

REMUNERATION

The company has drawn up a remuneration policy covering the Board of Directors, Executive Board and all employees. The Board of Directors has not established a Remuneration Committee. The Board of Directors defines the remuneration policy and reviews the policy at least once a year to realign it with the company's progress. The remuneration policy is approved by the general meeting.

Any variable salary to risk takers will be based on performance targets, existing and future risks attached to such results and the capital expenses, liquidity and credit risk required to obtain the results.

Most of the employees are covered by collective agreements and receive a fixed salary based on capabilities, experience and job function. In addition, employees may be awarded a bonus when specifically assessed to have performed beyond expectations in a calendar year. When deemed relevant by the Executive Board, key employees may also be offered a retention bonus.

Other employees are employed on individual contracts, including managerial-level employees. These employees receive a basic salary with the option of a bonus based on pre-defined criteria.

For members of the Executive Board and other risk takers and persons in designated functions, the variable salary component must not exceed 50% of the fixed basic salary including pension. At least 50% of the variable remuneration must consist of instruments such as bonds (senior contingent notes), shares, phantom shares or a combination thereof.

The variable salary components are subject to deferment requirements (four years for the Executive Board, other risk takes and persons in designated functions) and requirements on retention (lock-up) in accordance with the applicable statutory requirements.

There is no agreement on variable remuneration of the Board of Directors.

No persons received a salary in excess of EUR 1 million in the financial year.

The total payments concerning remuneration for the Board of Directors, the Executive Board and other employees whose activities have a material impact on the company's risk profile are shown in note 8 to the financial statements.
Additional information on the remuneration policy is available on the company's website
www.shipfinance.dk/investor-relations/

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 Anders Damgaard, Peter Nyegaard and Michael N. Pedersen.

The audit committee is a preparatory and monitoring body. The duties of the Audit Committee are defined in the terms of reference of the Audit Committee. The Audit Committee is to inform the Board of Directors about the outcome of the statutory audit, 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, monitoring and verifying the independence of the auditors and selecting and recommending new auditors.

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.shipfinance.dk/company/

CORPORATE SOCIAL RESPONSIBILITY

The CSR policy has been approved by the Board of Directors and builds on the UN Global Compact, the UN Guiding Principles on Human Rights and industry standards in Denmark. The purpose of the company's CSR work is to contribute by adding value to society at large and to the company itself. The starting point for the work is that Danish Ship Finance is a financial company which only has employees in Denmark.

CSR work forms an integral part of the corporate culture. The company will focus on CSR initiatives for in-house use and – where relevant – on addressing social responsibility in relation to its stakeholders. The following four focus areas have been defined:

1. Human rights
2. Human resources
3. The environment and climate
4. Corruption and unusual gifts

The company endeavours to be an attractive workplace offering professional challenges, competence development, a good work-life balance, a flexible career path, senior programmes and healthcare insurance. The aim is to create a good working environment, both physically and in relation to general well-being.

Respect for human rights is fundamental to our society, and that is a mandatory in our in-house operations and is given attention in relation to third-party stakeholders.

The company aims to actively contribute to improving the environment within the areas relevant for a financial company. Loan documents stipulate that customers must comply with any applicable legislation the customer is subject to.

The company condemns any form of corruption and has established in-house guidelines on prevention of corruption, including clear guidelines on giving and receiving gifts.

Additional information on the corporate social responsibility is provided in the CSR report on the company's website:
www.shipfinance.dk/investor-relations/

HUMAN RESOURCES

At the end of 2016, Danish Ship Finance had 68 employees, of whom 25 were women and 43 were men. During the calendar year, 12 people joined the company and 13 left.

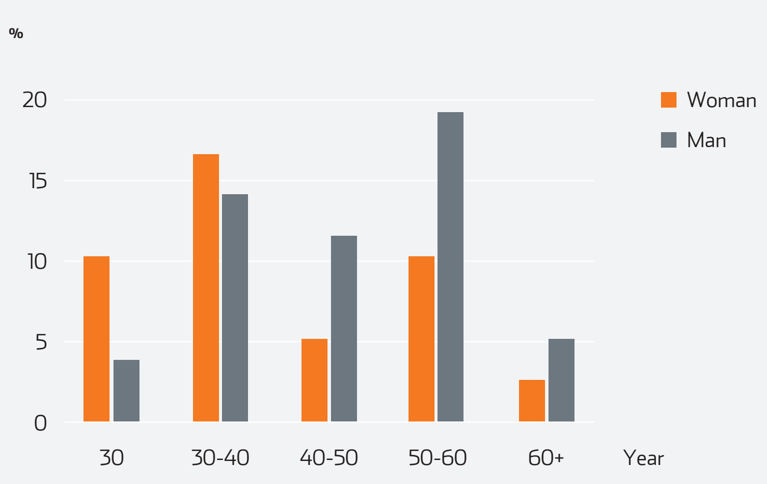
For the company to retain its position as the leading ship financing institute, it is important that it is able to attract and retain competent employees.

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 2016, expenses for training courses and other training amounted to 1.0% 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 2016 showed a very high degree of satisfaction and also showed an unchanged level relative to the previous survey conducted in 2015. The company will continue to seek to retain this high level of satisfaction.

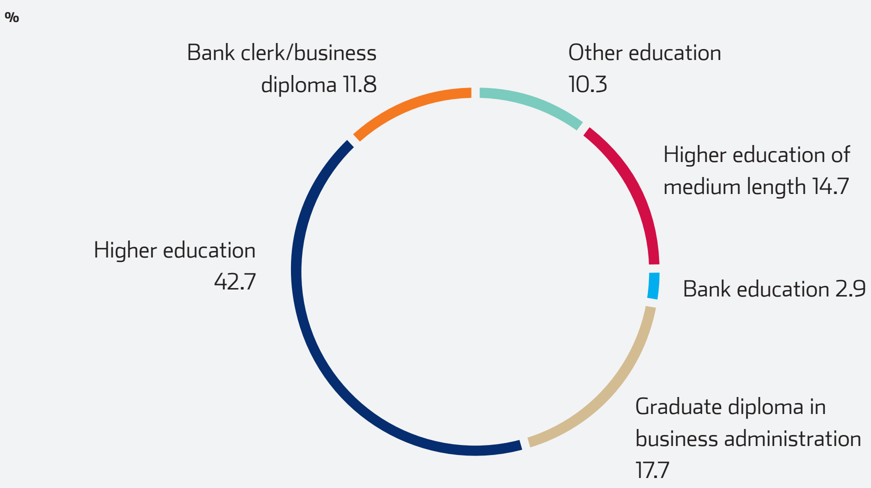
Additional information on the employee satisfaction survey is provided in the CSR report on the company's website:
www.shipfinance.dk/investor-relations/

AGE DISTRIBUTION BY GENDER



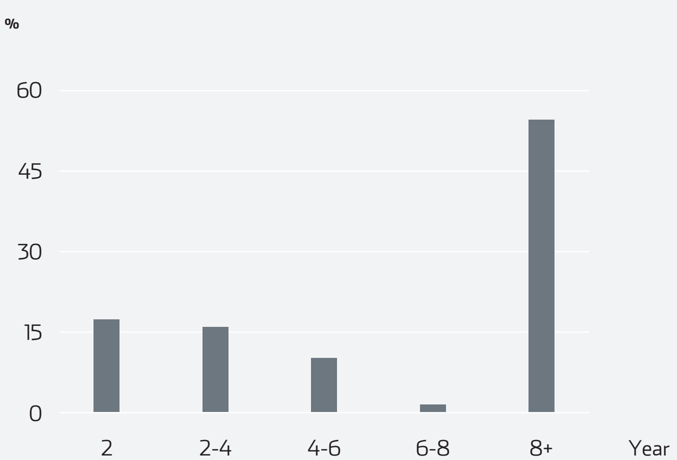
Age distribution by gender shows most employees fall within the age groups 30-40 years and 50-60 years. There has been a marginal increase in the average age of employees, with the average employee age now being 44 years old.

EDUCATIONAL BACKGROUND



Our employees generally have a high level of education and are specialists within their area. 42.7% of employees have an higher education (master's degree, etc.).

SENIORITY



The seniority chart shows that 54% of staff have been employed at the company for more than 8 years, which accords with the high level of employee satisfaction.

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 2016. 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.

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.

Eivind Kolding
Chairman
Date of birth: 16 November 1959
Nationality: Danish
Considered to be an independent board member.
Elected to the Board of Directors on 15 November 2016
Appointed by Axcel, PFA and PKA
Other directorships:
Chairman of the Board of Directors of CASA A/S
Chairman of the Board of Directors of Kunstforeningen Gl. Strand
Member of the board of Directors of NNIT A/S
Competencies:
Broad knowledge of shipping and the maritime industry, macroeconomics, banking, credit, insurance and finance, financial risk management, regulation and general management of international business from previous positions as Group CFO and shipowner with A.P. Møller – Mærsk, CEO of Danske Bank and former Vice Chairman (now Chairman) of Danish Ship Finance A/S.

CFO & Partner Peter Nyegaard
Axcel
Vice Chairman
Member of the Audit Committee
Date of birth: 16 May 1963
Nationality: Danish
Considered to be an independent board member.
Elected to the Board of Directors on 15 November 2016
Appointed by Axcel
Other directorships:
Chairman of the Board of Directors of FIH
Member of the Board of Directors of Øens Murerfirma A/S
Chairman/member of a number of boards in the Axcel Group
Competencies:
Broad knowledge of general management of international companies, financial risk management, financial regulation, capital markets, credit, financing and macroeconomics from existing position as Chairman of FIH A/S and previous positions as Executive Vice President of Nordea Bank AB and Chairman of Nordea Bank Danmark A/S.

Partner Christian Frigast
Axcel
Date of birth: 23 November 1951
Nationality: Danish
Considered to be an independent board member.
Elected to the Board of Directors on 15 November 2016
Appointed by Axcel
Other directorships:
Chairman of the Board of Directors:
Axcel Management
Danish Ship Finance Holding A/S
EKF (Denmark's Export Credit Agency)
Axcel's think tank Axcelfuture
Vice Chairman of the Board of Directors:
PANDORA
DVCA (Danish Venture Capital end Private Equity Association)
Axcel Advisory Board
Member of the Board of Directors:
Nordic Waterproofing
The Denmark-America Foundation
The Board Leadership Society in Denmark
Associate professor at CBS (Copenhagen Business School)
Competencies:
Broad experience from (listed) companies serving as Chairman, Deputy Chairman and member of the Board of Directors and on various board committees. Highly experienced in leading successful business transformations in various industries, ownership structures, company sizes and strategies. Experience in banking, finance, financial risk management, management of international companies, M&A, restructuring, operational efficiency and value proposition strategies.

Management Executive Michael N. Pedersen
PKA A/S
Member of the Audit Committee
Date of birth: 8 July 1961
Nationality: Danish
Considered to be an independent board member.
Elected to the Board of Directors on 15 November 2016
Appointed by PKA
Other directorships:
Management Executive of:
Property companies owned by the three pension funds managed by PKA A/S
A/S Kjøbenhavns Ejendomsselskab
Forstædernes Ejendomsaktieselskab
Chairman/member of Advisory Board and investment committees in various foundations relating to private equity, infrastructure and micro finance due to PKA's investment in such foundations
Member of the Board of Directors of:
Danish Ship Finance Holding A/S
PKA Pensions Forsikringsselskab A/S
Refshaleøen Holding A/S
Refshaleøens Ejendomsselskab A/S
PKA AIP A/S
PKA Alternative Investments ApS
Margretheholmen P/S
Komplementarselskabet Margretheholm ApS
PKA Skejby Komplementar ApS
PKA Skejby P/S
Hotel Koldingfjord A/S
Poppelstykket 12 A/S
P/S PKAE Ejendom
Competencies:
Broad knowledge of financial institutions (including pension fund operations), credit, investment, finance, regulation and financial risk management.

Group CFO Anders Damgaard
PFA Pension
Chairman of the Audit Committee
Date of birth: 8 August 1970
Nationality: Danish
Considered to be an independent board member.
Elected to the Board of Directors on 15 November 2016
Appointed by PFA
Other directorships:
Chairman of the Board of Directors of:
PFA Asset Management A/S
PFA Ejendomme A/S
PFA Kapitalforening and various
property companies within the group
Danish Ship Finance Holding A/S
Blue Equity Management A/S
Competencies:
Broad knowledge of financial institutions (including banking), credit, investment, finance, regulation and financial risk management.

CEO Henrik Sjøgreen
FIH A/S
Date of birth: 30 July 1964
Nationality: Danish
Considered to be an independent board member.
Elected to the Board of Directors on 15 November 2016
Appointed by PFA
Other directorships:
Chairman of the Board of Directors of:
FIH Partners A/S
FIH II A/S
Simon Fougner Hartmanns Fund
Member of the Board of Directors of:
LFM Invest A/S
Competencies:
Broad knowledge of banking, credit, insurance and finance, financial risk management, debt markets and general management.

Senior Relationship Manager
Marcus F. Christensen
Danish Ship Finance A/S (Danmarks Skibskredit A/S)
Date of birth: 20 November 1979
Nationality: Danish
Elected to the Board of Directors on 29 March 2012
Competencies:
Broad knowledge of credit, ship financing and handling of problem loans through his position as Senior Relationship Manager with Danish Ship Finance A/S.

Head of Research Christopher Rex
Danish Ship Finance A/S (Danmarks Skibskredit A/S)
Date of birth: 28 January 1979
Nationality: Danish
Elected to the Board of Directors on 29 March 2012
Competencies:
Broad knowledge of macroeconomics, financial risk management and international shipping through his position as Head of Research with Danish Ship Finance A/S.

Senior Relationship Manager
Henrik R. Søgaard
Danish Ship Finance A/S (Danmarks Skibskredit A/S)
Date of birth: 9 February 1959
Nationality: Danish
Elected to the Board of Directors on 24 April 2008
Competencies:
Broad knowledge of credit, ship financing and handling of problem loans through his position as Senior Relationship Manager with Danish Ship Finance A/S.

ORDINARY MEETINGS AND MEETING PARTICIPATION 2016

Participation rate (%)	Board of Directors	Audit Committee
Eivind Kolding (*)	100	
Peter Nyegaard (*)	100	100
Marcus F. Christensen	87.5	
Anders Damgaard (*)	100	100
Michael N. Pedersen (*)	100	100
Christopher Rex	75	
Henrik R. Søgaard	100	
Henrik Sjøgreen (*)	100	
Christian Frigast (*)	0	
Peter Lybecker (**)	85.7	
Jesper Lok (**)	71.4	
Fatiha Benali (**)	100	100
Jan Kjærvik (**)	57.1	50
Jenny Braat (**)	71.4	
Glenn Søderholm (**)	57.1	100

(*) Elected to the Board of Directors in November 2016 (have had the opportunity to attend one board meeting in 2016)
(**) Left the Board of Directors in 2016

EXECUTIVE BOARD

Chief Executive Officer Erik I. Lassen
Member of the Executive Board since 9 April 2008
Directorships in other companies:
Member of the Executive Board of
Danish Ship Finance Holding A/S

Executive Vice President Per Schnack
Member of the Management Board since 9 April 2008
Directorships in other companies:
Member of the Executive Board of
Danish Ship Finance Holding A/S

STATEMENT BY THE EXECUTIVE BOARD AND 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 2016. 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 2016 and of the results of the company's operations for the financial year ended 31 December 2016.

We recommend the annual report for adoption at the annual general meeting to be held on 27 March 2017.

Copenhagen, 28 February 2017

EXECUTIVE BOARD

Erik Ingvar Lassen
Chief Executive Officer

Per Schnack
Executive Vice President

BOARD OF DIRECTORS

Eivind
Drachmann Kolding
(Chairman)

Peter
Nyegaard
(Vice Chairman)

Marcus
Freuchen Christensen

Anders
Damgaard

Povl Christian
Lütken Frigast

Michael
Nellemann Pedersen

Christopher
Rex

Henrik
Sjøgreen

Henrik
Rohde Søgaard

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF DANISH SHIP FINANCE A/S

OPINION

We have audited the financial statements of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year ended 31 December 2016, 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 and additional Danish disclosure requirements for issuers of listed bonds.

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31 December 2016 and of the results of the company's operations for the financial year ended 31 December 2016 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the financial statements* section of this auditor's report. We are independent of the company in accordance with the IESBA Code of Ethics for Professional Accountants and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 1 January 2016 to 31 December 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

STATEMENT ON THE MANAGEMENT'S REPORT

Management is responsible for the Management's report.

Our opinion on the financial statements does not cover the Management's report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's report provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the company's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in the preparation of the financial statements unless Management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
The determination of loan impairment charges is subject to considerable uncertainty and largely based on management judgements. Due to the significance of these judgements and the size of loans in the company, auditing loan impairment charges is considered a key audit matter. Loans amounted to DKK 39,811 million at 31 December 2016 after deduction of accumulated loan impairment charges of DKK 2,516 million. The principles for determining the loan impairment charges are described in the accounting policies, and Management has described the management of credit risks and the assessment of loan impairment charges in more detail in notes 14 and 37. The most significant judgements that also required the greatest attention during the audit were: • If impairment events have occurred • Valuation of collateral, particular vessels included in the calculation of loan impairment charges, and future cash flows • Management judgements	Based on our risk assessment, we have aimed our audit at the loan impairment charges and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter. Our audit included the following elements: • Reviewing and assessing the company's overall methodology for monitoring the risk of loan write-offs, focusing especially on the credit monitoring function • Testing the company's internal controls for identifying loans with objective evidence of a risk of write-offs • Challenging the methodologies applied for the vessel types requiring the most significant judgement by using our industry knowledge and experience, including a review of changes since last year • Assessing the changes in the assumptions for the vessel types requiring the most significant judgement against shipping industry standards and historical data • Performing a risk-based test of loans to ensure timely identification of impairment of loans and to ensure appropriate impairment charging • Challenging management judgements focusing on consistency and objectivity of the Management, including focusing on documentation of the adequacy of management judgements relating to vessel types in general.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and additional requirements applicable in Denmark will always detect a material misstatement when it exits. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit.

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

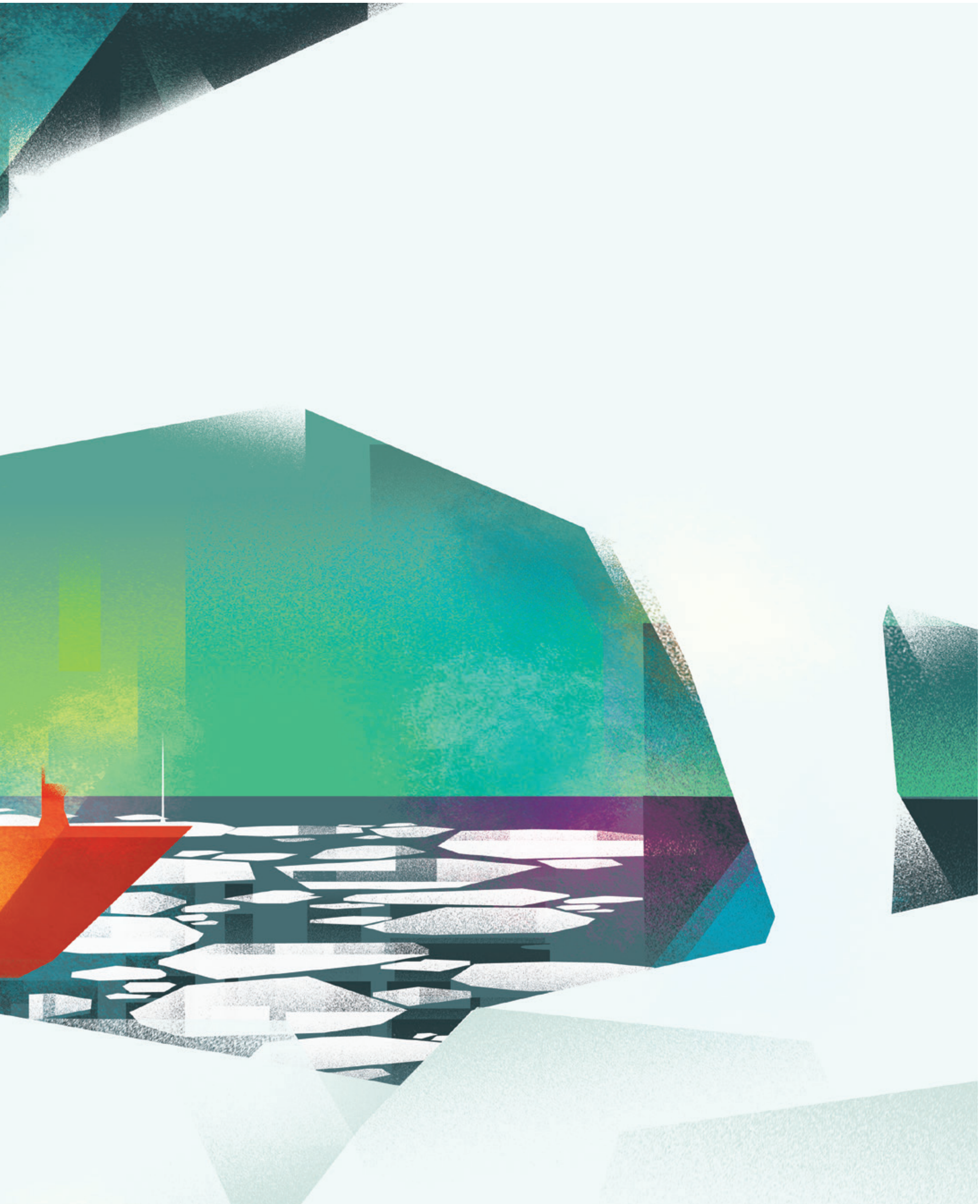
We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those Charged with Governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 28 February 2017

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

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



INCOME STATEMENT

NOTE	1 JANUARY - 31 DECEMBER DKK MILLION	2016	2015
3	Interest income	1,831	1,886
4	Interest expenses	(1,015)	(1,021)
5	**Net interest income**	**817**	**865**
	Dividends on shares, etc.	-	0
6	Fee and commission income	32	41
	Fee and commission expenses	-	0
	Net interest and fee income	**849**	**906**
7	Market value adjustments	124	(177)
8,9	Staff costs and administrative expenses	(120)	(113)
19,20	Depreciation and impairment on property, plant and equipment	(2)	(1)
14	Loan impairment charges	(610)	(46)
	Profit before tax	**241**	**569**
10	Tax	(54)	(156)
	Net profit for the year	**188**	**413**
	Other comprehensive income	15	-
	Tax on other comprehensive income	-3	-
	Other comprehensive income after tax	**12**	**0**
	Comprehensive income for the year	**200**	**413**
	AMOUNT AVAILABLE FOR DISTRIBUTION		
	Distributable reserves	279	1,279
	Comprehensive income for the year	200	413
	Total	**478**	**1,692**
	PROPOSED ALLOCATION OF PROFIT		
	Distribution	199	413
	Other comprehensive income transferred to revaluation reserves	12	-
	Distributable reserves	267	1,279
	Total	**478**	**1,692**

BALANCE SHEET

NOTE	AT 31 DECEMBER DKK MILLION	2016	2015
	ASSETS		
11	Due from credit institutions and central banks	1,125	731
12,13,14	Loans at amortised cost	39,811	43,171
15,16,17	Bonds at fair value	19,730	19,100
18	Shares, etc.	14	19
19	Land and buildings		
	Domicile property	79	64
20	Other tangible assets	9	9
	Current tax assets	149	89
25	Deferred tax assets	100	157
21	Other assets	1,603	1,533
	Total assets	**62,621**	**64,873**
	LIABILITIES AND EQUITY		
	Liabilities		
22	Due to credit institutions and central banks	5,675	4,229
23	Issued bonds at amortised cost	42,352	45,067
	Current tax liabilities	0	0
17, 24	Other liabilities	5,430	5,200
	Total liabilities	**53,457**	**54,496**
26	**Equity**		
	Share capital	333	333
	Tied-up reserve capital	8,343	8,343
	Revaluation reserves	21	10
	Retained earnings	267	1.279
	Proposed dividends for the financial year incl. distributable reserves	199	413
	Total equity	**9,164**	**10,378**
	Total liabilities and equity	**62,621**	**64,873**
	Off-balance sheet items		
28	Contingent liabilities	221	312
29	Other binding agreements	1,710	2,330
	Total off-balance sheet items	**1,931**	**2,642**

STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Tied-up reserve capital	Revaluation reserve	Distributable reserves	Retained earnings	Total
Equity at 1 January 2015	**333**	**8,343**	**10**	**1,279**	**1,181**	**11,146**
Dividends paid	-	-	-	-	(1,181)	(1,181)
Net profit for the year	-	-	0	-	413	413
Equity at 31 December 2015	**333**	**8,343**	**10**	**1,279**	**413**	**10,378**
Dividends paid	-	-	-	-	(413)	(413)
Extraordinarily dividends paid	-	-	-	(1.000)	-	(1.000)
Amount for distribution	-	-	12	(11)	199	200
Equity at 31 December 2016	**333**	**8,343**	**21**	**267**	**199**	**9,164**

LIST OF NOTES

NOTER

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.

In connection with Danish Ship Finance Holding A/S's acquisition of the majority of the shares of the company on 15 November 2016, the company was consolidated in the financial statements of Danish Ship Finance Holding A/S as both the smallest and largest group entity.

Future rules that may affect recognition and measurement
Following EU's adoption in 2016, IFRS 9 is expected to become effective from 1 January 2018. Although the company does not prepare its annual report in accordance with IFRS, the Danish FSA's Executive Order on Financial Reporting is expected to be adjusted in accordance with the rules of IFRS 9.

The amendments to IFRS 9 that are primarily expected to affect recognition and measurement of loans at amortised cost are a new impairment model, which will henceforth be based on an expected credit loss principle replacing recognition of credit losses based on credit losses actually incurred.

Management has still not calculated the full effect of the implementation of the expected new impairment rules and also awaits the Danish FSA's final wording of the rules in the Executive Order on Financial Reporting before analysing and publishing its final assessment of the effect.

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:

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

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.

Valuation (measurement) and loan impairment charges
Individual impairment charges are subject to material estimates with respect to the time when objective evidence of impairment (OEI) occurs. Individual impairment charges involve estimates associated with assessing when debtors experience substantial financial difficulty.

Collective impairment charges especially involve estimates associated with assessing in which segments OEI exists.

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

NOTE 1

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.

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.

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 Danish 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.

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.

NOTE 1

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.

Loan impairment charges

The company makes impairment charges to account for any impairment that occurs after initial recognition. Impairment charges are made both as individual charges and collective charges and rely on a number of estimates. Irrespective of the category, loan 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 in-court 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 estimate.

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.

NOTE 1

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.

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. Revaluations and any reversals of previous revaluations are made via comprehensive income, while any impairment relative to cost is made via the income statement.

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

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.

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

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 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 net profit 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
Other binding agreements comprise irrevocable credit commitments made and unutilised drawing rights on loans with revolving credit facilities provided as part of the lending activities.

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

NOTE 1

Interest income and expense

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.

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 write-offs 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, DKK MILLION	2016	2015	2014	2013	2012
Net interest income from lending	589	623	565	541	439
Net interest income from financial activities	228	242	255	350	447
Total net interest income	817	865	820	891	886
Net interest and fee income	849	906	934	937	940
Market value adjustments	124	(177)	123	(25)	105
Staff costs and administrative expenses	(120)	(113)	(98)	(97)	(94)
Loan impairment charges	(610)	(46)	1.103	(166)	(523)
Profit before tax	241	569	2,061	647	427
Net profit for the year	188	413	1,568	477	314
Loans	39,811	43,171	43,347	42,383	46,364
Bonds	19,730	19,100	18,680	21,066	30,091
Equity	9,164	10,378	11,146	9,983	9,773
Total assets	62,621	64,873	69,374	67,222	83,002

RATIOS	2016	2015	2014	2013	2012
Common equity tier 1 capital ratio	17.2	17.3	16.4	17.0	15.2
Tier 1 capital ratio	17.2	17.3	16.4	17.0	15.1
Total capital ratio	17.2	17.3	16.4	17.0	15.2
Return on equity before tax (%)	2.5	5.3	19.5	6.5	4.4
Return on equity after tax (%)	1.9	3.8	14.8	4.8	3.2
Income/cost ratio (DKK) *)	1.3	4.5	(1.1)	3.4	1.7
Income/cost ratio (ex. impairment charges)	8.0	6.4	10.6	9.3	11.0
Foreign exchange position (%)	4.5	7.1	8.5	11.5	9.5
Gearing of loans	4.3	4.2	3.9	4.2	4.7
Annual growth in lending (%)	(7.8)	(0.4)	2.3	(8.6)	(1.2)
Impairment ratio for the year	1.4	0.1	(2.4)	0.4	1.0
Accumulated impairment ratio	5.9	4.3	4.3	6.7	5.8
Rate of return on assets (%)	0.3	0.6	2.3	0.7	0.4

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.*

DKK MILLION	2016	2015

NOTE 3 INTEREST INCOME

Due from credit institutions and central banks	14	33
Loans and other receivables	1,349	1,407
Bonds	385	404
Other interest income	0	0
Derivatives		
Interest rate contracts	82	38
Foreign exchange contracts	1	3
Total interest income	**1,831**	**1,886**
Of this amount, income from genuine purchase and resale transactions recognised in:		
Due from credit institutions and central banks	11	25
Interest from own bonds is deducted in:		
Bonds	-	1

NOTE 4 INTEREST EXPENSES

Credit institutions and central banks	(5)	(4)
Issued bonds	(578)	(828)
Other interest expenses	(115)	(189)
Derivatives		
Interest rate contracts	(317)	-
Total interest expenses	**(1,015)**	**(1,021)**
Of this amount, interest expenses on genuine sale and repurchase transactions recognised in:		
Due to credit institutions and central banks	(2)	(1)
Interest from own bonds is deducted in:		
Issued bonds	0	(1)

DKK MILLION	2016	2015
NOTE 5 NET INTEREST INCOME		
Net interest income from lending		
Loans and other receivables	1,349	1,407
Bonds	42	16
Due from credit institutions	12	4
Interest to credit institutions	(2)	(2)
Issued bonds	(578)	(827)
Other interest expenses	-	(17)
Derivatives		
Interest rate contracts	(235)	38
Foreign exchange contracts	1	3
Total net interest income from lending	**589**	**623**
Net interest income from finance activities		
Bonds	343	387
Due from credit institutions	2	29
Other interest income	-	0
Interest to credit institutions	(3)	(2)
Other interest expenses	(115)	(172)
Total net interest income from finance activities	**228**	**242**
Total net interest income	**817**	**865**

DKK MILLION	2016	2015

NOTE 6 FEE AND COMMISSION INCOME

DKK MILLION	2016	2015
Guarantee commission	4	6
Fee and other commission income	28	36
Total fee and commission income	**32**	**41**

NOTE 7 MARKET VALUE ADJUSTMENTS

DKK MILLION	2016	2015
Market value adjustment of bonds	487	(560)
Market value adjustment of shares	(6)	20
Exchange rate adjustments	4	33
Market value adjustment of derivatives	(361)	331
Total market value adjustments	**124**	**(177)**

NOTE 8 STAFF COSTS AND ADMINISTRATIVE EXPENSES

DKK MILLION	2016	2015
Remuneration of Board of Directors and Executive Board		
Executive Board	(11)	(6)
Board of Directors	(2)	(2)
Total remuneration of Board of Directors and Executive Board	**(13)**	**(8)**
Staff costs		
Staff costs	(57)	(53)
Pensions	(6)	(5)
Social security costs and financial services employer tax	(14)	(14)
Total staff costs	**(77)**	**(73)**
Other administrative expenses	(30)	(32)
Total staff costs and administrative expenses	**(120)**	**(113)**
Number of employees - full-time equivalents	69	68
Average number of employees - full-time equivalents	68	67

DKK ’000

NOTE 8 CONTINUED

REMUNERATION OF THE BOARD OF DIRECTORS

2016		Ordinary fee	Committee fee	Total fees
New members as of 15 November 2016				
Eivind Kolding (Chairman)		-		-
Peter Nyegaard (Vice Chairman)	*)	-		-
Anders Damgaard	*)	-		-
Christian Frigast		-		-
Michael N. Pedersen	*)	-		-
Henrik Sjøgreen		-		-
Continuing members as of 15 November 2016				
Henrik R. Søgaard	**)	175		175
Marcus F. Christensen	**)	175		175
Christopher Rex	**)	175		175
Retired as of 15 November 2016				
Peter Lybecker (Chairman)		350		350
Jesper Lok (Vice Chairman)		262		262
Fatiha Benali		175	58	233
Jenny Braat		175		175
Glenn Söderholm		175	58	233
Jan Kjærvik		175	58	233
Total		**1,837**	**174**	**2,011**

2015		Ordinary fee	Committee fee	Total fees
Peter Lybecker, Chairman		350		350
Jesper Lok (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 Braat		175		175
Glenn Söderholm	*)	175	58	233
Jan Kjærvik (member as of 26 March 2015)	*)	88	29	117
Trond Ø. Westlie (retired as of 26 March 2015)		88	29	117
Henrik R. Søgaard	**)	175		175
Marcus F. Christensen	**)	175		175
Christopher Rex	**)	175		175
Total		**1,837**	**174**	**2,011**

**) Member of Audit Committee*
***) Employee representative*

DKK '000	2016	2015

NOTE 8
CONTINUED

REMUNERATION OF EXECUTIVE BOARD

Erik I. Lassen		
Contractual remuneration	3,583	2,864
Pension	383	353
Tax value of car	118	149
Incentive bonus	1,804	-
Total	**5,888**	**3,366**
Per Schnack		
Contractual remuneration	3,505	2,577
Pension	347	318
Tax value of car	147	144
Incentive bonus	1,655	-
Total	**5,653**	**3,038**

The incentive bonus to the Executive Board is allocated on the basis of the sale of the company in the current financial year. The bonus is evenly distributed between a cash consideration and remuneration bonds, 40% of which were granted in 2016 while the remaining part will be acquired over the subsequent four years depending on the company's future financial status.

The 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.

NOTE 8
CONTINUED

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 2016, which was adopted by the company´s annual general meeting on 31 March 2016. The remuneration policy is available on the company´s website.

It appears from the remuneration policy that variable pay may be disbursed to members of the Executive Board and other employees whose activities have a material impact on the company's risk profile.

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

2016	**Fixed remuneration/fee**	**Variable remuneration**	**Total remuneration/fee**	**Number of recipients**
Board of Directors	2,011	-	2,011	9
Executive Board	8,083	3,459	11,541	2
Other employees whose activities have an impact on the company's risk profile	10,180	-	10,180	6
Total	**20,274**	**3,459**	**23,732**	

DKK MILLION	2016	2015

NOTE 9 AUDIT FEES

	2016	2015
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

	2016	2015
Tax on profit for the year		
Estimated tax on profit for the year	-	(227)
Changes in deferred tax	-54	82
Adjustment for reduction of corporation tax rate	-	(6)
Adjustment of prior-year tax charges	0	(4)
Total tax	**(54)**	**(156)**
Tax on other comprehensive income		
Deferred tax	(3)	-
Total tax	**(3)**	**-**
Effective tax rate	Pct.	Pct.
Tax rate in Denmark	22.0	23.5
Non-taxable income and non-deductible expenses	1.8	0.1
Adjustment for reduction of corporation tax rate	-	1.9
Adjustment of prior-year tax charges	(0.2)	2.0
Effective tax rate	**23.6**	**27.4**

DKK MILLION	2016	2015

NOTE 11 DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

Genuine purchase and resale transactions (repo reverse)	391	0
Other receivables	734	731
Total due from credit institutions and central banks	**1,125**	**731**
Broken down by due date:		
Demand deposits	7	76
Up to 3 months	1,118	655
Total due from credit institutions and central banks	**1,125**	**731**

The company has no term deposits with central banks.

NOTE 12 LOANS AT AMORTISED COST

At 1 January	43,171	43,347
Additions	4,560	5,139
Ordinary repayments and redemptions	(5,589)	(6,681)
Extraordinary repayments	(2,843)	(2,000)
Net change concerning revolving credit facilities	(174)	(1,236)
Exchange rate adjustment of loans	1,236	4,578
Change in amortised cost for the year	11	7
Depreciation, amortisation and impairment for the year	(559)	16
At 31 December	**39,811**	**43,171**

DKK MILLION	2016	2015
NOTE 13 LOANS AT AMORTISED COST		
Gross loans at exchange rates at the balance sheet date	42,328	45,128
Accumulated loan impairment charges	(2,516)	(1,958)
Total loans	**39,811**	**43,171**
Total loans broken down by due date:		
Up to 3 months	2,923	2,312
From 3 months to 1 year	5,484	5,118
From 1 to 5 years	26,499	28,868
Over 5 years	4,905	6,873
Total loans	**39,811**	**43,171**
Total loans		
Loans at fair value	40,340	43,478
Loans at amortised cost	39,811	43,171

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.

	2016	2015
Loans with more lenient repayment terms, including forbearance	6,389	2,653
Loan impairment charges	(1,819)	(875)
Total loans with more lenient repayment terms, incl, forbearance	**4,570**	**1,777**
Other loans with objective evidence of impairment	608	1,521
Loan impairment charges	(157)	(172)
Total other loans with objective evidence of impairment	**451**	**1,349**
Total loans and receivables subject to individual impairment charges	**5,021**	**3,127**

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

DKK MILLION	2016	2015

NOTE 14 LOAN IMPAIRMENT CHARGES

	2016	2015
The following impairment charges were made on loans		
Individual impairment charges	1,977	1,047
Collective impairment charges	540	910
Total loan impairment charges	**2,516**	**1,958**
As a percentage of loans and impairment charges and guarantee commitments		
Individual impairment charges	4.6	2.3
Collective impairment charges	1.3	2.0
Allowance account as a percentage of loans and guarantees	**5.9**	**4.3**
Distribution of loan impairment charges:		
Amount set off against loans	2,516	1,958
Accumulated loan impairment charges	**2,516**	**1,958**
Movements in loan impairment charges		
At 1 January	1,958	1,974
Additions	1,214	805
Reversal of loan impairment charges from previous years	(560)	(731)
Write-offs covered by loan impairment charges from previous years	(95)	(90)
Total impairment charges	**2,516**	**1,958**
Loan impairment charges		
New impairment charges	(1,214)	(805)
Reversed impairment charges	560	731
Reclassification of interest	38	27
Received on claims previously written off	6	0
Loan impairment charges	**(610)**	**(46)**

DKK MILLION	2016	2015

NOTE 15 BONDS AT FAIR VALUE

	2016	2015
Bond portfolio		
Own non-callable bonds	-	457
Non-callable bonds	13,972	9,539
Callable bonds	5,758	9,561
Portfolio of bonds, total before offsetting own bonds	**19,730**	**19,557**
Own bonds (offset against issued bonds at amortised cost)	-	(457)
Total bond portfolio	**19,730**	**19,100**

	2016	2015
Bond portfolio		
Own bonds	-	457
Government bonds and bonds issued by Kommune Kredit	3,753	2,773
Mortgage bonds	15,977	16,327
Portfolio of bonds, total before offsetting own bonds	**19,730**	**19,557**
Own bonds (offset against issued bonds at amortised cost)	-	(457)
Total bond portfolio	**19,730**	**19,100**

NOTE 16 BOND HOLDINGS BY TIME TO MATURITY

	2016	2015
Bond portfolio		
Own bonds with a maturity up to and including 1 year	-	-
Own bonds with a maturity over 1 year and up to and including 5 years	-	457
Own bonds with a maturity over 5 years and up to and including 10 years	-	-
Bonds with a maturity up to and including 1 year	945	905
Bonds with a maturity over 1 year and up to and including 5 years	8,871	6,812
Bonds with a maturity over 5 years and up to and including 10 years	3,579	826
Bonds with a maturity over 10 years	6,335	10,557
Portfolio of bonds, total before offsetting own bonds	**19,730**	**19,557**
Own bonds (offset against issued bonds at amortised cost)	-	(457)
Total bond holdings specified by time to maturity	**19,730**	**19,100**

DKK MILLION	2016	2015

NOTE 17 CSA COLLATERAL

Collateral entered under CSA agreements		
Received collateral	127	305
Providet collateral	(627)	(213)
Net value of collateral entered under CSA agreements	**(500)**	**91**

The bonds received and sent have been recognised in the balance sheet so that they reduce the market values under derivatives 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.

Shares listed on Nasdaq Copenhagen A/S	10	16
Unlisted shares/unit trust certificates recognised at fair value	3	3
Total shares, etc.	**14**	**19**

NOTE 19 LAND AND BUILDINGS

Domicile property		
Revaluation, 1 January	65	65
Revaluations	15	-
Revaluation incl. improvements, 31 December	**80**	**65**
Accumulated depreciation, 1 January	1	1
Depreciation for the year	0	0
Accumulated depreciation, 31 December	**1**	**1**
Total revaluation, 31 December	**79**	**64**

The domicile property comprises the office property at Sankt Annæ Plads 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, revaluations have been made to the recognised value. External experts were not involved in valuing the domicile property.

DKK MILLION	2016	2015

NOTE 20 OTHER TANGIBLE ASSETS

Cost, 1 January	28	27
Additions during the year	2	2
Disposals during the year	0	-1
Cost, 31 December	**30**	**28**
Accumulated depreciation, 1 January	20	19
Disposals during the year	-	-
Depreciation during the year	2	1
Accumulated depreciation, 31 December	**21**	**20**
Total other tangible assets	**9**	**9**

NOTE 21 OTHER ASSETS

Interest receivable	356	272
Prepayments to swap counterparties	18	17
Derivatives	1,221	1,233
Miscellaneous receivables	9	11
Total other assets	**1,603**	**1,533**

NOTE 22 DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

Repo transactions	5,450	3,892
Other amounts due	225	337
Total due to credit institutions and central banks	**5,675**	**4,229**
Broken down by due date:		
On demand	225	337
Up to 3 months	5,450	3,892
Total due to credit institutions and central banks	**5,675**	**4,229**

DKK MILLION	2016	2015

NOTE 23

ISSUED BONDS AT AMORTISED COST

	2016	2015
At 1 January	45,067	45,077
Additions in conjunction with block issues	6,337	7,021
Amortisation of cost	28	88
Adjustment for hedge accounting	(163)	(195)
Exchange rate adjustment	99	647
Own bonds	465	505
Ordinary and extraordinary redemptions	(9,481)	(8,076)
At 31 December	**42,352**	**45,067**

Specification of issued bonds

	2016	2015
Bonds issued in DKK		
Bullet bonds	37,818	39,627
Amortising CIRR bonds	739	854
Total Danish bonds	**38,557**	**40,481**
Bonds issued in foreign currency		
Amortising CIRR bonds, at year-end exchange rates	3,795	5,048
Total bonds issued in foreign currency	**3,795**	**5,048**
Own bonds	-	(462)
Total issued bonds	**42,352**	**45,067**
Broken down by term to maturity		
Up to 3 months	2,439	0
From 3 months to 1 year	1,045	1,582
From 1 to 5 years	29,217	30,058
Over 5 years	9,651	13,889
Issued bonds, total before setting off against portfolio of own bonds	**42,352**	**45,529**
Own bonds	-	(462)
Total issued bonds	**42,352**	**45,067**

DKK MILLION	2016	2015

NOTE 24 OTHER LIABILITIES

	2016	2015
Interest payable	266	255
Derivatives	5,163	4,910
Other liabilities	0	35
Total other liabilities	**5,430**	**5,200**

NOTE 25 DEFERRED TAX

	2016	2015
Deferred tax, 1 January	(157)	(82)
Estimated deferred tax on the profit for the year	57	(82)
Adjustment for reduction of corporation tax rate	-	6
Total deferred tax	**(100)**	**(157)**

	2016	2016	2016	2015
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax net**	**Deferred tax net**
Property, plant and equipment	0	7	7	4
Loans	(34)	-	(34)	(39)
Shares, etc.	-	-	-	-
Issued bonds	-	53	53	(133)
Employee obligations	(1)	-	(1)	0
Balance of tax losses	(126)	-	(126)	-
Adjustment for reduction of corporation tax rate	-	-	-	11
Total deferred tax	**(160)**	**60**	**(100)**	**(157)**

DKK MILLION	2016	2015
NOTE 26 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	21	10
Retained earnings	267	1,279
Proposed dividend for the financial year	199	413
Total equity	**9,164**	**10,378**

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.

DKK MILLION	2016	2015
NOTE 27 **CAPITAL ADEQUACY**		
Common equity tier 1 capital		
Share capital A shares	300	300
Share capital B shares	33	33
Tied-up reserve capital	8.343	8.343
Proposed dividend	463	1.692
Revaluation reserves	25	10
Total common equity tier 1 capital	**9,164**	**10,378**
Deductions in common equity tier 1 capital		
Retained earnings	199	413
Additional straining relative to the Executive Order on a Ship Finance Institute	142	41
Prudent valuation pursuant to Article 105 of CRR	28	27
Deductions pursuant to transitional rules regarding B share capital*	13	-
Total deductions in common equity tier 1 capital	**383**	**481**
Common equity tier 1 capital after deductions	**8,781**	**9,896**
Own funds after deductions	**8,781**	**9,896**
Weighted items		
Weighted items not included in the trading portfolio	42,153	44,108
Weighted off-balance sheet items	1,075	1,475
Weighted items involving counterparty risk outside the trading portfolio	1,659	1,470
Weighted items involving market risk	4,383	8,494
Weighted items involving operational risk	1,725	1,687
Total weighted items	**50,995**	**57,234**
Common equity tier 1 capital ratio	**17.2**	**17.3**
Tier 1 capital ratio	**17.2**	**17.3**
Total capital ratio	**17.2**	**17.3**
Weighted items with market risk, consist of:		
Items with position risk: Debt instruments	3,959	7,756
Items with position risk: Shares	27	39
Total currency position	397	700
Total weighted items with market risk	**4,383**	**8,494**

** Recognised at 60% pursuant to transitional rules of CRR art. 484 at 30 June 2016.*

DKK MILLION	2016	2015

NOTE 28 CONTINGENT LIABILITIES

In the ordinary course of its lending operations,		
Danish Ship Finance has undertaken guarantee commitments of	218	309
Payment guarantee provided to the Danish Securities Centre	2	2
Guarantees provided to the Danish Securities Centre	1	1
Total contingent liabilities	**221**	**312**

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	317	481
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	1.393	1.850
Total other binding agreements	**1.710**	**2.330**

NOTE 30 RELATED PARTIES

Related parties comprise members of the company's Executive Board and Board of Directors.

From 15 November 2016, related parties also comprise Danmarks Skibskredit Holding A/S, which became a related party in connection with Danmarks Skibskredit Holding A/S' acquisition of the majority of the company's shares.

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

There have been no related party transactions other than dividends to Danmarks Skibskredit Holding A/S.

Until 15 November 2016, related parties comprised, other than the Executive Board and Board of Directors, shareholders with an ownership interest in the company of more than 20% or holding more than 20% of the voting rights in the company.

Other related-party transactions until 15 November 2015 involved deposits and debt, transactions with financial instruments in the form of swap agreements, forward exchange transactions, forward interest and currency agreements and forward securities transactions etc., which were 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 had no related parties with a controlling interest.

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.

2016	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	9,841	10,422	10,511
Total commitments	**9,841**	**10,422**	**10,511**
Derivatives			
Interest rate swaps	(9,841)	(700)	(700)
Total derivatives	**(9,841)**	**(700)**	**(700)**
Net	**0**	**9,722**	**9,811**

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**

DKK MILLION	2016	2015
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	1,399	854
Credit institutions	36,965	40,829
Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:		
Receivables	660	668
Credit institutions	48,140	40,341
Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:		
Credit institutions	40,970	38,366
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	16,024	19,748

DKK MILLION	2016 POSITIVE	2016 NEGATIVE	2015 POSITIVE	2015 NEGATIVE
NOTE 33 FAIR 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	156	-	159	-
Credit institutions	107	4,798	398	4,665
Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:				
Receivables	1	7	0	36
Credit institutions	1,109	309	1,058	193
Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:				
Credit institutions	719	1,351	608	1,072
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	149	26	99	8
Netting of exposure value				
The positive gross fair value of financial contracts after netting				
Counterparty with risk weight of 0%	-		-	
Counterparty with risk weight of 20%	300		11	
Counterparty with risk weight of 50%	1,002		674	
Counterparty with risk weight of 100%	207		160	
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%	504		523	
Counterparty with risk weight of 50%	1,580		1,641	
Counterparty with risk weight of 100%	156		160	

DKK MILLION

NOTE 34

EXCHANGE RATE RISK AND USE OF DERIVATIVES AT 31 DECEMBER 2016

The total unhedged foreign currency position at 31 December 2016, translated at year-end exchange rates into DKK amounts to DKK 397 million (DKK 700 million at 31 December 2015).

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	35,454	4,726	40,179	2,148	42,328
Loan impairment charges				(2,516)	(2,516)
Loans as per the balance sheet					**39,811**
Due from credit institutions and central banks	172	33	205	920	1,125
Bond portfolio	-	253	253	19,477	19,730
Interest receivable, etc,	261	35	296	(6)	290
Other assets			0	1,663	1,663
Total assets as per the balance sheet	**35,887**	**5,047**	**40,935**	**21,686**	**62,621**
Issued bonds at year-end exchange rates	(3,795)	-	(3,795)	(38,557)	(42,352)
Issued bonds as per the balance sheet					**(42,352)**
Due to credit institutions and central banks	(205)	(243)	(449)	(5,226)	(5,675)
Interest payable	(126)	(31)	(158)	(189)	(347)
Other payables				(5,083)	(5,083)
Total equity				(9,164)	(9,164)
Total liabilities as per the balance sheet	**(4,127)**	**(275)**	**(4,402)**	**(58,219)**	**(62,621)**
Derivatives					
- receivables	935	5,060	5,995		
Derivatives					
- payables	(32,591)	(9,539)	(42,131)		
Total net position	**104**	**293**	**397**		

(translated into DKK)

DKK MILLION	2016	2015

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.

	2016	2015
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:	(114)	(244)
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:	84	150

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.

	2016	2015
An appreciation of the USD exchange rate vis-à-vis DKK		
Change in profit for the year and equity	(13)	(88)
Percentage change in capital ratio	(1.6)	(1.6)
A depreciation of the USD exchange rate vis-à-vis DKK		
Change in profit for the year and equity	(8)	34
Percentage change in capital ratio	1.9	1.9

DKK MILLION	**2016**	**2015**

NOTE 35
CONTINUED

The impact on the net profit for the year and equity from a change in the exchange rate of USD assumes a permanent change of DKK 1 for an entire financial year. The impact comprises the change in the value of ongoing net 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 differencebetween the amortised cost and the calculated fair value is shown below.

	2016	2015
Loans		
Measured at amortised cost	39,811	43,171
Measured at fair value	40,340	43,478
Difference between carrying amounts and fair-value based value of loans, total	**529**	**307**

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

	2016	2015
Issued bonds		
Measured at amortised cost, incl, hedging	42,352	45,067
Measured at fair value	42,807	44,809
Difference between carrying amounts and fair-value based value of issued bonds total	**455**	**(258)**

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	2016	2015

NOTE 37

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.

DKK MILLION	2016	2015
Credit exposure, loans and guarantees		
Balance sheet		
Loans at amortised cost	39,811	43,171
Other receivables	154	165
Allowance account	2,516	1,958
Total balance sheet items	**42,482**	**45,293**
Off-balance sheet items		
Guarantees	218	309
Total off-balance sheet items	**218**	**309**
Total loans and guarantees	**42,699**	**45,602**
Financial exposure		
Due from credit institutions and central banks	1,125	731
Bonds at fair value	19,730	19,100
Shares, etc,	14	19
Derivatives	1,221	1,233
Total financial exposure	**22,090**	**21,084**

CREDIT RISK IN THE LOAN PORTFOLIO

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

CLASSIFICATION	LOANS AND GUARANTEES 2016	LOANS AND GUARANTEES 2015
1 - 2	0	0
3 - 4	8,942	10,144
5 - 6	12,950	11,493
7 - 8	9,997	17,198
9 - 10	3,813	2,593
11	6,411	3,864
12	586	310
Total	**42,699**	**45,602**

Classifications 11 and 12 are loans with OEI.

NOTE 37
FCONTINUED

CREDIT RISK

Description of collateral
All loans are granted against a first mortgage in vessels, assignment in respect of the vessels 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 residual debt.

LOAN-TO-VALUE INTERVAL	SHARE OF LOANS 2016	SHARE OF LOANS 2015
0 - 20 %	32%	33%
20 - 40 %	31%	33%
40 - 60 %	25%	25%
60 - 80 %	11%	8%
80 - 90 %	1%	1%
90 - 100 %	0%	0%
Over 100 %	0%	0%

It appears from the table above that 88% (91% in 2015) of the loan amounts is secured through mortgages within 60% of the most recently calculated market value of the mortgage, and 99% (99% in 2015) 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 66% (63% in 2015) after impairment charges.

The market value of the vessels in the loan portfolio has aggregately decreased by 17.6% since the end of December 2015 measured in DKK and declined by 20.2% 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 impairmanet charges, cf. note 13. The distribution is made after impairment charges calculated in the LTV ranges (by nominal outstanding debt).

LOAN-TO-VALUE INTERVAL	SHARE OF LOANS 2016	SHARE OF LOANS 2015
0 - 20 %	34%	35%
20 - 40 %	33%	35%
40 - 60 %	27%	22%
60 - 80 %	6%	8%
80 - 90 %	0%	0%
90 - 100 %	0%	0%
Over 100 %	0%	0%

It appears from the table above that 94% (92% in 2015) of the loan amounts is secured through mortgages within 60% of the most recently market value of the mortgage, and 100% (100% in 2015) 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 61% after impairment charges (62% in 2015).

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 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 financial 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 Risk Management 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 organization.

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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