ANNUAL REPORT 2012

DANISH SHIP FINANCE

CVR NO. 27 49 26 49

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BUSINESS AREA

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

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

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

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

FINANCIAL PERFORMANCE AND EVENTS DURING THE YEAR

At 31 December 2012, Danish Ship Finance had loans of DKK 46,364 million, total assets of DKK 83,002 million and equity of DKK 9,773 million. The company had first mortgages in 555 vessels.

The company's loans were fairly evenly spread between Danish and foreign shipowners. The loans to the foreign shipowners were divided between 52 shipowners and 24 countries.

The profit after tax for the year was DKK 314 million, an increase of 28.9% compared with 2011. The profit is considered satisfactory in light of the challenges facing both the shipping market and the financial markets.

The accumulated impairment charges amounted to DKK 2,884 million at 31 December 2012. The charges thus rose by DKK 556 million. Measured as a percentage of loans and guarantees, impairment charges rose from 4.6% at the end of 2011 to 5.8% at 31 December 2012.

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

The solvency ratio was 15.2% at 31 December 2012 after proposed dividends and after the company repaid the hybrid tier 1 capital of DKK 900 million in December 2012. The repayment alone reduced the solvency ratio by about 1.5 percentage point. The tier 1 capital ratio was 15.1% at 31 December 2012.

The company's internally calculated solvency need was 5.9% at the end of 2012, which is an increase of 0.3 of a percentage point relative to the solvency need at 31 December 2011 of 5.6%. This gives the company a solvency need buffer of 9.3 percentage points. Relative to the statutory solvency requirement of 8%, the company has a buffer of 7.2 percentage points.

The company's credit assessments affect the price of liquidity and capital procurement. In May 2012, Moody's Investors Service Ltd. changed Danish Ship Finance's issuer and bond rating from A2 "under review for possible downgrade" to Baa2 with a "negative outlook". The downgrade has not had any adverse impact on market demand for ship mortgage bonds, although funding costs have gone up.

KEY FIGURES AND RATIOS

KEY FIGURES DKK MILLION	2012	2011	2010	2009	2008	2008 *)
Net interest income from lending operations	439	348	360	234	275	256
Net interest income from financing operations	447	476	521	489	471	470
Total net interest income	886	824	881	723	745	726
Net interest and fee income	940	886	945	772	787	796
Market value adjustments	105	(135)	(2)	508	(406)	(378)
Staff costs and administrative expenses	(94)	(90)	(84)	(82)	(87)	(92)
Loan impairment charges etc.	(523)	(333)	(245)	(874)	(702)	(200)
Profit/loss before tax	427	326	613	323	(410)	128
Profit/loss for the year	314	244	493	263	(367)	37
Loans	46,364	46,948	49,472	48,438	48,118	51,044
Bonds	30,091	26,944	29,216	30,616	26,521	26,851
Subordinated debt	-	899	898	897	-	-
Equity	9,773	9,666	9,496	9,043	8,786	8,879
Total assets	83,002	78,998	84,346	84,947	81,724	81,632

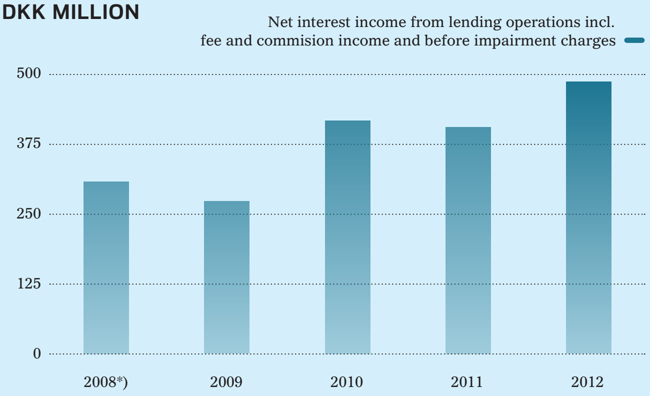
RATIOS	2012	2011	2010	2009	2008	2008 *)
Solvency ratio	15.2	16.3	15.3	14.3	12.8	13.0
Tier 1 capital ratio	15.1	16.3	15.3	14.3	12.8	13.0
Return on equity before tax (%)	4.4	3.4	6.6	3.6	(4.5)	1.4
Return on equity after tax (%)	3.2	2.5	5.3	2.9	(4.0)	0.4
Income/cost ratio (DKK) **)	1.7	1.8	2.9	1.3	0.5	1.4
Income/cost ratio (ex. impairment charges)	11.0	8.3	11.0	15.3	4.3	4.5
Foreign exchange position (%)	9.5	6.9	12.7	13.3	10.9	10.7
Gearing of loans	4.7	4.9	5.2	5.4	5.5	5.7
Annual growth in lending (%)	(1.2)	(5.1)	2.1	0.7	24.1	19.6
Impairment ratio for the year	1.0	0.7	0.5	1.7	1.4	0.4
Accumulated impairment ratio	5.8	4.6	3.9	3.7	2.0	1.8

Key ratios are calculated in accordance with Appendix 6 of the Danish FSA's instructions for financial reporting in credit institutions and investment companies, etc.

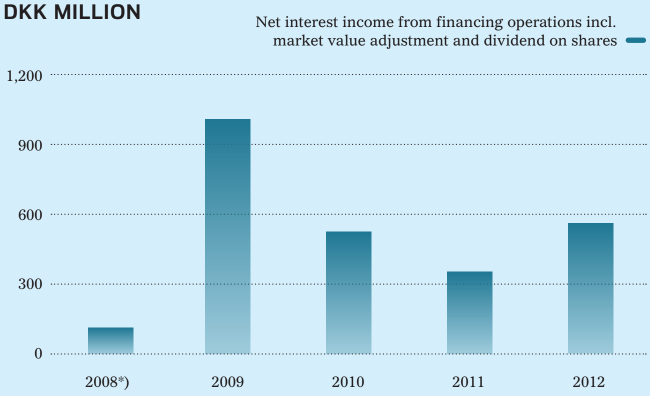
*) *This 2008 column shows key figures calculated according to the previous accounting policies.*

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

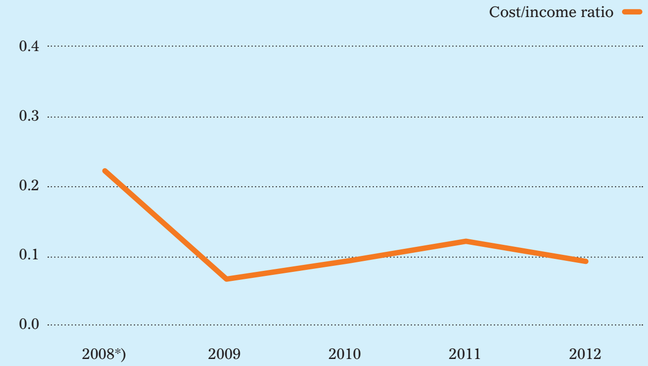
NET INCOME FROM LENDING OPERATION
DKK MILLION



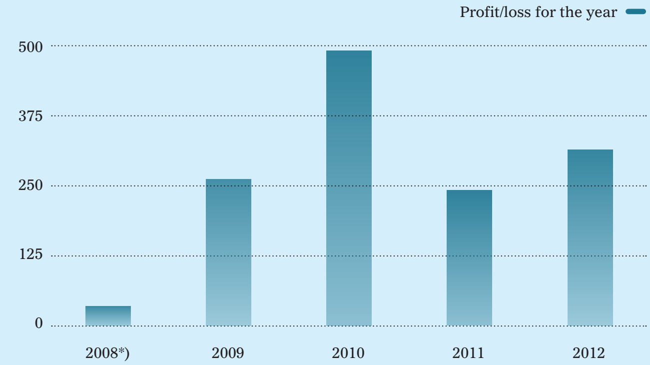
NET INCOME FROM FINANCING OPERATION
DKK MILLION



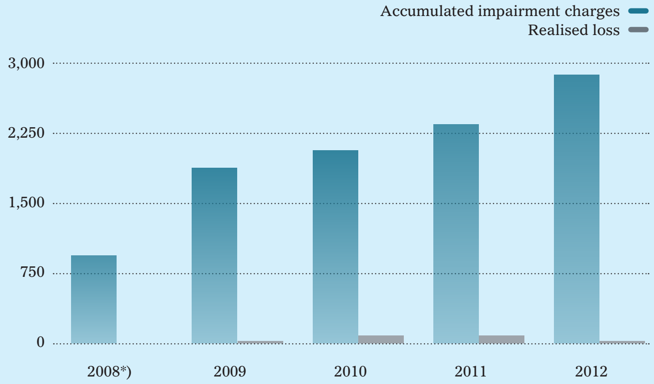
COST/INCOME RATIO



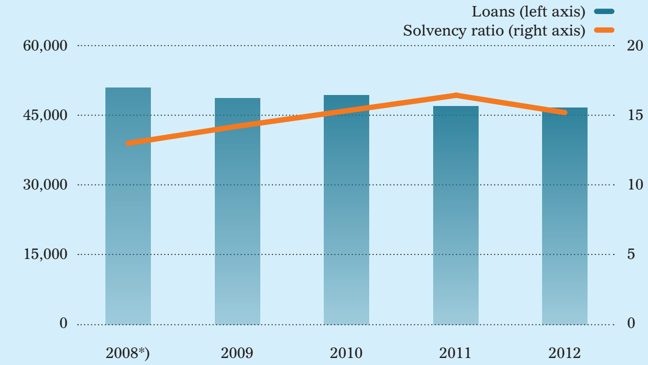
PROFIT/LOSS FOR THE YEAR
DKK MILLION



ACCUMULATED IMPAIRMENT CHARGES AND REALISED LOSS
DKK MILLION



LOANS/SOLVENCY RATIO
DKK MILLION / %



**) For 2008 the figures have not been restated.*

2012

In many ways, 2012 was a difficult year marked by sluggish economic growth and geopolitical turmoil. Global economic growth and the expansion of global trade were slower than the consensus forecasts at the start of the year. The International Monetary Fund (IMF) estimates that the global economy expanded by 3.3% in 2012, which is half a percentage point lower than the growth recorded in 2011. Europe suffered the worst economic situation, as the region's GDP is expected to have declined by a little more than half a percentage point in 2012. Headed by China, the developing countries remained a key contributor to global growth in 2012. However, the emerging markets of Asia and Latin America also experienced weaker-than forecast economic growth. Measured in terms of volumes, global trade is estimated to have increased by just over 2%, a low rate in a historical context.

The large shipping segments of container, tanker and dry bulk remain characterised by an excess supply of tonnage. The large volume of vessels is the result of a very high level of contracting activity before the crisis took hold in 2008. Although a large number of newbuilding orders have regularly been postponed or cancelled, the volume of vessels delivered remains too high relative to present demand for sea transport. On a positive note, relatively few new orders were placed in the large segments in 2012, but the effect thereof will not be discernible until after 2013. The supply and demand imbalance generally pushed down freight rates, although there are huge differences between the various sub-segments.

For many years, there have been no major leaps in the technology of vessel design and bunker consumption. However, due to high fuel costs and new regulatory requirements, focus is increasingly shifting to the so-called ecodesigns; vessels with a lower fuel consumption and emissions than the existing fleet. Depending on the preconditions, ecodesigns may bring substantial cost reductions when buying a new vessel compared to buying second-hand tonnage. The combination of a weak freight market and the anticipated effect of potentially more competitive new designs had a negative impact on ship prices in 2012. Other factors such as restricted access to equity and debt financing and a number of forced sales also contributed negatively. Overall, ship prices fell by 13% in 2012 (Source: Clarksons) and many subsegments are experiencing historically low prices.

However, low freight rates and low ship prices do not necessarily entail that all shipowners are facing financial difficulty. Whether or not a shipowner face financial difficulty depends on the strategy pursued with respect to 1) the timing of the purchase of new vessels, 2) liquidity and 3) financial gearing. In the container segment, for example, it also makes a difference whether you are an operator or whether your business model builds on hiring out vessels to operators. In financial terms, the operators are likely to have performed better in 2012 because box freight rates developed more favourably than the price of hiring out vessels.

Some segments continue to record acceptable results, including large parts of the offshore, gas (LPG/LNG), car carrier and parts of the ro-ro markets.

In other words, despite the general perception of a market under pressure, the situation in the shipping market is far more versatile.

However, this more versatile picture does not alter the fact that the low rates experienced in some segments represent a challenge to many shipowners, causing a decline in credit quality on loans extended by Danish Ship Finance. Generally speaking, however, the credit quality in Danish Ship Finance's loans remains good.

The competitive environment continues to develop favourably from the point of view of the remaining lenders. While the lower level of contracting has reduced the number of financing enquiries, the fact that a number of competitors have decided to phase out their ship financing activities has allowed Danish Ship Finance to retain recent years' prices and terms. One contributing factor to this is the stricter capital and liquidity requirements expected to be introduced by the EU. These are expected to involve stricter requirements for lenders when providing capital and liquidity for customers such as shipowners.

PERFORMANCE RELATIVE TO EXPECTATIONS

For 2012, the company had expected to see an increase in earnings on lending operations before impairment charges and slightly lower interest income on its securities portfolio due to the lower level of interest rates. Overall, expectations were for a moderate increase in net interest income. These expectations were met.

No expectations were provided for interest rate developments and, by extension, for market value adjustments. However, the company did state that a low duration of the securities portfolio meant little probability of major value adjustments and that, other things being equal, the portfolio of bonds priced above par would have a negative impact on market value adjustments due to the bond maturity effect. Overall, market value adjustments of the bond portfolio were positive. A small part of the company's capital is invested in shares by way of unit trust certificates. Representing only a modest share of the invested capital, this portfolio nevertheless contributed a substantial share of the positive market value adjustments.

Owing to uncertainty in the shipping industry, the company said 2012 could also be a year of new net impairment charges. The company also expected that there was no reason to expect that net impairment charges would exceed the level of 2011 measured in lending currencies. This proved incorrect as impairment charges turned out to be somewhat higher than in 2011. This was due to adverse trends in the financial standing of a small number of borrowers in the dry bulk and tanker sectors, and these segments also faced a need to further reduce the stressed ship prices in the company's impairment model.

Actual losses incurred in 2012 were lower than in the preceding year, thus remaining at a very low level relative to the company's loan portfolio, core earnings, impairment charges and equity. The low level of actual losses is attributable to the fact that the company has received security for the loans and that, to date, it has successfully resolved the issues that have arisen without incurring any major losses.

The company wrote that the hybrid tier 1 capital raised under the Second Bank Package could be repaid in December 2012 and that such repayment would reduce the solvency ratio by approximately 1.5 percentage point. The hybrid tier 1 capital was repaid on 20 December 2012, reducing the solvency ratio by 1.5 percentage point.

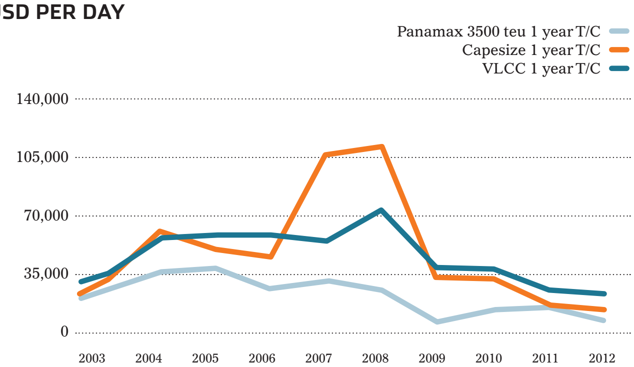
ACTIVITIES DURING THE YEAR

Loan offers submitted in 2012 amounted to DKK 5,142 million, against DKK 7,938 million in 2011. In spite of a lower level of activity compared with 2011, the loan offers indicate that there are still creditworthy shipowners in the otherwise crisis-stricken shipping industry. It should be noted that many segments are witnessing ship prices that are at or close to an expected cyclical low, so going forward there will be a much lower risk of a substantial fall in values of the newly-mortgaged vessels than for vessels financed before the crisis. Consequently, the potential risk of a loss on new transactions is lower than it has been.

Loan disbursements amounted to DKK 7,876 million compared with DKK 3,878 million in 2011. Total lending was largely unchanged from the level recorded in 2011.

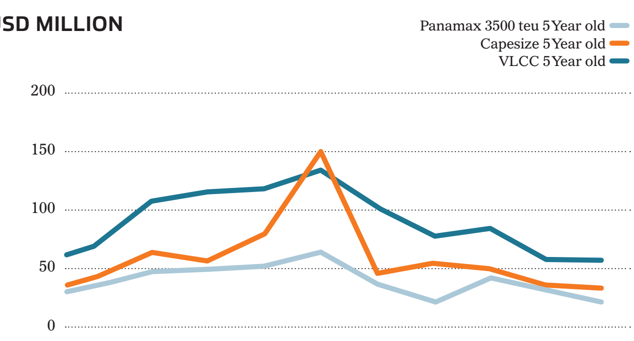
Because of declining ship prices in 2012, some shipowners, especially in the dry bulk and tanker segments, faced difficulties in complying with their loan covenants. Representing a particular challenge was the requirement that a mortgaged ship must have a certain minimum value relative to its outstanding debt. The company engaged in discussions with the relevant shipowners on how to handle the situation, and satisfactory solutions were found in most cases. At the end of the year, a number of cases had not yet been resolved. The impairment charges take these developments into consideration.

TIMECHARTER RATE
USD PER DAY



Source: Clarksons, Danish Ship Finance

SHIP PRICES BY SEGMENT
USD MILLION



Source: Clarksons, Danish Ship Finance

In 2012, it was necessary to enter into an agreement with a small number of customers on deferring the payment of ordinary repayments. Loans with more lenient repayment terms accounted for 11.1% of the loan portfolio at the end of 2012, against 4.3% at the end of 2011. The company believes that the impairment charges made are adequate to cover the exposures in question.

At the end of 2012, loans with objective evidence of impairment represented 13.7% of total lending. This increase on 2011 is a natural consequence of the low freight rates in the segments with the highest exposure. The corresponding rate in 2011 was 8.4%. Since the crisis started, losses actually incurred accounted for less than 0.1% p.a.

Considering the fact that the shipping market is currently witnessing its worst crisis for decades, the trends described above are considered to be acceptable. The credit quality in lending is generally considered to be good owing to a consistent focus on lending to the most creditworthy shipping companies.

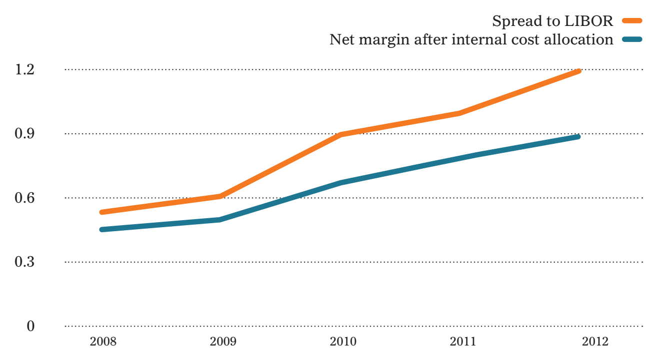
RATING AND FUNDING

In November 2011, Moody's Investor Service Ltd., the international rating agency, put the company's A2 rating under review for possible downgrade. The outlook was reiterated in February 2012 when the company and 114 other financial institutions in Europe were placed under review for possible downgrade. At the end of May 2012, Moody's decided to change the company's rating to Baa2 with a negative outlook. The primary reason is that the company provides loans to the volatile shipping industry, that it depends on being able to issue bonds and that it has an unusual debtor concentration. These factors have characterised the company ever since it was assigned its first rating (in 1998) and do not represent new information.

The downgrade has not affected the company's ability to issue bonds, and since May 2012 it has issued new bonds for DKK 10,617 million with maturities of up to nine years. The company's funding costs have gone up as a result of the downgrade, but they remain within the credit margins paid by the shipowners on new loans.

MARGIN EARNINGS ON LOANS

%.



THE FINANCIAL MARKET

2012 was dominated by the debt crisis in several eurozone countries. Fears of an actual collapse of the euro as a single currency characterised the financial markets during the summer months, and yields were pushed down from their 2012 peak in March.

The European Central Bank, ECB, established a long-term refinancing operation (LTRO) for up to three years and announced the possibility of unlimited buybacks of sovereign debt, and these measures temporarily solved the liquidity shortage and problems of ongoing refinancing of sovereign debt in a number of countries in southern Europe.

When the debt crisis in southern Europe once again became a controlling factor for interest rates, the ECB announced that it would do whatever it takes to preserve the euro within its mandate, including through buying government bonds. The ECB also announced that it believed the funds to be sufficient to keep borrowing costs down for member states whose sovereign premium had grown alarmingly high. Since then, the fixed income markets have gradually accepted that the ECB will exercise its full mandate to support government bonds in southern Europe. At the end of 2012, the spread between 10-year government bonds in southern Europe and German government bonds had narrowed from the historically high levels earlier in the year.

The Nordic countries were regarded as a safe haven, and especially Nordic senior bank debt and corporate bonds as well as less liquid covered bonds benefited from investors seeking an excess return on the abundant liquidity in the market. Among other things, this liquidity was a side effect of the ECB's LTRO and OMT programmes.

On 15 July 2012, Danmarks Nationalbank lowered the interest rate on certificates of deposit (CD) to -0.20%. The interest rates of Danmarks Nationalbank have never previously been negative, and the negative CD rate clearly fed through to money market rates. Danish government bonds with maturities of up to three years also traded at negative yields in 2012. The 10-year spread between Danish and German government bonds was negative for most of the year, the widest spread being approximately minus 30 bp. During periods of extensive economic instability, investments in Danish government bonds have thus been considered particularly safe for low-risk profile investors.

Danish swap rates were highly volatile with 10-30-year rates fluctuating by about 100 bp over the course of the year. The largest fluctuations occurred in mid-June in connection with the implementation of a new discount yield curve for calculating primarily liabilities in the life and pension sector.

In terms of returns, 2012 was a good year for Danish mortgage bonds, with especially long-term callable bonds providing a higher return than non-callable bullet bonds and government bonds of similar duration.

Outside Europe, focus was on the mounting national debt in the USA. This issue caused domestic political strife in the USA and instability in the financial markets, and the year ended on an uncertain note due to the negotiations on the US public debt ceiling.

The Federal Reserve bought back substantial amounts of long-term US bonds and has regularly displayed an interest in keeping long-term yields low, most recently by way of monthly buybacks of long-term government and mortgage bonds.

However, the USA made it through 2012 with a declining rate of unemployment and a rising level of construction sector activity. A turnaround in the housing market and consistently falling unemployment offer hope for better economic conditions in the USA.

The stronger liquidity and the falling risk premium in the bond markets were also reflected in the equity markets, where the benchmark indices ended the year with relatively large gains. For example, the S&P 500 ended the year at pre-crisis levels, and the MSCI WORLD index ended the year about 15% higher.

Danish Ship Finance's securities portfolio was invested primarily in Danish and Swedish mortgage bonds and to a smaller extent in equities.

BOND ISSUANCE

Early in the year, the credit rating agencies downgraded European banks and financial institutions with Moody's Investors Service Ltd. announcing a potential credit rating downgrade of up to five notches for 114 financial institutions in Europe. The actual downgrades were effected country by country during the first six months of 2012. In spite of the many downgrades, there was only a marginal response from the fixed income markets.

The company only had a limited need for new issuance, but after its rating was fixed at the end of May, which resulted in a three-notch downgrade, the company resumed its relations with the bond market over the course of the summer.

There was extensive interest in the company's bonds, and new bond issues ran to more than DKK 11 billion with an average maturity of about 4.5 years. The company bought back existing shorter maturity bonds for about DKK 5 billion.

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

During the financial crisis, the company has retained a robust cash position, making it less sensitive to short-term developments in the capital markets.

INCOME STATEMENT AND BALANCE SHEET

INCOME STATEMENT

The profit for the year amounted to DKK 314 million compared with DKK 244 million in 2011, representing an increase of just under 29%. The financial performance is considered satisfactory under the difficult market conditions.

Net earnings from lending operations including fee income amounted to DKK 488 million, against DKK 404 million in 2011. The increase in net earnings of some 20% was the result of a DKK 7,876 million increase in lending activity at rising credit margins as well as an increase in the average exchange rate of USD, which rose by a little more than 8% relative to the year before. Agreed credit margins on loan offers and disbursed loans continued their rising trend in 2012. As ordinary and extraordinary loan repayments and redemptions were largely unchanged, total lending was at the same level as in 2011.

The hybrid tier 1 capital from the Second Bank Package was repaid to the Danish state in December 2012. The lending earnings included a gross interest expense to honour the hybrid tier 1 capital of DKK 82 million, which was DKK 3 million less than in 2011.

Total costs of funding the lending operations for 2012 rose by more than DKK 40 million relative to 2011 because new funding was raised to finance the lending operations.

Interest and dividend earnings from financing operations fell to DKK 453 million from DKK 481 million in 2011 due to the continuously declining level of market rates in 2012.

Net interest and fee income rose to DKK 940 million from DKK 886 million in 2011.

Market value adjustments of securities and foreign exchange amounted to an income of DKK 105 million compared with a expense of DKK 135 million in 2011. The improved market value adjustments were mainly attributable to rising equity prices, while there was also a contribution from declining market rates in 2012. At the end of 2012, the securities portfolio consisted primarily of Danish mortgage bonds, while a small proportion was invested in Danish government bonds and shares (unit trust certificates). Market value adjustment of the equity portfolio resulted in an income of DKK 75 million in 2012, against an expense of DKK 10 million in 2011.

Staff costs and administrative expenses were up from DKK 90 million in 2011 to DKK 94 million. The expenses were affected by higher payroll costs. The average number of employees rose to 60 from 58 in 2011.

Loan impairment charges amounted to a net expense of DKK 523 million compared with a net expense of DKK 333 million in 2011. Total impairment charges rose to DKK 2,884 million at 31 December 2012 from DKK 2,328 million at year-end 2011. The impairment charges accounted for 5.8% of the total loans and guarantees, which was 1.2 percentage point higher than the year before. The increase was due to adverse trends in the financial standing of a small number of borrowers triggered by the shipping crisis. Realised losses remained at a very low level, amounting to DKK 1 million in 2012 compared with DKK 85 million in 2011. Movements in impairment charges in 2012 are specified in note 13 to the financial statements.

Tax for the year represented an expense of DKK 113 million compared with an expense of DKK 82 million in 2011. For 2012, this translates into an effective tax rate of 26.4%.

BALANCE SHEET AND CAPITAL STRUCTURE

Total assets rose to DKK 83,002 million at 31 December 2012 from DKK 78,998 million at 31 December 2011.

Lending calculated at amortised cost less impairment charges declined by DKK 584 million from DKK 46,948 million in 2011 to DKK 46,364 million in 2012. Over the course of the year, there was an increase in new loans of DKK 7,876 million, against an increase in 2011 of DKK 3,878 million. For further details on movements in lending, see note 11 to the financial statements.

Issued bonds rose from DKK 55,538 million at 31 December 2011 to DKK 59,416 million at year-end 2012. As part of its efforts to maintain strong liquidity resources, Danish Ship

Finance normally issues bonds well in advance of the loan disbursements, which makes the company less sensitive to short-term fluctuations in the capital market. During 2012, the bond markets gradually normalised after the financial crisis, and the company capitalised on this trend by consolidating its cash resources by issuing new bonds. In 2012, new bond issues amounted to DKK 11,439 million, against DKK 1,297 million in 2011. Movements in issued bonds and a specification of bond types are set out in note 21 to the financial statements.

The bond portfolio rose to DKK 30,091 million from DKK 26,944 million at 31 December 2011. The increase compared with 2011 was especially due to the increase in the proportion of loans granted, but still not disbursed, which is invested in short-term bonds until the loans are disbursed. The bond portfolio is specified in notes 14 and 15 to the financial statements.

Including the profit for the year, the company's equity amounted to DKK 9,773 million as compared with DKK 9,666 million at 31 December 2011. Dividends to the shareholders of DKK 267 million have been proposed for 2012, against DKK 207 million in 2011. The proposed dividend for the 2012 financial year is included in equity but is expected to be disbursed after the approval by the shareholders at the annual general meeting in April 2013, and the amount has therefore been deducted in the capital base in the solvency calculation below.

Danish Ship Finance is subject to the capital adequacy rules of section 143 of the Danish Financial Business Act. The solvency ratio was 15.2% at the end of 2012 against 16.3% at 31 December 2011. The lower solvency ratio at year-end 2012 compared with 2011 is explained by the repayment in December 2012 of the hybrid tier 1 capital raised in connection with the Second Bank Package in 2009. The current solvency ratio is considered more than adequate relative to the company's risk profile. The minimum requirement has been fixed at 8%. When calculating the capital adequacy, the risk-weighted items were overall reduced by DKK 772 million. Note 26 provides a specification of the company's solvency.

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

The exchange rate of the USD vis-à-vis DKK was 574.76 at the end of 2011, and by the end of 2012 the exchange rate had fallen to 565.91, corresponding to a 1.5% decline for the year as a whole. Movements in the USD/DKK exchange rate resulted in an average exchange rate for 2012 of 579.80, which was 8.1% higher than in 2011.

In 2012, movements in the USD/DKK exchange rate, other things being equal, had a pre-tax positive impact on net interest and fee income of DKK 31 million based on the higher average exchange rate, and a pre-tax positive impact on impairment charges of DKK 44 million because of the lower year-end exchange rate. Profit after tax and equity rose by DKK 56 million as a result of the movements.

Compared with the exchange rate of USD at the beginning of the year, the changing dollar rate reduced total assets by DKK 665 million and increased the solvency by 0.2% because of a reduction in risk-weighted items for loans and loan offers submitted.

UNCERTAINTY IN RECOGNITION AND MEASUREMENT

The most significant uncertainty involved in recognition and measurement concerns impairment of loans and valuation of financial instruments. Management 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.

EVENTS AFTER THE BALANCE SHEET DATE

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

OUTLOOK

MARKET EXPECTATIONS

THE SHIPPING MARKET

The crisis in Europe will most likely remain a key topic in 2013. Consequently, we are likely in for another year of uncertainty due to debt problems in many European countries. The economic climate in the USA is better than it is in Europe. The International Monetary Fund (IMF) estimates that the global economy will expand by 3.5% in 2013 (by 0.2 of a percentage point more than in 2012). Measured in terms of volumes, global trade is also expected to grow slightly faster in 2013 than in 2012.

2013 is expected to be another challenging year for international shipping. A number of segments currently operate with an excess supply of vessels, and more new vessels are being built. The number of vessels scheduled for delivery in 2013 are expected to be at the same level as in 2012. The good news is that 2013 is expected to be the last year of a very high inflow of new vessels. If the volume of new contracts declines by a large margin, global economic growth will slowly absorb the large oversupply of new vessels and thus, in the slightly longer term, strike a better balance between supply and demand.

The industry appears to be actively seeking to restore the balance between supply and demand. In 2012, a record-high number of scrapped vessels helped ensure that there was a net outflow of tonnage from the market. In 2012, a total of 1,200 vessels with a combined capacity of more than 55 million dwt. were scrapped. Many vessels are also expected to be scrapped in 2013.

The large shipyard capacity that has accumulated in the past decade and which is now facing low capacity utilisation in 2013 and onwards creates some concern that too many shipowners will fall for the temptation to order new, relatively cheap and more reliable ships already during 2013.

As such, the overall outlook remains bleak. However, some segments will perform better than others. Market uncertainty is nothing new; it is a natural part of shipping. Nor is there anything new in the fact that many shipowners make it through these cyclical troughs.

COMPETITIVE SITUATION

The competitive situation in 2013 is expected to be largely unchanged from 2012. The fact that there are fewer providers of debt financing than before the crisis is expected to lead to acceptable lending conditions in 2013. Demand is likely to be based less on contracting for new vessels as many shipowners have neither the ability nor the will to order new ships. Opportunities for financing existing vessels are expected to arise, either because of purchase/sale transactions or because of refinancing of vessels for customers whose bankers are not prepared to extend existing loans even to good customers. The company remains focused on increasing its loan diversification by adding new reputable shipowners to its loan portfolio.

FINANCIAL GUIDANCE

The financial guidance builds on the assumption that the level of lending will be retained in 2013. The company thus assumes that some DKK 8 billion of new loans will be disbursed in 2013.

Earnings before market value adjustments and impairment charges are expected to be on the same level as in 2012. While earnings on lending operations are expected to rise by a small margin, this will be offset by an expected decline in interest income on the securities portfolio. The latter is due to the lower level of interest rates.

Since many segments are not expected to see a balance between demand and supply during 2013, a continuing low level of freight rates may further impair the financial standing of a small number of customers. If, as a result, the shipowners are downgraded in the internal rating system, it will trigger new impairment charges. While the company expects new net impairment charges in 2013, they are not expected to exceed the level of the preceding years.

As the duration of the securities portfolio is expected to remain low, market value adjustments should remain at a moderate level in 2013. The company has a large portfolio of mortgage bonds, and credit spread fluctuations may lead to positive as well as negative market value adjustments regardless of changes in market interest rates. The company does not provide expectations for price developments on the company's portfolio of unit trust certificates (shares).

The company's profit and solvency ratio at the end of 2013 will depend on movements in the DKK/USD exchange rate during the year and at the end of the year. The sensitivity is described in note 34.

Due to usually substantial impacts from loan impairment charges, market value adjustments and the exchange rate of the USD, Danish Ship Finance cannot provide more specific financial guidance.

CAPITAL MANAGEMENT

Pursuant to the Executive Order on Capital Adequacy, Danish Ship Finance must maintain a certain amount of capital relative to its activities, so that the capital adequacy 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 in-house company regulations.

CALCULATION METHOD

The company may choose between different methods for calculating its risk-weighted items for each of the three overall types of risk, and thus also the solvency requirement. The company has not applied for a permission from the Danish FSA to apply one of the internal methods. The company applies the standard method for calculating risk-weighted assets and the solvency requirement concerning credit risk and market risk. When using the standard method, the risk weights are defined in the legislation. In addition, the company applies the basic indicator method to calculate the risk-weighted assets for operational risk.

CAPITAL REQUIREMENT, CAPITAL BASE AND SOLVENCY

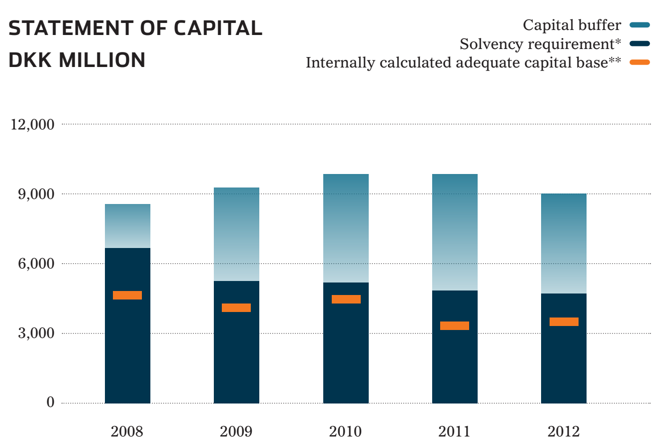
The solvency requirement is the capital base required to maintain a solvency ratio of 8%, which is the current statutory minimum requirement. The capital base is the sum of tier 1 capital, hybrid tier 1 capital and tier 2 capital, and the relationship between capital base and risk-weighted assets is the solvency ratio.

The capital base must consistently be higher than both the adequate capital base and the capital requirement. The capital requirement is the solvency requirement or the minimum capital requirement (EUR 5 million), whichever is the higher.

At 31 December 2012, the solvency requirement and the weighted items amounted to DKK 4,730 million and DKK 59,128 million, respectively. The capital base less deductions amounted to DKK 8,963 million at 31 December 2012, resulting in a solvency ratio of 15.2%. This gives the company a capital buffer of DKK 4,233 million relative to the statutory solvency requirement. The company finds that the capital buffer is sufficient for the company to continue its lending activities during a period of difficult business conditions.

The company's capital base consists predominantly of core capital (tier 1) in the form of tied-up reserve capital. The capital base less deductions at 31 December 2012 amounted to DKK 8,963 million, against DKK 9,760 million in 2011. The company's tier 1 capital less deductions at 31 December 2012 was DKK 8,953 million.

STATEMENT OF CAPITAL DKK MILLION



* *At 1 January 2009, the solvency requirement was lowered from 10% to 8% of the risk-weighted assets.*

** *The company's internally calculated adequate capital base must not be lower than the solvency requirement, equal to 8% of the risk-weighted items pursuant to the Danish Executive Order on Capital Adequacy, and the individual solvency need has been fixed at 8%.*

CALCULATION OF SOLVENCY AND TIER 1 CAPITAL RATIOS

DKKm/%	2012	2011
Capital base less deductions	8,963	9,760
Risk-weighted items	59,128	59,899
Solvency ratio	**15.2**	**16.3**
Tier 1 capital ratio Incl. hybrid tier 1 capital	15.1	16.3
Tier 1 capital ratio Excl. hybrid tier 1 capital	15.1	14.8

INDIVIDUAL SOLVENCY NEED AND ADEQUATE CAPITAL BASE

DKKm	2012	2011
Internally calculated individual solvency need, %	5.9 *	5.6*
Internally calculated total adequate capital base	3,464	3,354
The internally calculated adequate capital base is divided into sub-components:		
Credit risks	3,112	2,614
Market risks	933	1,084
Operational risks	137	149
Other	(719)	(491)

* *The company's adequate capital base must not be lower than the solvency requirement, equal to 8% of the risk-weighted items pursuant to the Danish Executive Order on Capital Adequacy, and the individual solvency need has been fixed at 8%.*

The lower solvency ratio in 2012 is due to the company's full repayment in December 2012 of the hybrid tier 1 capital of DKK 900 million raised in connection with the Second Bank Package. After the repayment, the capital base consists primarily of tier 1 capital. The company maintains moderate revaluation reserves which are included in the tier 2 capital.

INDIVIDUAL SOLVENCY NEED AND ADEQUATE CAPITAL BASE

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

The individual solvency need is calculated by dividing the adequate capital base with the risk-weighted assets.

METHODOLOGY

The method for calculating the adequate capital base must, as a minimum, include an assessment of the institute's business profile, concentration of risks and control environment.

The method selected is a combination of stress tests and individually assessed factors believed to be of importance for the size of the capital which the company, as a minimum, must maintain to ensure that the company's capital adequacy at least matches its risk profile and complies with the legislative framework. An adequate capital base is calculated for each of the factors; positive, negative or neutral. The overall solvency need is calculated as the sum of all (negative and positive) contributions and expressed as a percentage of the risk-weighted assets. Tests are made within four risk areas: credit risk, market risk, operational risk and other risks.

Additional information on the company's capital management is provided in the Risk Report on the company's website www.shipfinance.dk/en/InvestorRelations/Risikorapport.

CASH MANAGEMENT

The purpose of the company's cash management is to ensure that it maintains consistently adequate liquidity.

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

The cash management is consistent with the framework of the company's liquidity policy.

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
- A decline in equity prices
- Losses on customers

The results of the stress tests performed confirm that the company maintains a solid liquidity coverage.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

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

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

The Board of Directors, the Audit Committee and the Management 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.

The composition of the Board of Directors, the Management Board and the rest of the financial reporting organisation ensures that the relevant competencies with respect to internal controls and risk management are in place.

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.

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 the combination of an internal control function, whose efforts are supervised by the external auditors, which regularly monitors compliance with the company's in-house business processes and control procedures in all significant areas and sharp attention by the external auditors helps to provide a satisfactory audit and control level.

RISK ASSESSMENT

At least annually, the Board of Directors, including the Audit Committee, and the Management 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.

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.

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

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

The most significant risk facing Danish Ship Finance is believed to be credit risk on the company's loans. Credit risk on the company's loans 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 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 risk.

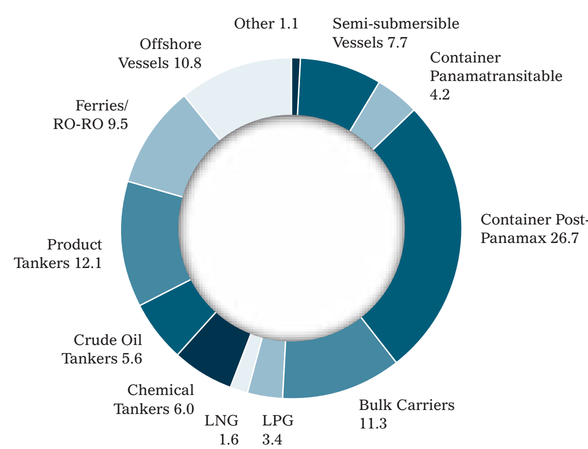
MOVEMENTS IN THE FIVE LARGEST DEBTORS BEFORE IMPAIRMENT CHARGES

DKKm	2012	2011
Five largest debtors	24,052	23,893
Total loans and guarantees	50,131	50,177

The five largest loans at 31 December 2012 were secured by mortgages in 141 vessels comprising 14 vessel types. One loan is substantially larger than the rest and typically represents about 40% of total lending.

The risk diversification on borrowers focuses on diversification on vessel types in each loan. The largest loan was thus secured through mortgage on vessels distributed on five different vessel segments (loans for container vessels accounted for about 83%, semi-submersible vessels about 7% and offshore vessels about 6%). The other four loans were secured through mortgages in eight different vessel segments.

LOAN PORTFOLIO BY MORTGAGED VESSELS (PERCENTAGE OF TOTAL LENDING)



GRANTING OF LOANS

The Management Board and the credit manager 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. Loans over and above the predefined limits must be approved by the Board of Directors.

If the Management Board authorises loans involving an increase of the risk on existing loans, such authorisation must be approved by the Board of Directors.

As in previous years, the Board of Directors was the authorising body in the majority of all loans granted in 2012.

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 accounting data from 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.

On the basis of individual assessments, borrowers who must also be covered by Mortgagee Interest Insurance and Mortgagee Additional Perils Pollution Insurance are identified. 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 due to shortcomings in relation to the ship's seaworthiness.

INSPECTION OF SHIPS

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 financing offer.

MARKET VALUATIONS

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

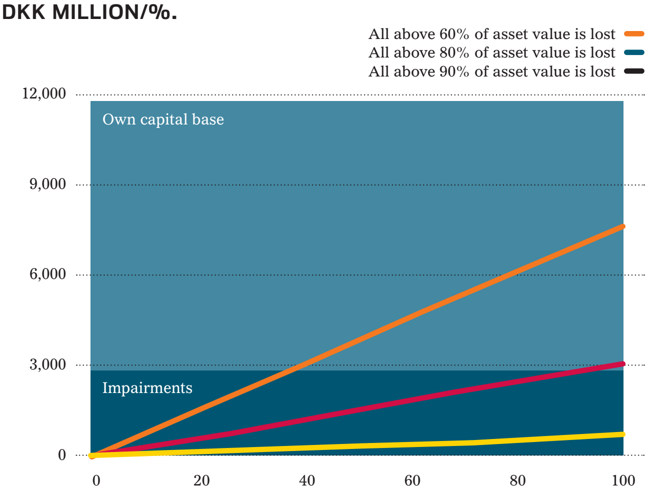
Market valuations are used for example to determine the loan-to-value ratio on the company's loans and for control purposes in connection with the half-yearly impairment charges on loans, advances and receivables.

LOSSES AND IMPAIRMENT CHARGES

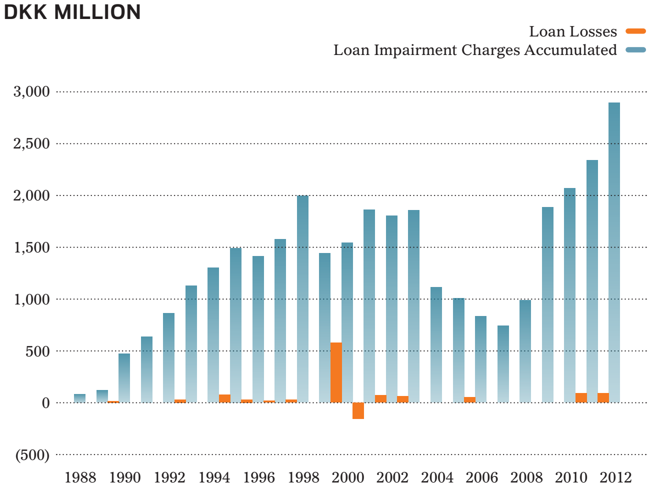
Twice a year, all loans are reviewed in order to re-assess the current need for impairment charges. The assessment of any impairment on the individual loans is based on the borrower's present and expected future financial position and on the value of the ship's mortgage and any other collateral.

The overall guidelines for the company's impairment charges are laid down in the Danish Financial Supervisory Authority's "Executive order on financial reports of credit institutions, investment companies, etc.". It appears from the executive order that, in addition to individual impairment charges, the company must also make collective impairment charges.
The Danish Financial Supervisory Authority has accepted that Danish Ship Finance may omit to make collective impair-

LOAN LOSSES AT GIVEN DEFAULT RATES
DKK MILLION/%.



LOAN IMPAIRMENT CHARGES AND CREDIT LOSSES
DKK MILLION



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

A distribution of individual and collective impairment charges is provided in note 13 to the financial statements

Based on the Danish FSA's guidelines, all loans are reviewed in order to identify any objective evidence of impairment or expectations of objective evidence of impairment within each vessel type.

All loans have been reviewed to evaluate whether the existing classification and pertaining impairment ratio still provides the best estimate of the cash flows due from the specific borrower. Where this is estimated not to be the case, the loan is reclassified.

The company's accumulated impairment charges amounted to DKK 2,884 million at 31 December 2012 against DKK 2,328 million last year. This represented an increase of DKK 556 million.

The accumulated impairment charges accounted for 5.8% of the company's total loans and guarantees, which was 1.2 percentage point higher than the year before. The increase was due to adverse trends in the financial standing of a small number of borrowers in 2012 triggered by the crisis in parts of the shipping industry. Danish Ship Finance incurred losses of DKK 1 million in 2012, against DKK 85 million in 2011. Losses actually incurred thus remain at a very low level.

Accumulated losses since the company was established in 1961 were DKK 867 million at 31 December 2012. This corresponded to 1.8% of total gross lending at 31 December 2012.

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, interest-sensitive financial instruments and equities (by way of unit trust certificates).

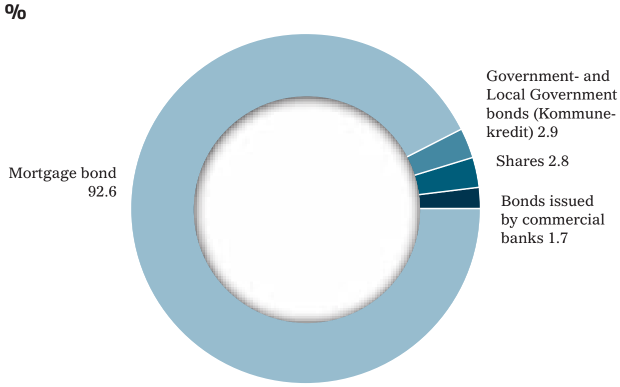
Most of the portfolio consists of government and mortgage bonds, which leads to an excess cover relative to the statutory requirement that at least 60% of the capital base requirement must be invested in investment grade assets. At 31 December 2012, the company had invested DKK 11,083 million in investment grade securities, corresponding to 124% of the capital base.

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

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

The policy for managing counterparty risk quantifies and defines limits for the exposure to individual financial counterparties and the countries in which such counterparties are residents – both in relation to compliance with the company's policies for managing market risk and liquidity risk, respectively, and in connection with receivables under loans to and guarantees from credit institutions, export guarantee institutions and insurance companies. The policy also includes the Management Board's guidelines and options for delegating granting authorities.

DISTRIBUTION OF SECURITIES PORTFOLIO
%



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.

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.

GRANTING OF LINES

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

The Management Board and the credit manager have been allocated authorities by the Board of Directors allowing them to grant lines to financial counterparties within certain limits. The granting of such lines must be disclosed at the subsequent board meeting. Credit grants over and above the predefined limits are decided by the Board of Directors.

CONTRACTUAL BASIS

The contractual basis 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.

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, exchange rate and equity positions. The most significant market risks are associated with the securities portfolio, as the company is governed by the limits set out in Executive Order on bond issuance, the balance principle and risk management (Bond Executive Order), which includes restrictions on interest rate, exchange rate and liquidity risk between the bond issues (funding) and the loans.

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

INTEREST RATE RISKS

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 capital base. The company seeks to minimise the interest rate risk between funding and lending by applying conservative principles, but a loss or a gain may arise due to changes in interest rates.

The Bond Executive Order also stipulates that the interest rate risk on the company's assets, liabilities and off-balance sheet items must not exceed 8% of the company's capital base. 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 has been restricted to six years. Danish Ship Finance has calculated the option-adjusted duration at approximately 0.91 years at 31 December 2012.

Using the Danish FSA's guidelines for calculating interest rate risks, the risk was calculated at DKK 224 million at 31 December 2012, corresponding to 2.5% of the capital base, against DKK 68 million in 2011.

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

EXCHANGE RATE RISK

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

The market risk policy does not accept currency risks arising due to mismatch of funding and lending except for inevitable, limited foreign exchange risks resulting from the ongoing cash management. The company's lending margin is collected in the same currency in which the loan was granted. Accordingly, net interest income from lending operations 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

Equity risk is the risk of losses because of changes in equity prices. The market risk policy defines limits for the equity risk. Equity investments may not represent more than 10% of the capital base.

At 31 December 2012, the company had shares totalling DKK 630 million, corresponding to 7.0% of the capital base less deductions.

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.

The policy also includes guidelines on structured notes. Structured notes refer to funding with conditions other than standard fixed/floating-rate conditions. Issues may only be structured using interest rate and exchange rate instruments, and they must not represent more than 5% of the total loan amount. At the end of 2012, the company had no structured notes.

LIQUIDITY RISK

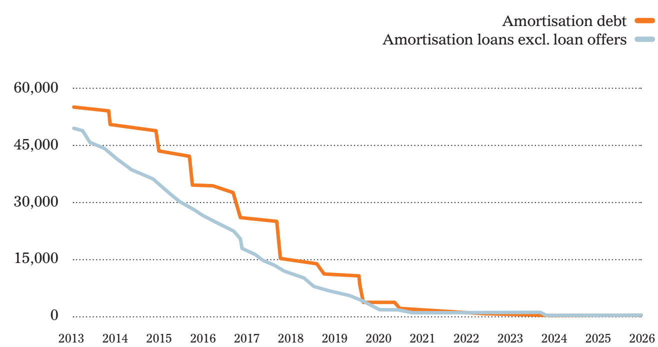
Liquidity risk is the risk that the company is unable to meet its payment obligations as they fall due.

Pursuant to the Bond Executive Order, the company must pursue a balance principle. The company has decided to pursue the specific balance principle. The balance principle entails fixed absolute limits for the size of allowable interest rate, foreign exchange and liquidity risks when there is a difference between payments on loans and funding.

The specific balance principle permits a cash deficit between issued bonds and loans provided. Such a cash deficit – resulting from the future payments related to bonds issued by Danish Ship Finance, other funding and financial instruments which exceed the future incoming payments on loans, financial instruments and investments – may not exceed 100% of the capital base. Through in-house policies, the company has defined stricter requirements for any cash deficits between issued bonds and loans provided.

Pursuant to the company's liquidity policy, the company must have overall positive liquidity within the first-coming 18-month period. The calculation of the limit includes the securities portfolio at market value, and loan offers are included if they are expected to be disbursed during the period.

DEVELOPMENTS IN ISSUED BONDS RELATIVE TO LOANS DKK MILLION



Bonds are typically issued in DKK, whereas most of the loans are disbursed in USD. The company has sourced USD for funding of all loans disbursed via so-called base 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 financial market. Through policies, the company has defined in-house limits for the need for USD over time.

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

OPERATIONAL RISK

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

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

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

In the credit function, the risk relates to the handling of agreements and security documents and regular follow-up on loan covenants. In addition, the risk relates to the handling of any ship's mortgages which it proves necessary to take over in case the borrower defaults on his loan.

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

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

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

BOND ISSUANCE

FUNDING

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

Covered bonds as defined by the CRD

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

The company has still not exercised its authority to issue covered bonds. This possibility is based on the Danish act on covered bonds from 1 June 2007.

Ship mortgage bonds

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

The rules on issuing ship mortgage bonds are similar to the previous rules that apply to debenture bonds, except that there is a possibility of, but not a requirement, issuing ship mortgage bonds in one or more separate capital centres. As for issuance of covered bonds, Danish Ship Finance must comply with a balance principle when issuing ship mortgage bonds.

Issued bonds

Issued bonds are primarily bullet loans denominated in DKK. At 31 December 2012, issued bonds totalled DKK 58,422 million, nominal value, of which bonds issued in DKK accounted for 84.8%. The bonds may be unlisted, but all bonds except CIRR bonds are listed and traded on NASDAQ OMX Copenhagen.

There was extensive interest in the company's bonds, and new bond issues in 2012 ran to approximately DKK 11,439 million with an average maturity of about 4.5 years.

Part of the proceeds from the decent demand for the company's bonds has been used to buy back bonds previously issued. Most of the purchased bonds have subsequently been withdrawn from circulation, but a small proportion has been retained with a view to a potential resale in the future.

The portfolio of own bonds is specified in notes 14-15. For accounting purposes, the portfolio of own bonds is in principle treated as if the bonds had been drawn on the date of purchase.

RATING

Moody's performs an ongoing credit assessment of Danish Ship Finance and has assigned the following ratings:

Issuer rating	Baa2
Bond rating	Baa2
Seniority	Senior unsecured
Outlook	Negative

Moody's rating system places the company in the "Investment Grade" category "B". Moody's description of the "B" category is as follows:

"Obligations rated "B" are considered as medium grade, with some speculative elements and moderate credit risk."

The "senior" or "unsubordinated" designation implicates that these bonds, in case of the liquidation of the company, will be repaid before subordinated creditors ("junior debt").

The "unsecured" designation in principle means that no specific collateral has been provided for the loan and therefore does not fairly describe the company's bonds.

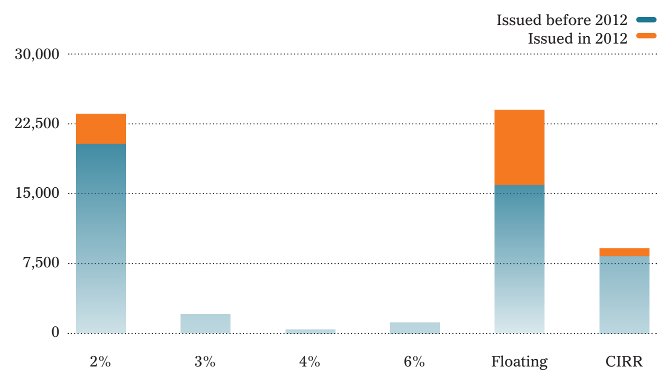
Under the Investment Directive, bonds issued by Danish Ship Finance or by Danish mortgage-credit institutions are considered "gilt-edged" bonds and also designated as covered bonds. The rules stipulate that proceeds from the bond issuance should be invested in assets which, during the whole period of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

In case the company is declared bankrupt, the Act on a Ship Finance Institute 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.

Ship mortgage bonds issued by Danish Ship Finance meet the requirements set out in the ECBC's (European Covered Bond Council) definition of Covered Bonds.

In order to be covered by the ECBC's definition of Covered Bonds, a company must also on a half-yearly basis, in connection with the publication of financial statements, announce data concerning the institute's capital and lending relations based on the principles of the Danish National Transparency Template.

ISSUED BONDS BY BOND TYPE
DKK MILLION



BONDS IN CIRCULATION

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

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

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

SHARE CAPITAL

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

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

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

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

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

Dividends
At the annual general meeting in 2012, the Board of Directors' proposal on dividends based on the financial statements for 2011 was adopted.

Based on the financial statements for 2012, the Board of Directors of Danish Ship Finance recommends that the company pays DKK 220 million in dividends to the company's A shareholders and DKK 47 million in dividends to the company's B shareholder, Den Danske Maritime Fond.

Since its conversion to a public limited company in 2005, the company has paid total dividends of DKK 324 million to the B shareholder, Den Danske Maritime Fond, exclusive of proposed dividends for 2012. The funds are used to develop and promote Danish shipping and the Danish shipbuilding industry.

ORGANISATION, MANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITY

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

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

Danish Ship Finance aims to obtain satisfactory financial results for its owners and is therefore dedicated to creating value, which is secured through controlled growth in lending while focusing 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"*

MANAGEMENT STRUCTURE
The supreme authority of the company is the general meeting. The Board of Directors consists of nine members. The general meeting elects six members. These are elected for terms of one year. The employees elect three employee representatives to the Board of Directors. They are elected for terms of four

years. The rules on employee representatives are available on the company's website.

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

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

Annual general meeting

The Board of Directors and the Management 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 Management Board are present at general meetings.

The next annual general meeting will be held at the company's address on 8 April 2013.

Board of Directors

Jens Thomsen acts as chairman, and Thomas F. Borgen acts as deputy chairman.

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

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

In 2012, the Board of Directors held eight ordinary meetings with an average participation rate of 89%. In addition, the Board of Directors held a number of electronic board meetings in connection with the processing of credit recommendations of a standard nature.

The Board of Directors has assessed that the board members together must represent the competencies deemed necessary to ensure a competent management of the company. The necessary competencies are knowledge of:

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

The Danish FSA has introduced requirements on self-evaluation, specifying the Executive Order on Governance. In order to ensure that the Board of Directors has the necessary competencies, it makes an annual self-evaluation. The competencies of each board member are described in "Directorships" below.

Operation chain reaction

Danish Ship Finance follows the "Operation Chain Reaction" recommendations defined by the Danish Ministry of Gender Equality with respect to more women on boards of directors.

The recommendations are intended to contribute to enhancing the representation of potential female board members by aiming to increase the number of female managers in the company generally.

In 2012, female board members represented 22% of all board members. The day-to-day management team had no female representation.

Additional information about "Operation Chain Reaction" is provided in the CSR report on the company's website www.shipfinance.dk/om-selskabet/csr.

Day-to-day management
The day-to-day management consists of Erik I. Lassen, chief executive officer, Per Schnack, executive vice president, Peter Hauskov, senior vice president and Flemming Møller, senior vice president.

CORPORATE GOVERNANCE

As Danish Ship Finance has no shares listed for trading on NASDAQ OMX Copenhagen, the company is not subject to the corporate governance rules. The company has resolved to follow the recommendations issued by the Committee on Corporate Governance.

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

The Board of Directors continually assesses the company's rules, policies and practice in relation to the Corporate Governance recommendations. It is the view of the Board of Directors that Danish Ship Finance either complies with the recommendations of the Committee or explains the reasons for any non-compliance.

The corporate governance report must be published at least once a year. The corporate governance report is published on the company's website in connection with the publication of the company's annual report.

Additional information about corporate governance is provided on the company's website www.shipfinance.dk/Investor-Relations/Corporate-Governance.

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

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

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

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

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

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

The total payments concerning remuneration for the Board of Directors and the Management Board are described in note 7 to the financial statements.

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

AUDIT COMMITTEE

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

The audit committee consists of Fatiha Benali, Trond Ø. Westlie and Michael Rasmussen. Fatiha Benali (chairman), who is the independent member with competencies in finance and accounting, qualifies by being Business Financial Officer and former CFO of a company that presents financial statements in accordance with the Danish Financial Business Act and IFRS.

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

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

Additional information on the company's audit committee is available on the company's website www.shipfinance.dk/om-selskabet/Revisionsudvalg.

CORPORATE SOCIAL RESPONSIBILITY

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

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

A committee has been set up to handle CSR initiatives and launch new initiatives. The committee is involved in the following categories: the environment and climate, employees and corruption and unusual gifts.

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

- minimising harmful impacts to the environment and the climate;
- a fruitful in-house working environment;
- value creation based on motivated employees;
- guidelines to counter corruption and bribery.

Additional information on the corporate social responsibility is provided in the CSR report on the company's website www.shipfinance.dk/om-selskabet/csr.

HUMAN RESOURCES

At the end of 2012, Danish Ship Finance employed 65 employees, of whom 25 were women and 40 were men.

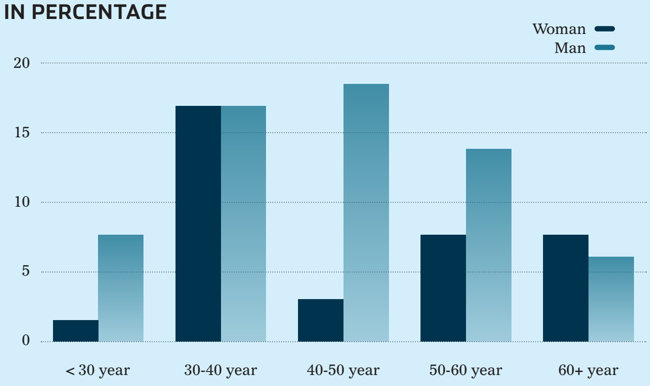
For the company to retain its position as the leading ship financing institute, it is important that it is able to attract and retain competent employees. In order to create an attractive framework for its employees, Danish Ship Finance offers its staff a number of insurance and healthcare schemes. The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

The employees generally have an extensive educational background and are specialists in their fields. In order to develop employee competencies, the company spends resources on training for each employee. In 2012, expenses for training courses and other training amounted to 1.4% 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.

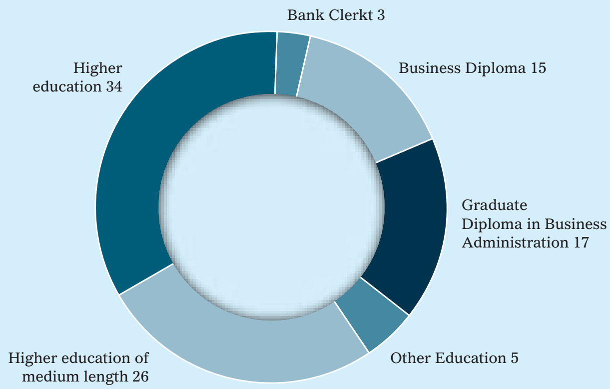
The company generally records a high level of job satisfaction, and the general job satisfaction measured in 2012 was at a satisfactory level. In order to retain this level, in collaboration with external HR partners the company remains focused on employee satisfaction.

Additional information on the employee satisfaction survey is provided in the CSR report on the company's website www.shipfinance.dk/om-selskabet/csr.

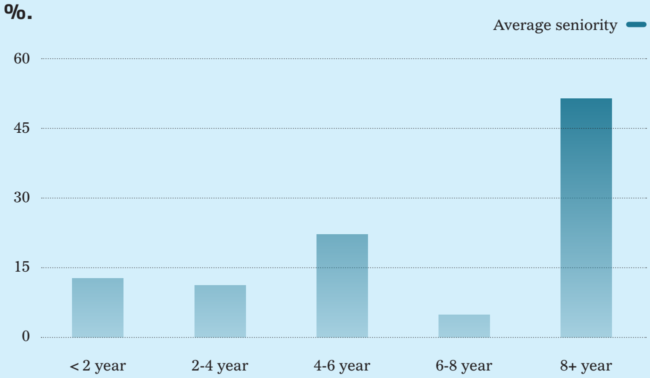
DISTRIBUTION BY AGE AND GENDER IN PERCENTAGE



EDUCATIONAL BACKGROUND %



AVERAGE SENIORITY AS A PERSENTAGE OF TOTAL EMPLOYEES %.



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 2012 of Danish Ship Finance. 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.

Former Governor Jens Thomsen,
(Chairman)
Elected to the Board of Directors on 28.04.2003
Member of the Danish committee investigating the causes of the financial crisis
Competencies:
Broad knowledge of macro-economics, financial issues, legislation and financial risk management.

Member of the Executive Board Thomas F. Borgen
Danske Bank A/S (Deputy Chairman)
Elected to the Board of Directors on 14.06.2012
Member of the board of directors of:
Northern Bank Limited (Chairman)
Kong Olav V's Fond
Competencies:
Broad knowledge of banking operations and financial risk management.

Business Financial Officer Fatiha Benali, Tryg A/S
Elected to the Board of Directors on 16.04.2009
Competencies:
Broad knowledge of finance and accounting and IT.

Chief Executive Officer Jenny N. Braat,
Danske Maritime
Elected to the Board of Directors on 29.03.2012
Member of the board of directors of:
Den Danske Maritime Fond
Competencies:
Broad knowledge of the international shipping industry with particular focus on shipbuilding and the national and international legislative framework for shipbuilding.

Senior Relationship Manager Marcus F. Christensen,
Danmarks Skibskredit A/S
Elected to the Board of Directors on 29.03.2012
Competencies:
Broad knowledge of credit granting, ship financing and problem handling.

Executive Vice President Michael Rasmussen,
Nordea Bank A/S
Elected to the Board of Directors on 24.04.2008
Member of the board of directors of:
The Danish Bankers Association (Chairman)
Industrialiseringsfondene for Udviklings-, Øst- og Vækstlande (IFU) (Chairman)
Competencies:
Broad knowledge of banking operations and financial risk management, including credit risks and IT.

Head of Research Christopher Rex,
Danmarks Skibskredit A/S
Elected to the Board of Directors on 29.03.2012
Competencies:
Broad knowledge of macroeconomics, financial risk management and international shipping

Senior Relationship Manager Henrik R. Søgaard,
Danmarks Skibskredit A/S
Elected to the Board of Directors on 24.04.2008
Competencies:
Broad knowledge of credit granting, ship financing and problem handling.

Group CFO Trond Ø. Westlie, A.P. Møller-Mærsk A/S
Elected to the Board of Directors on 24.03.2011
Member of the board of directors of:
Dansk Supermarked A/S (Deputy Chairman)
APM Terminals B.V.
APM Terminals Management B.V.
Danske Bank A/S
F. Salling A/S
F. Salling Holding A/S
Mærsk A/S
Mærsk Olie og Gas A/S
Maersk Drilling Holding A/S
Pepita A/S
Rederiet A.P. Møller A/S
Shama A/S, (also acts as executive)
Subsea 7 S.A.
Tønsberg Delikatesse A/S
Competencies:
Broad knowledge of shipping operations, financial risk management, finance and accounting and general management of international businesses.

DIRECTORSHIPS – MANAGEMENT BOARD

Chief Executive Officer Erik I. Lassen
Member of the Management Board since 09.04.2008

Executive Vice President Per Schnack
Member of the Management Board since 09.04.2008

STATEMENT BY THE MANAGEMENT BOARD AND THE BOARD OF DIRECTORS

The Board of Directors and the Management 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 2012. 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 2012 and of the results of the company's operations for the financial year ended 31 December 2012.

We recommend the annual report for adoption at the annual general meeting in 2013.

Copenhagen, 28 February 2013

MANAGEMENT BOARD

Erik I. Lassen
Chief Executive Officer

Per Schnack
Executive Vice President

BOARD OF DIRECTORS

Jens Thomsen
Chairman

Thomas F. Borgen
Deputy Chairman

Fatiha
Benali

Jenny N.
Braat

Marcus F.
Christensen

Michael
Rasmussen

Christopher
Rex

Henrik R.
Søgaard

Trond Ø.
Westlie

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF DANISH SHIP FINANCE A/S

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year ended 31 December 2012, comprising an income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including accounting policies. The financial statements are presented in accordance with the Danish Financial Business Act. Furthermore, the financial statements are presented in accordance with additional Danish disclosure requirements for interim reports of issuers of listed bonds.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for preparing financial statements that give a true and fair view in accordance with the Danish Financial Business Act. Management is also responsible for the internal control that it considers necessary for preparing financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with international standards on auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of financial statements that give a true and fair view. The purpose of this is to design procedures that are appropriate in the circumstances but not to express an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Our audit did not result in any qualification.

OPINION

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31 December 2012 and of the results of the company's operations for the financial year ended 31 December 2012 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds.

STATEMENT ON THE MANAGEMENT'S REPORT

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

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

Copenhagen, 28 February 2013

DELOITTE
Statsautoriseret Revisionspartnerselskab

Henrik Wellejus	Per Rolf Larssen
State-authorised public accountant	State-authorised public accountant

INCOME STATEMENT

NOTE	1 JANUARY - 31 DECEMBER DKK MILLION	2012	2011
2	Interest income	2,825	3,028
3	Interest expenses	(1,939)	(2,204)
4	**Net interest income**	**886**	**824**
	Dividends on shares, etc.	6	5
5	Fee and commission income	53	59
	Fees and commissions paid	(5)	(2)
	Net interest and fee income	**940**	**886**
6	Market value adjustments	105	(135)
7,8	Staff costs and administrative expenses	(94)	(90)
17,18	Depreciation and impairment of property, plant and equipment	(1)	(1)
13	Impairment charges on loans and receivables	(523)	(333)
	Profit/loss before tax	**427**	**326**
9	Tax	(113)	(82)
	Profit/loss for the year	**314**	**244**
	Other income	-	-
	Total income for the year	**314**	**244**
	PROPOSED ALLOCATION OF PROFIT		
	Dividend for the financial year	267	207
	Retained earnings	47	37
	Total	**314**	**244**

BALANCE SHEET

NOTE	AT 31 DECEMBER DKK MILLION	2012	2011
	ASSETS		
10	Due from credit institutions and central banks	1,627	597
11,12,13	Loans at amortised cost	46,364	46,948
14,15	Bonds at fair value	30,091	26,944
16	Shares, etc.	630	558
17	Land and buildings		
	Domicile property	64	64
18	Other tangible assets	8	8
	Current tax assets	83	-
23	Deferred tax assets	330	438
19	Other assets	3,805	3,442
	Total assets	**83,002**	**78,998**
	LIABILITIES AND EQUITY		
	Liabilities		
20	Due to credit institutions and central banks	10,550	9,205
21	Issued bonds at amortised cost	59,416	55,538
	Current tax liabilities	0	163
22	Other liabilities	3,263	3,527
	Total liabilities	**73,229**	**68,433**
24	**Subordinated debt**		
	Subordinated debt	-	899
25	**Equity**		
	Share capital	333	333
	Tied-up reserve capital	8,343	8,343
	Revaluation reserves	10	10
	Retained earnings	1,087	980
	Total equity	**9,773**	**9,666**
	of which dividend proposed for the financial year	267	207
	Total liabilities and equity	**83,002**	**78,998**
	Off-balance sheet items		
27	Contingent liabilities	758	806
28	Other binding agreements	4,398	7,376
	Total off-balance sheet items	**5,156**	**8,182**

STATEMENT OF CHANGES IN EQUITY

DKK MILLION	Share capital	Tied-up reserve capital	Retained earnings	Proposed dividends for the financial year	Total
Equity at 1 January 2011	**333**	**8,343**	**746**	**74**	**9,496**
Dividends distributed	-	-	-	(74)	(74)
Profit/loss for the period	-	-	37	207	244
Equity at 31 December 2011	**333**	**8,343**	**783**	**207**	**9,666**
Dividends distributed	-	-	-	(207)	(207)
Profit/loss for the period	-	-	47	267	314
Equity at 31 December 2012	**333**	**8,343**	**830**	**267**	**9,773**

LIST OF NOTES

NOTES

NOTE 1 **ACCOUNTING POLICIES**

General
The annual report has been prepared in accordance with the Danish Financial Business Act as the Executive Order on a Ship Finance Institute refers to this act, including the Executive Order on financial reports by credit institutions and investment companies, etc. ("executive order on financial reporting"). 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 unchanged from the policies applied in the financial statements for 2011.

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

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

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

In 2012, the Danish FSA clarified the impairment rules of the executive order on financial reporting, and against this background the company has made some changes to its accounting estimates concerning impairment charges. The changed rules alone have not resulted in a need for higher loan impairment charges.

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 loan exposures as well as certain bonds for which an active market no longer exists. See "Determination of fair value" below and note 32 for a more detailed description.

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

Impairment charges with a collective component especially involve estimates associated with assessing in which segments objective evidence of impairment exists. Individual charges especially involve estimates associated with assessing when debtors experience substantial financial difficulty.

NOTE 1

Once objective evidence of impairment exists, estimates are associated with estimating realisable values from ship mortgages etc. and expected dividends from the individual exposures.

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
Unless otherwise stated all amounts are in DKK million. 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

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:

NOTE 1

- 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 recognised at fair value as a value adjustment of the hedged items with value adjustment recognised in the income statement.

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 a financial instrument is quoted in a market that is not active, the subsequent measurement is based on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance by including transactions in similar financial instruments that are assumed to be motivated by normal business considerations.

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.

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

BALANCE SHEET

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

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

NOTE 1

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. The difference between the value at initial recognition and the nominal value is amortised over the term to maturity and recognised under Interest income.

Impairment
Loan impairment charges are made individually and collectively when objective evidence has been ascertained 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.

The expected future payments are calculated based on the likelihood with which they are expected to reduce the cash flow from the loan. When calculating the value of future cash flows, the security values are included on the basis of an assessment of the ship mortgages against the background of supply and demand, after which adjustments are made for matters such as freight rates, age and turnover rate. The effective interest rate on the loan is used as discount factor.

Objective evidence of impairment is believed to exist 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. Objective evidence is believed to exist for individual loans if the debtor is experiencing significant financial difficulty, including in case of default or breaches of loan covenants that have not been dealt with. Irrespective of the category, impairment charges are made at an individual loan level.

The impairment charge on the individual loan is determined by multiplying the probability of default (PD), fixed on the basis of a specific assessment of debtor creditworthiness, by the loss given default (LGD) on the loan. Loss given default is calculated as the difference between the outstanding residual debt and the estimated discounted sales value of the mortgaged vessel(s) in a weak market.

When calculating the value of the ship mortgages, a deduction is made relative to the obtained or fixed market value to reflect that the sale in such situations is made in a stressed market. The deduction has been adjusted and broken down on relevant sub-segments, for example according to vessel size. Ongoing efforts are made to improve the calculation method for the sales value of the ship mortgages in case the borrower experiences serious financial difficulty.

The value of the vessel is calculated on the basis of what a vessel in a given sub-segment is expected to generate in terms of earnings in, based on experience, a weak market during the vessel's remaining lifetime. The calculation is made with consideration to factors such as the vessel's saleability, age and selling costs. The expected payments from the sale of the vessel are discounted using the current borrowing rate.

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.

NOTES

NOTE 1

Shares, etc.
Shares, etc. comprises investments in sector shares, share-based unit trust certificates 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 loan 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 3, DK-1250 Copenhagen, Denmark.

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

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

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

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

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

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

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

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

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

NOTE 1

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.

The difference between the cost of acquiring the debt instrument and the liability, which may be cancelled, is recognised in market value adjustments in the income statement. Interest income from the portfolio of own bonds is set off against interest expenses for own bonds.

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

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

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

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

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

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

OFF-BALANCE SHEET ITEMS

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

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.

NOTES

NOTE 1

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

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. Transaction fees, such as agency fees in loan transactions, are recognised in the income statement on completion of the transaction.

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

STAFF COSTS AND ADMINISTRATIVE EXPENSES

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

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

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

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

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

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

DKK MILLION	2012	2011
NOTE 2 INTEREST INCOME		
Due from credit institutions	6	15
Loans and other receivables	1,508	1,370
Bonds	813	934
Derivatives		
Interest rate contracts	496	715
Foreign exchange contracts	2	(6)
Total interest income	**2,825**	**3,028**
Of this amount, income from genuine purchase and resale transactions recognised in		
Due from credit institutions	-	-

DKK MILLION	2012	2011
NOTE 3 INTEREST EXPENSES		
Interest to credit institutions	(41)	(95)
Interest on issued bonds	(1,654)	(1,912)
Interest on subordinated debt	(82)	(84)
Other interest expenses	(163)	(112)
Total interest expenses	**(1,939)**	**(2,204)**
Of this amount, interest expenses on genuine sale and repurchase transactions recognised in		
Due to credit institutions	(41)	(95)

NOTE 4

DKK MILLION	2012	2011
NET INTEREST INCOME		
Net interest income from lending operations		
Loans and other receivables	1,508	1,370
Bonds	183	271
Due from credit institutions	4	20
Interest to credit institutions	0	(5)
Issued bonds	(1,654)	(1,912)
Interest on subordinated debt	(82)	(84)
Other interest expenses	(18)	(21)
Derivatives		
Interest rate contracts	496	715
Foreign exchange contracts	2	(6)
Total net interest income from lending operations	**439**	**348**
Net interest income from financing operations		
Bonds	630	663
Due from credit institutions	2	(5)
Interest to credit institutions	(40)	(91)
Other interest expenses	(145)	(91)
Total net interest income from financing operations	**447**	**476**
Total net interest income	**886**	**824**

NOTE	DKK MILLION	2011	2010
NOTE 5	FEE AND COMMISSION INCOME		
	Guarantee commission	10	9
	Fee and other commission income	43	50
	Total fee and commission income	**53**	**59**
NOTE 6	MARKET VALUE ADJUSTMENTS		
	Bonds	145	268
	Shares	75	(10)
	Exchange rate adjustments	26	12
	Financial instruments	(141)	(406)
	Total market value adjustments	**105**	**(135)**

	DKK MILLION	2012	2011
NOTE 7	STAFF COSTS AND ADMINISTRATIVE EXPENSES		
	Remuneration of Board of Directors and Management Board		
	Management Board	(6)	(6)
	Board of Directors	(2)	(2)
	Total remuneration of Board of Directors and Management Board	**(8)**	**(8)**
	Staff costs		
	Wages	(47)	(43)
	Pensions	(5)	(5)
	Social security costs and financial services employer tax	(11)	(10)
	Total staff costs	**(63)**	**(58)**
	Other administrative expenses	(23)	(24)
	Total staff costs and administrative expenses	**(94)**	**(90)**
	Number of employees - full-time equivalents	61	59
	Average number of employees - full-time equivalents	60	58

DKK '000

NOTE 7, CONTINUED

REMUNERATION OF THE BOARD OF DIRECTORS

2012		Ordinary fee	Committee fee	Total fees
Per Skovhus (retired at 14 June 2012)		150		150
Jens Thomsen, Chairman from 14 June 2012		263		263
Thomas F. Borgen (member and Deputy Chairman as of 14 June 2012)		113		113
Fatiha Benali	*)	150	50	200
Jenny N. Braat (member as of 29 March 2012)		75		75
Thorkil H. Christensen (retired at 29 March 2012)		75		75
Michael Rasmussen	*)	150	50	200
Trond Ø. Westlie	*)	150	50	200
Erling Garrelts (retired at 29 March 2012)	**)	75		75
Lisbeth Navntoft Pedersen (retired at 29 March 2012)	**)	75		75
Henrik Rohde Søgaard	**)	150		150
Marcus Freuchen Christensen (member as of 29 March 2012)	**)	75		75
Christopher Rex (member as of 29 March 2012)	**)	75		75
Total		**1,575**	**150**	**1,725**

2011		Ordinary fee	Committee fee	Total fees
Per Skovhus, Chairman		300		300
Jens Thomsen, Deputy Chairman		225		225
Fatiha Benali	*)	150	50	200
Thorkil H. Christensen		150		150
Flemming Ibsen (retired at 24 March 2012)	*)	38	13	50
Michael Rasmussen	*)	150	50	200
Trond Ø. Westlie (member as of 24 March 2011)	*)	113	38	150
Erling Garrelts	**)	150		150
Lisbeth Navntoft Pedersen	**)	150		150
Henrik Rohde Søgaard	**)	150		150
Total		**1,575**	**150**	**1,725**

*) Member of Audit Committee
**) Employee representative

DKK '000	2012	2011

NOTE 7, CONTINUED

REMUNERATION OF MANAGEMENT BOARD

	2012	2011
Erik I. Lassen		
Contractual remuneration	2,646	2,581
Pension	327	319
Tax value of car	101	96
Total	**3,074**	**2,996**
Per Schnack		
Contractual remuneration	2,381	2,323
Pension	294	287
Tax value of car	100	127
Total	**2,775**	**2,737**

The Management Board's pension scheme is a contribution scheme and there are unusual severance terms for members of the Management Board. The company has no further pension obligations towards members of the Management Board.

During the period when Danish Ship Finance has received capital injections pursuant to the agreement on state-funded injections, only 50% of the salary to each Management Board member will be deducted for tax purposes.

In 2011, deductions totalling DKK 2.9 million were made in the taxable income in respect of remuneration of the Management Board.

For 2012, deductions of DKK 2.9 million are expected to be made in the taxable income in respect of remuneration of the Management Board.

DKK '000

NOTE 7, CONTINUED

INFORMATION ON REMUNERATION POLICY

Information about remuneration policy and practice for the Board of Directors, the Management 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 2012, which was adopted by the company´s annual general meeting on 29 March 2012. The remuneration policy is available on the company´s website.

It appears from the remuneration policy that it has been resolved for 2012 that no variable remuneration will be disbursed to members of the Board of Directors, the Management Board and other employees whose activities have a material impact on the company´s risk profile.

With reference to section 15(1) paragraph 7 of the "Danish Executive Order on remuneration policy and disclosure obligations about remuneration in financial enterprises and financial holding companies", the company discloses the following information:

2012	**Fixed remuneration/ fee**	**Variable remuneration**	**Total remuneration/ fee**	**Number of recipients**
Board of Directors	1,725	-	1,725	13
Management Board	5,849	-	5,849	2
Other employees whose activities have an impact on the company's risk profile	3,604	-	3,604	3
Total	**11,178**	**-**	**11,178**	

DKK MILLION	2012	2011
NOTE 8 AUDIT FEES		
Audit fees, statutory audit	(1)	(1)
Tax consulting service	0	0
Non-audit services	0	0
Total fees	**(1)**	**(1)**

DKK MILLION	2012	2011

NOTE 9 TAX

Tax on profit/loss for the year		
Estimated tax on profit/loss for the year	(1)	(273)
Changes in deferred tax	(108)	191
Adjustment of prior-year tax charges	(4)	0
Total tax	**(113)**	**(82)**
Effective tax rate	**Pct.**	**Pct.**
Tax rate in Denmark	25.0	25.0
Non-taxable income and non-deductible expenses	0.4	(0.8)
Adjustment of prior-year tax charges	1.0	1.1
Effective tax rate	**26.4**	**25.3**

NOTE 10 DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

Genuine purchase and resale transactions (repo reverse)	0	0
Other receivables	1,627	597
Total due from credit institutions and central banks	**1,627**	**597**
Broken down by due date:		
Demand deposits	62	83
Up to 3 months	1,565	514
Total due from credit institutions and central banks	**1,627**	**597**

NOTE 11 LOANS AT AMORTISED COST

At 1 January	49,948	48,472
Additions	7,876	3,878
Ordinary repayments and redemptions	(5,280)	(5,310)
Extraordinary prepayments	(831)	(1,561)
Net change concerning revolving credit facilities	(1,335)	(120)
Exchange rate adjustment of loans	(427)	883
Change in amortised cost for the year	(30)	3
Depreciation, amortisation and impairment for the year	(557)	(297)
At 31 December	**46,364**	**46,948**

NOTE 12	DKK MILLION	2012	2011
	LOANS AT AMORTISED COST		
	Gross loans at exchange rates at the balance sheet date	49,248	49,276
	Loan impairment charges	(2,884)	(2,328)
	Total loans	**46,364**	**46,948**
	Total loans broken down by due date:		
	Up to 3 months	1,875	1,343
	From 3 months to 1 year	5,117	4,883
	From 1 to 5 years	26,649	25,516
	Over 5 years	12,723	15,207
	Total loans	**46,364**	**46,948**
	Total loans		
	Loans at fair value	47,314	48,015
	Loans at amortised cost	46,364	46,948

Loans at fair value is an approximation based on amortised cost with the addition of the value of fixed-rate loans.

	2012	2011
Loans and receivables subject to individual impairment charges (breach of covenants)		
Value of loans with objective evidence of impairment		
Loans and receivables for which respite has been granted	5,446	2,129
Impairment charges	(1,759)	(792)
Total loans and receivables for which respite has been granted	**3,687**	**1,337**
Loans and receivables involving breach of covenants	1,310	2,028
Impairment charges	(245)	(416)
Total loans and receivables involving breach of covenants	**1,065**	**1,612**
Total loans and receivables subject to individual impairment charges	**4,752**	**2,949**

Reference is made to note 36 setting out LTV ranges for the entire loan portfolio and for loans subject to individual impairment charges.

DKK MILLION	2012	2011
NOTE 13 IMPAIRMENT CHARGES		
The following impairment charges were made on receivables		
Individual impairment charges	2,003	1,209
Impairment charges with a collective component	881	1,119
Total impairment charges	**2,884**	**2,328**
As a percentage of loans and impairment charges		
Individual impairment charges	4,0	2,4
Impairment charges with a collective component	1,8	2,2
Total impairment charges	**5,8**	**4,6**
Distribution of impairment charges		
Amount set off against loans	2,884	2,328
Provisions made for other liabilities	-	-
Total impairment charges	**2,884**	**2,328**
Movements in impairment charges		
At 1 January	2,328	2,059
Additions	1,260	1,327
Reversal of impairment charges from previous years	(703)	(973)
Losses covered by impairment charges from previous years	(1)	(85)
Total impairment charges	**2,884**	**2,328**
Losses on and impairment charges on receivables		
New impairment charges	(1,260)	(1,327)
Reversed impairment charges	703	973
Reclassification of interest	34	20
Losses not covered by impairment charges from previous years	-	-
Received on claims previously written off	0	1
Total losses on and impairment charges on receivables	**(523)**	**(333)**

NOTE 14 BONDS AT FAIR VALUE

DKK MILLION	2012	2011
Bond portfolio		
Own non-callable bonds	437	-
Non-callable bonds	22,393	18,884
Callable bonds	7,698	8,059
Portfolio of bonds, total before offsetting own bonds	**30,528**	**26,944**
Own bonds (offset against issued bonds at amortised cost)	-437	-
Total bond portfolio	**30,091**	**26,944**
Bond portfolio		
Own bonds	437	-
Government bonds and bonds issued by KommuneKredit	570	752
Mortgage bonds	29,521	26,192
Portfolio of bonds, total before offsetting own bonds	**30,528**	**26,944**
Own bonds (offset against issued bonds at amortised cost)	(437)	-
Total bond portfolio	**30,091**	**26,944**

NOTE 15 BOND HOLDINGS BY TIME TO MATURITY

DKK MILLION	2012	2011
Bond portfolio		
Own bonds with a maturity of over 1 year and up to and including 5 years	437	-
Bonds with a maturity of up to and including 1 year	4,910	4,625
Bonds with a maturity of over 1 year and up to and including 5 years	16,444	13,594
Bonds with a maturity of over 5 years and up to and including 10 years	1,267	1,856
Bonds with a maturity of over 10 years	7,470	6,869
Portfolio of bonds, total before offsetting own bonds	**30,528**	**26,944**
Own bonds (offset against issued bonds at amortised cost)	(437)	-
Total bond holdings specified by time to maturity	**30,091**	**26,944**

DKK MILLION	2012	2011

NOTE 16

SHARES, ETC.

	2012	2011
Unit trust certificates (shares) listed on NASDAQ OMX Copenhagen A/S	374	325
Unlisted shares/unit trust certificates recognised at fair value	255	233
Total shares, etc.	**630**	**558**

NOTE 17

LAND AND BUILDINGS

	2012	2011
Domicile property		
Revaluation, 1 January	65	65
Property improvements during the year	0	0
Revaluation incl. improvements, 31 December	**65**	**65**
Accumulated depreciation, 1 January	1	1
Depreciation for the year	0	0
Accumulated depreciation, 31 December	**1**	**1**
Total revaluation, 31 December	**64**	**64**

The domicile property comprises the office property at Sankt Annæ Plads 1-3, Copenhagen, the public valuation of which was assessed at DKK 79 million at 1 October 2011.

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

	DKK MILLION	2012	2011
NOTE 18	OTHER TANGIBLE ASSETS		
	Cost, 1 January	23	22
	Additions during the year	2	1
	Disposals during the year	(1)	0
	Cost, 31 December	**24**	**23**
	Accumulated depreciation, 1 January	15	15
	Disposals during the year	0	0
	Depreciation during the year	1	1
	Accumulated depreciation, 31 December	**16**	**15**
	Total other tangible assets	**8**	**8**
NOTE 19	OTHER ASSETS		
	Interest receivable	579	653
	Prepayments to swap counterparties	14	14
	Receivables concerning CIRR financing	44	62
	Fair value of derivatives	3,148	2,705
	Miscellaneous receivables	20	8
	Total other assets	**3,805**	**3,442**
NOTE 20	DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Repo transactions	10,509	9,205
	Other amounts due	41	0
	Total due to credit institutions and central banks	**10,550**	**9,205**
	Broken down by due date:		
	On demand	41	0
	Up to 3 months	10,509	9,205
	Total due to credit institutions and central banks	**10,550**	**9,205**

NOTE 21

ISSUED BONDS AT AMORTISED COST

DKK MILLION	2012	2011
At 1 January	55,538	60,849
Additions in conjunction with block issues	11,439	1,297
Amortisation of cost	430	503
Adjustment for hedge accounting	(506)	1,020
Exchange rate adjustment	(107)	152
Own bonds	(406)	-
Ordinary redemptions	(6,972)	(8,283)
At 31 December	**59,416**	**55,538**
Specification of issued bonds		
Bonds issued in DKK		
Bullet bonds	50,960	45,854
Amortising CIRR bonds	1,201	616
Total Danish bonds	**52,161**	**46,470**
Bonds issued in foreign currency		
Amortising CIRR bonds, at year-end exchange rates	7,661	8,957
Bullet bonds, at year-end exchange rates	0	112
Total bonds issued in foreign currency	**7,661**	**9,068**
Own bonds	(406)	-
Total issued bonds	**59,416**	**55,538**
Broken down by term to maturity:		
Up to 3 months	3,106	0
From 3 months to 1 year	4,561	1,225
From 1 to 5 years	22,536	23,687
Over 5 years	29,620	30,626
Issued bonds, total before setting off against portfolio of own bonds	**59,823**	**55,538**
Own bonds	(406)	-
Total issued bonds	**59,416**	**55,538**

	DKK MILLION	2012	2011
NOTE 22	OTHER LIABILITIES		
	Interest payable	448	501
	Market value of derivatives	2,765	3,007
	Other liabilities	50	19
	Total other liabilities	**3,263**	**3,527**
NOTE 23	DEFERRED TAX		
	Deferred tax, 1 January	(438)	(247)
	Estimated deferred tax on the profit for the year	108	(194)
	Adjustment of deferred tax relating to prior years	-	3
	Total deferred tax	**(330)**	**(438)**

	2012	2012	2012	2011
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax net**	**Deferred tax net**
Property, plant and equipment	0	4	4	4
Loans	(33)	11	(22)	(10)
Issued bonds	(270)	-	(270)	(419)
Employee obligations	(1)	-	(1)	(1)
Balance of tax losses	(41)	-	(41)	-
Net loss - portfolio shares	-	-	-	(12)
Total deferred tax	**(345)**	**15**	**(330)**	**(438)**

DKK MILLION	2012	2011

NOTE 24

SUBORDINATED DEBT

	2012	2011
Principal	-	900
Origination fees for amortisation	-	(1)
Subordinated debt	**-**	**899**

Subordinated debt consists of liabilities in the form of hybrid tier 1 capital which, in the event of the company's voluntary or compulsory winding up, will not be repaid until after the claims of ordinary creditors have been met. Hybrid tier 1 capital is subordinated loan capital.

Subordinated debt is included in the capital base pursuant to the Danish Financial Business Act.

CURRENCY	PRINCIPAL	INTEREST RATE	RECEIVED	DUE
DKK	900.0	9.49%	2009	No due date

The hybrid tier 1 capital was received as part of the Second Bank Package and was repaid in December 2012. Prepayment of subordinated debt was approved by the Danish FSA.

NOTE 25

EQUITY

	2012	2011
Share capital:		
A shares	300	300
B shares	33	33
Total share capital	**333**	**333**
Tied-up reserve capital	8,343	8,343
Revaluation reserves	10	10
Retained earnings	1,087	980
Total equity	**9,773**	**9,666**
of which proposed dividend, cf. allocation of profit	*267*	*207*

The share capital is divided into the following denominations:

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

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

NOTE 26

SOLVENCY

DKK MILLION	2012	2011
Tier 1 capital		
Share capital	333	333
Tied-up reserve capital	8,343	8,343
Retained earnings	1,087	980
Total tier 1 capital	**9,763**	**9,656**
Deductions in Tier 1 capital		
Proposed dividend	267	207
Deferred tax assets	330	275
Additional straining relative to the Executive Order on a Ship Finance Institute	213	323
Total deductions in tier 1 capital	**810**	**805**
Tier 1 capital less deductions	**8,953**	**8,851**
Subordinated debt		
Subordinated debt	-	899
Total tier 1 capital	**8,953**	**9,750**
Supplementary capital		
Revaluation reserves	10	10
Supplementary capital less deductions	**10**	**10**
Capital base less deductions	**8,963**	**9,760**
Weighted items not included in the trading portfolio	48,902	49,028
Weighted off-balance sheet items	2,953	4,490
Weighted items involving counterparty risk outside the trading portfolio	780	696
Weighted items involving market risk, etc.	4,781	3,827
Weighted items involving operational risk	1,712	1,859
Total weighted items	**59,128**	**59,899**
Tier 1 capital less deductions as a percentage of total risk-weighted items	**15,1**	**16.3**
Solvency ratio pursuant to the Executive Order on a Ship Finance Institute	**15.2**	**16.3**
Minimum requirement fixed at 8%		
Weighted items with market risk, etc. consist of		
Items with position risk: Debt instruments	3,923	3,146
Items with position risk: Shares	5	6
Total currency position	853	675
Total weighted items with market risk, etc.	**4,781**	**3,827**

	DKK MILLION	2012	2011
NOTE 27	**CONTINGENT LIABILITIES**		
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken guarantee commitments of	752	800
	Payment guarantee provided to the Danish Securities Centre	4	4
	Guarantees provided to the Danish Securities Centre	2	2
	Total contingent liabilities	**758**	**806**

	DKK MILLION	2012	2011
NOTE 28	**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	602	208
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken commitments relating to irrevocable credit commitments on loans with revolving credit facilities in the amount of	22	133
	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	3,774	7,036
	Total other binding agreements	**4,398**	**7,377**

NOTE 29 RELATED PARTIES

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

Transactions with the Management Board and Board of Directors only concern remuneration. See note 7.

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

The company has no related parties with a controlling influence.

DKK MILLION

NOTE 30

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.

2012	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	25,274	26,523	25,927
Total commitments	**25,274**	**26,523**	**25,927**
Derivatives			
Interest rate swaps	(25,274)	(2,244)	(2,244)
Total derivatives	**(25,274)**	**(2,244)**	**(2,244)**
Net	**0**	**24,280**	**23,683**

2011	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	28,127	29,420	28,392
Total commitments	**28,127**	**29,420**	**28,392**
Derivatives			
Interest rate swaps	(28,127)	(2,750)	(2,750)
Total derivatives	**(28,127)**	**(2,750)**	**(2,750)**
Net	**0**	**26,670**	**25,642**

	DKK MILLION	2012	2011
NOTE 31	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:		
	Danmarks Nationalbank	-	18
	Banks	49,284	46,706
	Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:		
	Receivables	569	583
	Banks	63,917	64,305
	Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:		
	Banks	17,392	11,723
	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		
	Banks	12,622	2,518
	Forward securities transactions		
	Buying	208	759
	Selling	-	-

	DKK MILLION	2012 POSITIVE	2012 NEGATIVE	2011 POSITIVE	2011 NEGATIVE
NOTE 32	**MARKET VALUES OF OUTSTANDING DERIVATIVES**				
	Swap agreements have been made with the following parties to hedge the exchange rate exposure on loans and issued bonds:				
	Danmarks Nationalbank	-	-	2	-
	Banks	1,250	1,334	1,194	1,672
	Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:				
	Receivables	2	105	1	114
	Banks	1,905	671	1,524	829
	Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:				
	Banks	98	954	53	665
	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				
	Banks	7	56	1	29
	Forward securities transactions				
	Buying	1	-	4	-
	Selling	-	-	-	-
	Netting of exposure value				
	The positive gross fair value of financial contracts after netting, pursuant to appendix 17 to the Danish Executive Order on Capital Adequacy				
	Counterparty with risk weight of 0%	-		2	
	Counterparty with risk weight of 20%	1,691		1,257	
	Counterparty with risk weight of 100%	0		0	
	Value of total counterparty risk calculated according to the market valuation method for counterparty risk				
	Counterparty with risk weight of 0%	-		2	
	Counterparty with risk weight of 20%	3,262		2,773	
	Counterparty with risk weight of 100%	0		0	

DKK MILLION

NOTE 33

EXCHANGE RATE RISK AND USE OF DERIVATIVES AT 31 DECEMBER 2011

The total unhedged foreign currency position at 31 December 2012, translated at year-end exchange rates into DKK amounts to DKK 471 million (DKK 337 million at 31 December 2011).

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	41,690	5,700	47,390	1,858	49,248
Loan impairment charges				(2,884)	(2,884)
Loans as per the balance sheet					**46,364**
Due from credit institutions and central banks	478	7	485	1,142	1,627
Bond portfolio	0	893	893	29,198	30,091
Interest receivable, etc.	255	46	301	278	579
Other assets			0	4,341	4,341
Total assets as per the balance sheet	**42,423**	**6,646**	**49,069**	**33,933**	**83,002**
Issued bonds at year-end exchange rates	(7,662)	0	(7,662)	(51,754)	(59,416)
Issued bonds as per the balance sheet					**(59,416)**
Due to banks	0	(367)	(367)	(10,183)	(10,550)
Interest payable	(182)	(12)	(195)	(253)	(448)
Other payables				(2.815)	(2,815)
Total equity				(9,773)	(9,773)
Total liabilities as per the balance sheet	**(7,844)**	**(380)**	**(8,224)**	**(74,778)**	**(83,002)**
Derivatives - receivables	4,129	4,171	8,300		
Derivatives - payables	(38,431)	(10,243)	(48,674)		
Total net position (translated into DKK)	**277**	**195**	**471**		

	DKK MILLION	2012	2011
NOTE 34	**MARKET RISK SENSITIVITY**		

The company is exposed to several types of market risk. To illustrate the impact or sensitivity relative to each type of risk, the table below describes the amounts by which the company's results and equity are expected to change in various, fairly likely scenarios. Also indicated is the solvency impact due to a change in the exchange rate of the USD vis-à-vis DKK.

	2012	2011
Interest rate risk		
An interest rate increase of 1 percentage point		
Change in results	(168)	(42)
Change in equity	(168)	(42)
An interest rate fall of 1 percentage point		
Change in results	168	42
Change in equity	168	42
Equity risk		
An increase in the value of the shares of 10 percentage points		
Change in results	47	42
Change in equity	47	42
A decline in the value of the shares of 10 percentage points		
Change in results	(47)	(42)
Change in equity	(47)	(42)
Exchange rate risk		
An appreciation of the USD exchange rate vis-à-vis DKK		
Change in results	(329)	(240)
Change in equity	(329)	(240)
Percentage change in solvency	(1,7%)	(1,9%)
A depreciation of the USD exchange rate vis-à-vis DKK		
Change in results	329	240
Change in equity	329	240
Percentage change in solvency	1,7%	1,9%

The impact on the results and equity from a change in the exchange 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 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 35	DKK MILLION	2012	2011

FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

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

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

	2012	2011
Loans		
Measured at amortised cost	46,364	46,948
Measured at fair value	47,314	48,015
Difference between carrying amounts and fair-value based value of loans, total	**950**	**1.067**

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

	2012	2011
Issued bonds		
Measured at amortised cost, incl. hedging	59,416	55,538
Measured at fair value	59,286	54,928
Difference between carrying amounts and fair-value based value of issued bonds total	**(130)**	**(610)**

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	2012	2011

NOTE 36

CREDIT RISK

Total credit exposure distributed on balance sheet and off-balance sheet items

Due from credit institutions and central banks	1,627	597
Loans at amortised cost	46,364	46,948
Bonds at fair value	30,091	26,944
Shares, etc.	630	558
Derivatives	3,148	2,705
Total balance sheet items	**81,860**	**77,752**
Off-balance sheet items		
Contingent liabilities	758	806
Other binding agreements	4,398	7,376
Total off-balance sheet items	**5,156**	**8,182**

NOTE 36, CONTINUED

CREDIT RISK IN THE LOAN PORTFOLIO

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

Description of collateral
The loans are generally secured through first priority ship's mortgages.

Percentage distribution of loans including guarantees after impairment calculated in the LTV ranges, measured in terms of nominal residual debt.

LOAN-TO-VALUE RANGE	SHARE OF LOANS 2012	SHARE OF LOANS 2011
0 - 20 %	31%	33%
20 - 40 %	31%	31%
40 - 60 %	27%	26%
60 - 80 %	8%	8%
80 - 90 %	1%	1%
90 - 100 %	1%	0%
Over 100 %	1%	1%

Loans for shipbuilding financing is included in the"over 100%" category in the table above. No mortgage is registered on vessels during the building period, but the company receives a guarantee from the borrower, and is secured through assignment and subrogation in the building contract and subrogation in the refundment guarantee provided by the shipyard's bank. Loans for shipbuilding accounted for 0.8% of the loan portfolio at 31 December 2012 (1.0% in 2011).

It appears from the table above that 89% (2011: 90%) of the loan amounts is secured through mortgages within 60% of the most recently calculated market value of the mortgage, and 97% (2011: 98%) 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 67% (2011: 64%) after impairment charges. The market value of ships in the loan portfolio has generally declined by 10% since the end of December 2011 measured in DKK compared with 8% in US dollars.

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 36, CONTINUED

CREDIT RISK

Percentage distribution of loans subject to individual charges, cf. note 12
The distribution is made after impairment charges calculated in the LTV ranges (by nominal outstanding debt)

LOAN-TO-VALUE RANGE	SHARE OF LOANS 2012	SHARE OF LOANS 2011
0 - 20 %	28%	36%
20 - 40 %	27%	34%
40 - 60 %	25%	26%
60 - 80 %	16%	4%
80 - 90 %	4%	0%
90 - 100 %	0%	0%
Over 100 %	0%	0%

It appears from the table above that 80% (2011: 96%) of the loan amounts is secured through mortgages within 60% of the most recently calculated market value of the mortgage, and 96% (2011: 100%) 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 72% after impairment charges.

NOTE 37

REFERENCE NOTE

For a description of financial highlights and key ratios reference is made to the management's report.

For a description of financial risks and policies for financial risk management, see the section on risk management in the management's report.

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