ANNUAL REPORT 2009

DANISH
SHIP FINANCE

CVR NO. 27 49 26 49


PANAMA

CONTENTS

DANISH SHIP FINANCE AT A GLANCE

BUSINESS AREA

- Danish Ship Finance is a ship financing 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 Danish shipowners and for selected non-Danish shipowners.

- Danish Ship Finance must comply with the balance principle. The company has secured sufficient funding to finance the existing portfolio of loans and loan offers until 2020 without having to issue new bonds. Additional lending activities may result in new bond issues.

- Since 2007, Danish Ship Finance has had the opportunity to issue covered bonds. This opportunity has not yet been utilised.

- In 2003, Danish Ship Finance acquired the exclusive right to offer CIRR loans for vessels contracted before the end of 2012 and built in Denmark until the end of 2015.

- 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 2009, Danish Ship Finance had loans of DKK 48.4 billion, total assets of DKK 84.9 billion and equity of DKK 9.0 billion. The company has first mortgages in approximately 595 ships.

- The profit after tax for the year was DKK 262.6 million. The profit is considered satisfactory in light of the challenges facing the shipping market and the financial markets.

- Loan impairment charges rose by DKK 886.1 million to DKK 1.9 billion at 31 December 2009. The charges are considered adequate to cover potential losses if economic activity and, by extension, freight rates, remain subdued. The company reported credit loss expenses of DKK 3.5 million in 2009.
- In 2009, Danish Ship Finance was downgraded by Moody's Investors Service, which motivated the downgrade by general concern over shipping market developments. Bonds issued by the company now carry an A2 rating, and the company's Issuer Rating is also A2. Moody's has placed both ratings on its ”negative watchlist”.

- In 2009, Danish Ship Finance had the opportunity to apply for hybrid tier 1 capital of DKK 2.0 billion through the Second Bank Package but considered that DKK 900 million would be sufficient to secure the continued development in lending. The proceeds from the Second Bank Package were disbursed in December. The annual gross interest expenses are expected to be DKK 83.4 million, and the effective coupon has been fixed at 9.49% p.a.

- Danish Ship Finance had a solvency ratio of 14.3% at 31 December 2009 after proposed dividends, against 12.8% in 2008. The company's tier 1 capital ratio is also 14.3%.

KEY FIGURES AND RATIOS

KEY FIGURES DKK MILLION	2009	2008	2008 *)	2007 **)	2006 **)	2005 **)
Net interest income from lending operations	234	275	256	174	174	161
Net interest income from financing operations	489	471	470	443	411	369
Total net interest income	723	745	726	617	585	530
Net interest and fee income	772	787	796	659	630	568
Market value adjustments	508	(406)	(378)	(160)	(123)	(148)
Staff costs and administrative expenses	(82)	(87)	(92)	(86)	(80)	(80)
Loan impairment charges, etc.	(874)	(702)	(200)	104	176	56
Profit/loss before tax	323	(410)	128	519	606	399
Profit/loss for the year	263	(367)	37	394	443	286
Loans	48,438	48,118	51,044	42,690	37,746	37,200
Bonds	30,616	26,521	26,851	21,394	16,893	22,334
Subordinated debt	897	-	-	-	-	-
Equity	9,043	8,786	8,879	9,177	9,158	8,966
Total assets	84,947	81,724	81,632	76,660	62,542	62,534

RATIOS DKK MILLION	2009	2008	2008 *)	2007 **)	2006 **)	2005 **)
Solvency ratio	14.3	12.8	13.0	15.3	17.9	18.6
Tier 1 capital ratio	14.3	12.8	13.0	15.3	17.9	18.6
Return on equity before tax (%)	3.6	(4.5)	1.4	5.7	6.8	4.6
Return on equity after tax (%)	2.9	(4.0)	0.4	4.3	5.0	3.3
Income/cost ratio (DKK) ***)	1.3	0.5	1.4	(25.1)	(5.2)	20.0
Income/cost ratio (ex. impairment charges)	15.3	4.3	4.5	5.9	6.5	5.4
Foreign exchange position (%)	13.3	10.9	10.7	1.7	2.2	2.7
Gearing of loans and advances	5.4	5.5	5.7	4.7	4.1	4.1
Annual growth in lending	0.7	24.1	19.6	13.1	1.5	5.0
Impairment ratio for the year (%)	1.7	1.4	0.4	(0.2)	(0.5)	(0.1)
Accumulated impairment ratio	3.7	2.0	1.8	1.7	2.1	2.6

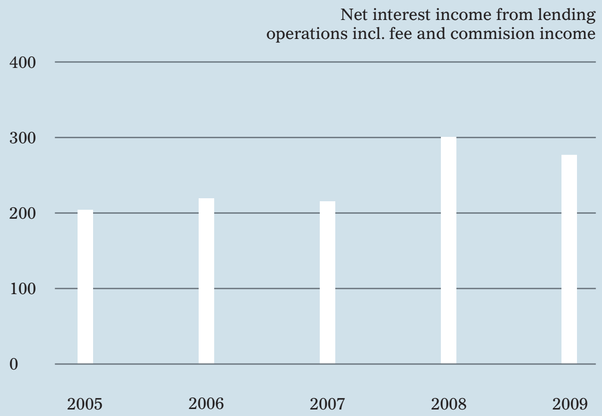
The key figures are calculated in accordance with Appendix 6 of the Danish FSA's instructions for financial reporting in credit institutions, etc.

*) For 2008 key figures are also indicated when calculated according to the previous accounting policies.

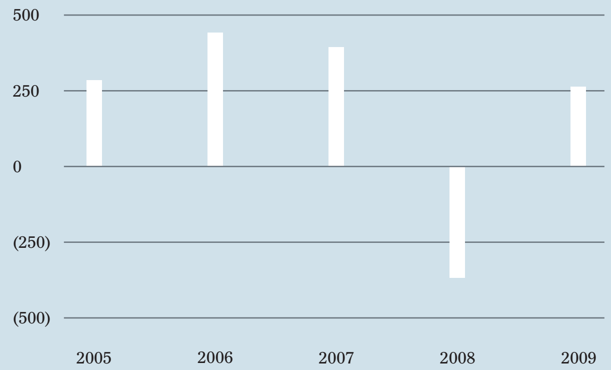
**) For 2005 to 2007 the key figures and ratios have not been restated because it was not possible to obtain the necessary data basis.

***) In accordance with the instructions, the income/cost ratio must be calculated including loan impairment charges. In the 5-year overview, this would lead to negative figures if a year's net figure includes reversed impairment charges that exceed staff costs and administrative expenses.
Consequently, the list of key figures also includes a income/cost ratio in which the impairment charges are not included.

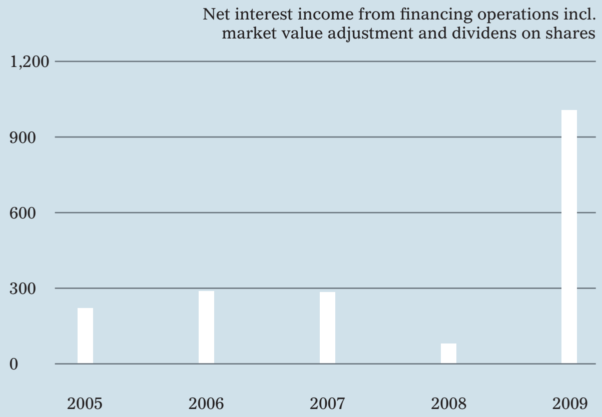
NET INTEREST INCOME/COST FROM LENDING OPERATION
DKK MILLION



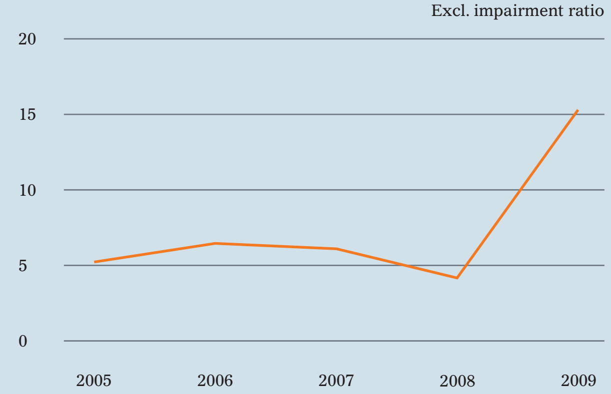
PROFIT/LOSS FOR THE YEAR
DKK MILLION



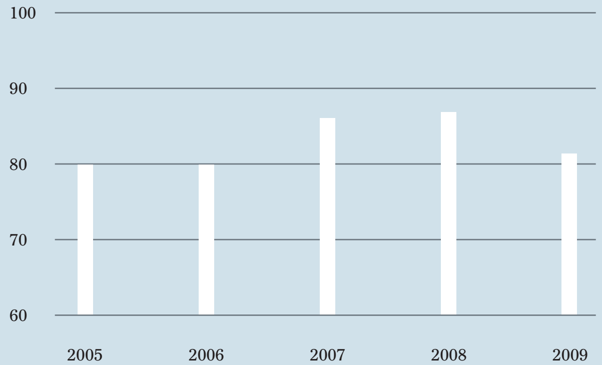
NET INCOME FROM FINANCING OPERATION
DKK MILLION



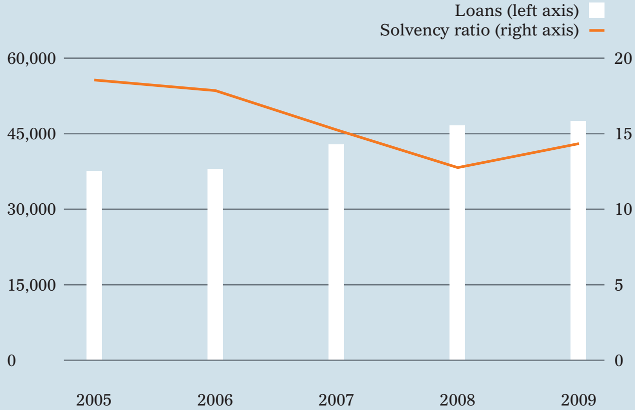
INCOME/COST RATIO



STAFF COSTS AND ADMINISTRATIVE EXPENSES
DKK MILLION



INCOME/COST
DKK MILLION / PCT.



2009

The global financial crisis and the shipping crisis both continued into 2009, impacting the financial performance of Danish Ship Finance. This resulted in higher impairment charges relative to 2008. However, in spite of the higher impairment charges, the overall profit for 2009 is considered satisfactory in light of the challenges facing the shipping market and the financial markets. This is attributable not least to a positive return on the company's securities portfolio.

The combination of an economic crisis and a historically large global order book for new tonnage was a challange for the shipping industry at the beginning of 2009. Cancelled orders, postponed delivery dates and slow steaming combined to reduce the supply of cargo carrying capacity of the merchant fleet. Unfortunately it was not sufficient to compensate for the slump in global trade and, by extension, seaborne trade. The change in the balance between supply and demand of ships thus pushed down freight rates and ship prices. In spite of the fact that dry bulk was segment that took the hardest blow at the end of 2008, it performed decently throughout 2009, while the other segments generally experienced a sluggish year in 2009.

ACTIVITIES DURING THE YEAR

Many of the activities during the year involved existing loans and aimed to ensure the lowest possible risk of losses. In many cases involving breaches of loan agreement covenants, these activities allowed the company to add further collateral to bolster existing loans. Many of the facilities involving non-compliance with LTV ratios were thus resolved by the end of 2009.

As Danish Ship Finance has a long track record in the ship financing market, the slump did not come as a surprise. However, the speed with which the crisis actually hit, had not been predicted. Nevertheless, developments in the company's loan portfolio reflect the prudent credit policy pursued during the preceding years' economic boom. At present, the company only has few truly distressed loans.

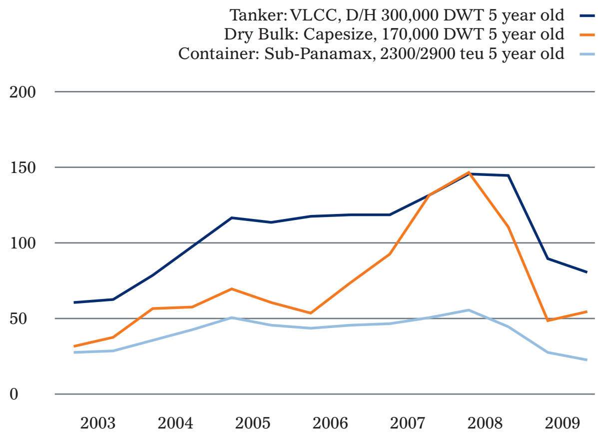
Impairment charges were increased by DKK 886.1 million to DKK 1.9 billion at 31 December 2009. The charges are considered adequate to cover losses that may arise in the years ahead if general economic activity and, by extension, freight rates, remain subdued. The company reported credit loss expenses of DKK 3.5 million in 2009.

The shipping industry had a difficult year in 2009. However, there are large differences in terms of how each shipping company was financially prepared for the setback, so despite the crisis, it was still possible for Danish Ship Finance to grant loans to creditworthy customers on a prudent basis. In 2009, the company's customers accepted new loan offers in the amount of DKK 7.9 billion. All loan offers were submitted to existing customers, with a clear overweight among Danish shipowners. Total loan disbursements amounted to DKK 9.0 billion, deriving from offers accepted during 2009 or previous years.

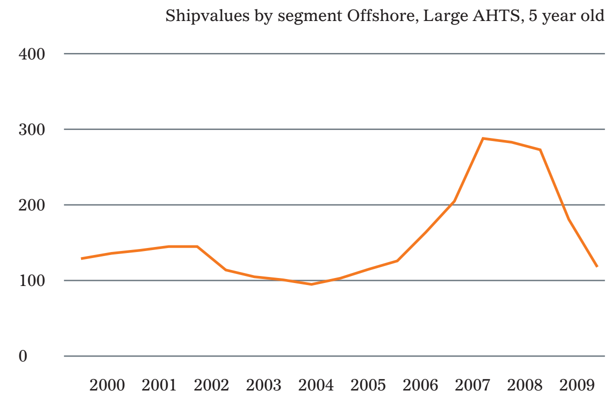
There was a change in competition during the year, with a number of the well-established lenders reducing their lending capacity to the shipping market. This opened up for better terms and earnings for Danish Ship Finance on new loan offers. The effect will materialise as the loans are disbursed in 2010. However, earnings from lending were adversely affected by the financial crisis, as it proved impossible to hedge the difference in interest periods between funding raised and the loans for which borrowers were free to choose interest periods. This effect wore off over the course of the year.

With respect to the securities portfolio, the company recorded positive

SHIPVALUES BY TYPE AND AGE
MIO. USD



SHIPVALUES BY SEGMENT
INDEX (2004=100)



Sources: Clarksons, Fearnleys, Danish Ship Finance

value adjustments on bonds as well as shares, which made a positive contribution to the profit for the year. The return on the securities portfolio is thus considered satisfactory.

The Second Bank Package
The Act on State-Funded Capital Injections into Credit Institutions (the Second Bank Package) established a scheme, under which banks and mortgage credit institutions in Denmark and Danish Ship Finance could apply to the state for a capital injection on specific terms and conditions. Danish Ship Finance opted to accept the government's offer to inject hybrid tier 1 capital under the Second Bank Package. The company was eligible to apply for an injection of DKK 2.0 billion, but in view of the existing capital base a loan for DKK 900 million was considered sufficient to support the growth in lending anticipated for the coming years. The costs of the capital injection amount to DKK 2.7 million, and the effective coupon has been fixed at 9.49% p.a. The loan is recognised as hybrid subordinated loan capital in the line item subordinated debt.

Moody's rating
In September, Danish Ship Finance's rating was changed from Aa3 to A2 by Moody's Investors Service. The downgrade was motivated primarily by growing concern with general developments in the shipping markets. Moody's retains the rating on its negative watchlist.

At the present time, the downgrade has not had any material impact on the costs of raising loans.

THE SHIPPING MARKET
The international shipping industry remains affected by the lower global demand for vessels that arose in the wake of the financial crisis. Combined with a continued inflow of new tonnage, it came as no surprise that in a number of segments there was a risk of or a direct excess capacity of tonnage. Consequently freight rates are historically low in several segments. In many segments, low freight rates and the risk of excess capacity strongly reduced ship prices in 2009.

The container market is characterised by excess capacity. As a result of the economic slowdown, 10–12% of the total container fleet remains idle. Nevertheless, freight rates went up in the second half of the year. Liner operators have managed to increase freight rates in spite of lower freight volumes. However, the prospects of future earnings are marked by the risk of further excess capacity. For this reason, ship prices fell by 30–40% in 2009.

The tanker segments are more or less exposed to the same slump in OECD demand that has hit the container market. Global oil demand has gone down. Both the leading tanker indices hit all-time lows at the beginning of 2009 but recovered somewhat over the course of the year. Ship prices generally fell by 20–30% in 2009.

In spite of the negative shipping market, the dry bulk market recovered during the second half of 2009. Global steel production rose throughout 2009, although output has still to reach pre-crisis levels. There was a noticeable shift in terms of geography – particularly in the second half of 2009. With China at the helm, Asia currently represents a substantially greater share of the global steel production than the region did previously. Chinese iron ore imports set a new record in the third quarter of 2009, causing a huge impact on demand for dry bulk vessels. Longer distances and record-high Chinese iron ore imports thus held the large inflow of new tonnage in check through most of the second half of 2009. The Baltic Dry Index ended 2009 at 3,000, which is 13% above the average for 2009 as a whole, but 11% below the

2000-2009 average. Ship prices rose 15–25% in 2009.

The offshore segments had a relatively tough year in 2009. Global oil production was cut back in step with a lower global oil consumption. This pushed down demand for offshore supply vessels. Coupled with the fact that many new ships were delivered and few ships were scrapped, it was inevitable that a number of offshore supply vessels were temporarily unemployed. Ship prices recorded a declining trend in 2009.

The most recent Shipping Market Review, which is available from the website www.shipfinance.dk, provides an in-depth analysis of the shipping markets. The next update will be in April 2010.

THE FINANCIAL MARKET

The first half of 2009 was characterised by continuing turbulence in the financial markets, but after six quarters of sliding equity prices, the global equity markets started to recover in the second quarter. Like equities, interest rates were also highly volatile in the first half. Short-term bond yields dropped, whereas long-term bond yields edged up.

Overall, the markets were characterised by the existence of ample liquidity in 2009. The stronger liquidity resulted in a sharp reduction of risk premiums in the bond markets, which contributed to a re-capitalisation of banks and mortgage credit institutions because of their large securities portfolios.

The yield spread between bond issuances in the various Eurozone countries and the risk spread on mortgage and corporate bonds narrowed further.

Confidence in the financial markets appears to be restored about a year after the peak of the financial crisis.

Danish bonds

The yield spread between Danish mortgage bonds and interest rate swaps emulated the international trend of generally lower risk premiums. Especially the summer period brought a sharp narrowing of the yield spread as improved real economy indicators and strong inflows of cash from the central banks reduced risk aversion among investors.

The yield spread at the end of the year was almost identical to the pre-crisis level, and many mortgage bond portfolios yielded a return in 2009 above the return on government bonds. The positive trends were also mirrored in the equity markets, with the MSCI WORLD INDEX gaining 26.6% i 2009.

Danish Ship Finance's securities portfolio was invested in government bonds, bonds issued by Kommunekredit, mortgage bonds and equities, making 2009 a satisfactory year in terms of financial performance.

BOND ISSUANCE

The need for issuing bonds in 2009 was restricted to new loans and loan offers, as the company's existing bond issuances provide liquidity coverage for all existing loans and loan offers until 2020. Thus, there was only a limited issuance need to cover new loan offers during the period of hardship for the financial markets.

In 2009, Danish Ship Finance issued bonds totalling DKK 9.0 billion, of which DKK 6.3 billion were so-called minimum coupon bonds, and the equivalent of about DKK 855 million is floating-rate EUR-denominated bonds with an aggregate average maturity of 3.4 years. The remaining DKK 1.9 billion was issued under the CIRR loan scheme in foreign currency with a maturity of 12 years.

Since Moody's downgrading of Danish Ship Finance, the company has issued bonds worth DKK 1.8 billion at levels close to Aaa-rated mortgage bonds. Given the unstable financial markets and Moody's downgrade, the raising of new funding in 2009 was satisfactory.

PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

INCOME STATEMENT

The profit for the year after tax amounted to DKK 262.6 million, against a loss of DKK 366.9 million in 2008.

The loss incurred in the comparative year was due exclusively to the change of accounting policies that took effect from 1 January 2009. Under the previous accounting policies, the company would have reported a profit of DKK 37.0 million in 2008. Reference is made to the section on change in accounting policies elsewhere in the report.

Net earnings from lending operations including fees were lower than last year, with total earnings amounting to DKK 272.7 million, down from DKK 299.5 million in 2008. Interest income on loans increased on last year due to decent growth in disbursed loans in the second half of 2008 at rising credit margins. However, this trend was not sufficient to counter the impact of the turmoil in the financial markets, which had a dramatic effect on the fixing of interbank rates, among other things. Especially the first half of the year saw higher funding costs because it was no longer possible to hedge the difference between already fixed interest rate periods for funding and the interest rate periods selected by the clients.

Interest and dividend earnings from financing operations rose to DKK 499.1 million from DKK 487.4 million in 2008.

Market value adjustments of securities and foreign exchange amounted to an income of DKK 507.8 million compared with a loss of DKK 406.4 million in 2008. The securities portfolio consists primarily of Danish government bonds and mortgage bonds or bonds with similar security, while a small proportion has been invested in unit trust certificates (shares). The return on the share portfolio amounted to an income of DKK 94.8 million in 2009, against a loss of DKK 232.8 million in 2008.

Staff costs and administrative expenses fell from DKK 86.9 million in 2008 to DKK 81.8 million in 2009, a cost reduction of 5.9%. In 2009, the average number of employees was 59, against 57 employees the year before.

Loan impairment charges amounted to a net expense of DKK 873.5 million compared with a net expense of DKK 702.4 million in 2008. Accumulated impairment charges rose from DKK 985.6 million at 31 December 2008 to DKK 1,871.7 million at the end of 2009, representing 3.9% of total loans at 31 December 2009, which was 1.8 percentage points higher than the year before. Movements in impairment charges in 2009 and impairment broken down by countries are specified in note 14 to the financial statements.

Tax for the year represented an expense of DKK 59.9 million compared with an income of DKK 43.3 million in 2008. For 2009, this equals an effective tax rate of 18.6%, which is due to the fact that the positive return on equity investments in 2009 is not included in the taxable income.

BALANCE SHEET AND CAPITAL STRUCTURE

Total assets stood at DKK 84,946.8 million at 31 December 2009 against DKK 81,723.8 million at 31 December 2008.

Lending calculated at amortised cost before impairment charges rose marginally by DKK 319.9 million from DKK 48,117.7 million in 2008 to DKK 48,437.6 million in 2009.
Over the course of the year, there was a net increase in new loans of DKK 9,001.0 million, against an increase in 2006 of DKK 12,897.2 million. For further details on movements in lending, see note 12 to the financial statements.

Issued bonds also rose from DKK 60,006.5 million at 31 December 2008 to DKK 63,056.9 million at 31 December 2009. As part of its efforts to maintain strong liquidity resources, Danish Ship Finance issues bonds well in advance of the loan disbursements, which makes the company less sensitive to short-term fluctuations in the capital market. In 2009, new bond issues amounted to DKK 9,043.8 million, against DKK 5,524.2 million in 2008. Movements in issued bonds and a specification of bond types are set out in note 22 to the financial statements.

The bond portfolio rose to DKK 30,616.1 million from DKK 26,520.5 million at 31 December 2008. The increase compared with 2008 was primarily due to an 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 15 and 16 to the financial statements.

Including the profit for the year, the company's equity amounted to DKK 9,042.9 million as compared with DKK 8,785.8 million at 31 December 2008. Dividends to the B shareholder of DKK 39.4 million have been proposed for the financial year. The proposed dividend is included in equity but is expected to be disbursed after the approval by the shareholders at the annual general meeting in April 2010, 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 14.3% at the end of 2009, against 12.8% at 31 December 2008. As from 1 January 2009, the minimum requirement was lowered from 10% to 8%. The higher solvency ratio at the end of 2009 was due especially to the raising of hybrid tier 1 capital of DKK 900.0 million from The Second Bank Package, while the weighted items for calculating the capital adequacy was overall reduced by DKK 1,272.4 million. Note 27 provides a specification of the company's solvency.

No events have occurred after the balance sheet date that have a material effect on the company's annual accounts.

UNCERTAIN 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 2 to the financial statements.

CHANGES IN ACCOUNTING POLICIES

Effective 1 January 2009, Danish Ship Finance started to present its financial statements in accordance with the rules set out in the Danish FSA's executive order on financial reports by credit institutions, etc. ("executive order on financial reporting").

The accounting policies have been changed significantly compared with last year due to the implementation of the recognition and measurement provisions of the executive order on financial reporting.

In accordance with the rules of the Danish FSA, the company has restated the comparative figures. The key figures and ratios for 2005 to 2007 have not been restated because it was not possible to obtain the necessary data basis.

Effect of the policy changes

The policy changes resulted in an increase of equity at 1 January 2008 of DKK 310.4 million, a reduction of equity at 1 January 2009 of DKK 93.3 million, whilst the company's total assets and liabilities at 1 January 2009 increased by DKK 92.2 million.

The type of the specific changes in accounting policies, their effect on the financial figures and the reason for the change are described in the comments on changes in accounting policies in note 1 to the financial statements.

The effect of the policy changes has been recognised directly in equity at 1 January 2009, and the comparative figures for 2008 have been restated as a result of the policy changes. The statement of changes in equity sets out the total impact of the policy changes at 1 January 2008 broken down by the various types.

Distribution of dividend for the 2008 financial year

The payment of dividend for the 2008 financial year to the company's B shareholder in the amount of DKK 5.6 million was made on the basis of the results reported under the previous accounting policies, which for 2008 amounted to DKK 37.0 million.

THE EFFECT OF THE POLICY CHANGES

The effect of the policy changes on equity as at 1 January 2009 is illustrated below:

STATEMENT OF CHANGES IN EQUITY AT 1 JANUARY 2009

DKK MILLION

Equity at 31 December 2008	**8,879.2**

Impact on equity at 1 January 2009
on transition to the executive order on
financial reporting in credit institutions

Amortised cost on loans	(62.5)
Fair value adjustment of fixed-rate bonds hedged using derivatives	(25.5)
Adjustment of loan impairment charges	(53.2)
Revaluation of real property	12.7
Other property, plant and equipment	7.2
Employee benefits	(3.1)
Change in deferred tax resulting from the effects	31.1
Total effect as at 1 January 2009	(93.3)
Equity at 1 January 2009	**8,785.9**

OUTLOOK

2009 clearly illustrated the unpredictability of the shipping markets. Danish Ship Finance will retain its lending approach of providing loans to shipowners who have demonstrated the ability to cope with this cyclicality or who are otherwise considered capable of withstanding it.

At the threshold to 2010, the global order book for new tonnage is still alarmingly big in most vessel segments. Even though global trade is starting to recover, in most segments it will most likely take years before shipping generally becomes a profitable industry. Developments will differ from one segment to the next and for shipowners within the same segments. The performance of each shipowner will depend on the decisions made during the economic boom and the shipowner's business model. The crisis will most likely continue for some time yet. Due to the continuing weak demand for sea transport combined with an expected increase in the supply of vessels, it is highly likely that 2010 will bring futher impairment charges and losses on loans.

The financial performance in 2010 will be affected by interest expenses for the hybrid tier 1 capital. However, the raising of hybrid tier 1 capital is expected to facilitate a small increase in total lending relative to the position at 31 December 2009. Even including interest expenses on the hybrid tier 1 capital, the company expects a small increase in earnings from lending activities before impairment charges in 2010. Most of the loans will still be in USD, and both the results and the solvency ratio will be impacted by developments in the DKK/USD exchange rate during 2010.

As in previous years, price developments on the company's portfolio of unit trust certificates (shares) and bonds will affect the results for the year.

Danish Ship Finance has resolved to continue recent years' policy of not issuing quarterly reports in 2010. The company currently publishes full-year and half-year reports. It is believed that more frequent reports would not affect the pricing of the bonds issued.

CAPITAL ADEQUACY

Pursuant to the Danish Executive Order on Capital Adequacy, Danish Ship Finance must maintain a certain amount of capital, the capital requirement, relative to its activities, so that the bondholders are only exposed to a minute risk of suffering a loss in case the company becomes insolvent.

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 capital requirement. The company has not applied for a permission from the Danish FSA to apply one of the internal methods. The company applies the standard method for calculating risk-weighted assets and the capital requirement concerning credit risk and market risk. The basic indicator method is used for operational risk.

CAPITAL REQUIREMENT, CAPITAL BASE AND SOLVENCY

The capital 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 and supplementary 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.

Danish Ship Finance's capital requirement and weighted items amounted to DKK 5.2 billion and DKK 64.9 billion, respectively, at 31 December 2009. The company's capital base less deductions amounted to DKK 9.3 billion at 31 December 2009, resulting in a solvency ratio of 14.3%. This gives the company a capital buffer of DKK 4.1 billion. The company finds that the capital buffer is sufficient for the company to continue its lending activities during a period of difficult business conditions.

Danish Ship Finance's capital base consists predominantly of tier 1 capital in the form of tied-up reserve capital. The company's tier 1 capital less deductions and excluding the capital injection from The Second Bank Package is DKK 8.4 billion.

ADEQUATE CAPITAL BASE AND 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. The individual solvency need is calculated by dividing the adequate capital base by the risk-weighted assets. When calculating the solvency need, current and future risk factors and the opportunities for sourcing fresh capital should be taken into consideration.

There are no requirements on the use of a specific method to calculate the adequate capital base and, thus, the individual solvency need. The method selected is a combination of stress tests and individually assessed factors believed to be of importance for the size of the adequate capital base. A capital need is calculated for each of the factors; a positive, negative or neutral need. The overall solvency need is then calculated as the sum of all contributions and expressed as a percentage of the risk-weighted assets, which are not restated. The Board of Directors considers the choice of method at least once a year and receives reports on the individual solvency need in connection with the quarterly financial reporting.

Danish Ship Finance's adequate capital base amounted to DKK 4.1 billion at 31 December 2009, corresponding to a calculated individual solvency need of 6.3%.

The company's individual solvency need must not be lower than the solvency requirement of 8% pursuant to the company's executive order, and the individual solvency need has therefore been fixed at 8%. Additional information is provided in the Risk report on the Danish Ship Finance website www.shipfinance.dk/investor-relations/risk-report.

RISK MANAGEMENT

Risk management is given high priority at Danish Ship Finance, because uncontrolled development of the various risks may have an adverse impact on financial performance and solvency and, by extension, materially weaken future business opportunities.

The Board of Directors has the overall responsibility for ensuring appropriate risk management procedures. Risk management efforts are determined by the guidelines established by the Board of Directors and the legislative framework.

The company is exposed to several types of risk. The company's risk management efforts are adjusted according to the special characteristics of each type of risk. The risks that Danish Ship Finance is exposed to are credit risk, market risk, liquidity risk and operational risk. These are briefly described below. Additional information is provided in the Risk report on the Danish Ship Finance website www.shipfinance.dk/investor-relations/risk-report.

LOANS

Danish Ship Finance provides ship financing against a first mortgage in ships and, on a smaller scale, building loans. The company is the leading ship financing institute in Denmark, and it focuses primarily on both large and small shipowners in Denmark. Outside Denmark, Danish Ship Finance is focused on large, recognised operators.

Danish Ship Finance may also grant so-called Commercial Interest Reference Rate (CIRR) loans to finance certain types of Danish-built vessels. The company has the exclusive right in Denmark for vessels contracted until the end of 2012 and delivered before the end of 2015.

Diversification

The composition of the loan portfolio is governed by a set of diversification rules, which form part of the company's credit policy. The purpose of the diversification rules is to ensure diversification by vessel type, borrower and country risk.

Risk diversification on vessel types

Adequate loan portfolio diversification must be in place regarding vessel types. No single vessel type (tanker, dry bulk, etc.) may be provided as security for more than 50% of the company's gross lending. Within each vessel type, no segment (crude oil tanker, product tanker, etc.) may be provided as security for more than 33 % of the company's gross lending.

Risk diversification on borrowers

The composition of borrowers must be adequately diversified in the loan portfolio. For large loans, the company should seek to diversify the risk on vessel types within the individual account. The diversification rule is related to the objects clause in the articles of association:

"*The object of the company is to provide ship financing in Denmark. In addition, the company may provide ship financing in the international market, so long as such activities do not unnecessarily limit the company's Danish operations.*"

MOVEMENTS IN THE FIVE LARGEST LOANS TO SHIPOWNERS

(AMOUNTS ARE BEFORE ANY IMPAIRMENT CHARGES, DKK MILLION)

	31.12 2009	31.12 2008
5 largest loans to shipowners	27,427	25.850
Total lending	50.748	49,126

The five largest loans to shipowners at 31 December 2009 are secured by mortgages in 165 vessels comprising 17 vessel types. One of the loans is substantially larger than the rest.

For financing as defined in the second sentence of the objects clause, the overall account per borrower may not, at a consolidated level, exceed 25% of the most recently calculated capital and reserves. Thus, there are no formal limits on the size of individual loans in respect of funding pursuant to the company's main objective (ship financing in Denmark).

Risk diversification on countries
The loan portfolio must be adequately diversified on countries. The country risk is calculated on the basis of the borrower's home country, or, in the case of guarantees, the guarantor's home country. Loans to borrowers in Norway, Switzerland and the USA and in certain EU countries are not subject to restrictions as to country risk. For loans to borrowers in other countries, the company has defined an overall limit per country of up to 20% of its gross lending.

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 counterparties.

The most significant risk facing Danish Ship Finance is believed to be credit risk on the company's loans, as loans represent the bulk of the assets. Credit risk on the company's loans is the risk of losses due to customers defaulting on their loans.

Credit risk on shipowners
Danish Ship Finance's credit policy contains specific guidelines for the ongoing risk management in the company's loan portfolio. A number of predefined procedures are used in the ongoing credit risk management process, the most important of which are described below.

Granting of loans
The Management Board and the credit manager have been allocated authorities allowing them to grant or reject loans up to pre-determined limits. When considering potential loans, focus will be on the financial standing of the borrower, the terms of the loan and on the loan's contribution to compliance with the diversification rules. The granting of loans must be disclosed at the subsequent board meeting.

Loans over and above the predefined limits must be approved by the Board of Directors.

Ongoing monitoring
The loan portfolio is reviewed 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:

- Verifying the existence of adequate insurance cover on financed vessels.
- Half-yearly updating of the market values of all financed vessels.
- Verifying that any other collateral meets the specified minimum requirements.
- 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.

As a supplement to the half-yearly market valuations, physical inspections of the financed vessels are made on a spot-check basis.

Market valuations
Market valuations are sourced regularly from independent brokers who fix a price for the financed vessels on the basis of supply and demand.

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

Insurance of ship's mortgages

All vessels mortgaged as collateral for loans must be insured. Insurance is taken out by the borrower. The insurances are assigned to Danish Ship Finance as part of the security for the loans.

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 warlike conditions.

On the basis of an individual assessment, Danish Ship Finance determines which borrowers must also be covered by Mortgagee Interest Insurance and Mortgagee Additional Perils Pollution Insurance. This insurance covers risk in situations which the borrower's primary insurance policies do not cover.

Losses and loan 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 mortgage and any other collateral.

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

The Danish FSA's guidelines for the company's impairment charges thus assume:

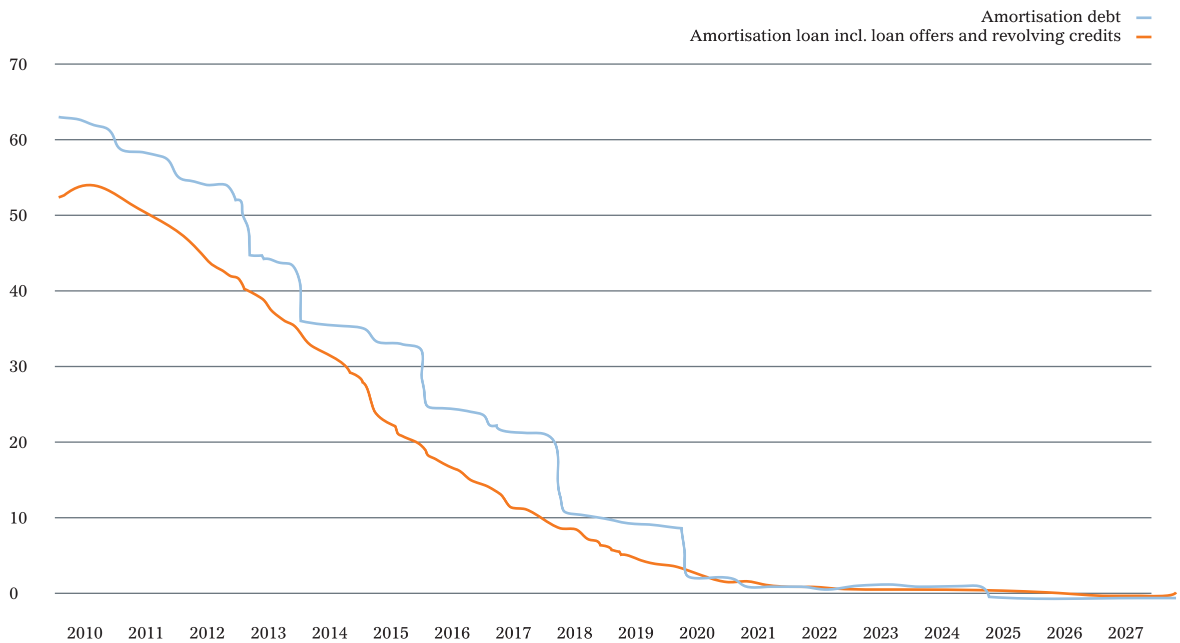
1) that all loans are subjected to an individual assessment;

2) that the criteria for objective evidence of impairment at the individual assessment in addition to the individually conditioned criteria comprise all external developments, factors and events (observable data) that increase the likelihood of losses on the type of loans that the specific loan belongs to; and

3) that each loan is tested for impairment for all the identified criteria for objective evidence of impairment based on the likelihood with which they are expected to reduce the cash flow from the loan.

Based on the above 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.

THE RATIO OF ISSUED BONDS AND LOANS PROVIDED



Furthermore, 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 SECURITIES PORTFOLIO

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

Most of the securities portfolio consists of government and mortgage bonds in order to comply with the statutory requirement that at least 60% of the capital base must be invested in investment grade assets. At 31 December 2009, the company had invested DKK 30.6 billion in investment grade securities, corresponding to 330.0% of the capital base.

Credit risk on financial counterparties

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 Danish Ship Finance, and the financial counterparty cannot fulfil his part of the agreement. This type of risk also includes settlement risk.

The guidelines for managing financial counterparty risk are laid down in a separate in-house policy. Danish Ship Finance puts emphasis on its 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.

The contractual basis for transactions with financial counterparties is based primarily on market standards such as ISDA agreements, which allow netting in the case of default on the part of the financial counterparty.

Loan grants over and above the predefined limits are approved by the Board of Directors.

Granting of lines

The allocation of risk limits to financial counterparties is made on the basis of, among other things, ratings assigned by recognised international rating agencies, when such ratings are available. The Management Board and the credit manager have been allocated authorities allowing them to grant lines to financial counterparties within certain limits. The granting of such lines must be disclosed at the subsequent board meeting.

Ongoing monitoring

Danish Ship Finance conducts ongoing monitoring, partly to ensure that the financial counterparties consistently comply with the requirements, partly to ensure compliance with the granted lines. The Middle Office is responsible for such ongoing monitoring, making it independent of the executing departments.

MARKET RISK

Market risk is the risk of losses caused by changes in the market value of assets and liabilities as a result of changing market conditions. The most significant market risks are associated with the securities portfolio, as the company is governed by the limits of the Bond Executive Order, which includes restrictions on interest rate, exchange rate and liquidity risk.

The company pursues a finance policy to manage its market risks. The policy lays down clear and measurable limits for interest rate, exchange rate, equity, liquidity, option and credit risks, of which those that are most important to the company are described below.

Interest rate risk
Interest rate risk is the risk that Danish Ship Finance 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, which may result in an overall negative financial performance and a resulting negative impact on the solvency ratio.

Pursuant to the Bond Executive Order, the interest rate risk between funding and lending must not exceed 1% of the capital base. The finance policy accepts interest rate risks between funding and lending solely when caused by timing differences in determining the reference interest rate (such as LIBOR) for variable rate funding and lending. 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 adjusted duration on the securities portfolio has been restricted to six years. Danish Ship Finance has calculated the option-adjusted duration at approximately 2.3 years at 31 December 2009.

Using the Danish FSA's guidelines for calculating interest rate risks, the risk was calculated at DKK 233 million at 31 December 2009, corresponding to 2.9% of the capital base, against DKK 389 million in 2008. The company has opted to hedge part of the interest rate risk in DKK using interest rate swaps denominated in EUR. If future changes in the DKK rate fully mirror changes in the EUR rate, the above-mentioned interest rate risk would amount to approximately DKK 242 million for 2009 and approximately DKK 250 million for 2008.

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.

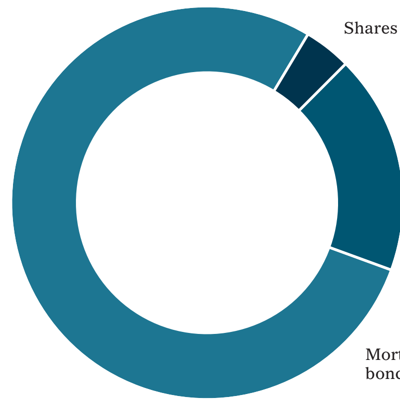
The company's finance policy does not accept currency risks arising due to mismatch of funding and lending except for inevitable, limited foreign exchange risks resulting from the ongoing cash management. The company's lending margin is collected in the same currency in which the loan was granted. Accordingly, 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 generate earnings and are valued, and therefore also the borrowers' preferred lending currency.

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

At 31 December 2009, the company had shares totalling DKK 519.7 million, corresponding to 5.6% of the capital base.

Derivatives
Danish Ship Finance uses derivatives in specific areas. The finance policy

BREAKDOWN OF ASSETS IN THE SECURITIES PORTFOLIO



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 10% of the total loan amount.

The company does not presently have any issued structured bonds.

LIQUIDITY RISK

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.

Pursuant to the company's in-house 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.

Bonds are typically issued in DKK, whereas most of the loans are disbursed in USD. The company has sourced USD for funding of all loan disbursements and for most of the loan offers submitted. 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.

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.

Danish Ship Finance manages operational risks through business procedures and internal controls. The control is performed by the company's internal control function, which is independent of the executing departments.

STRESS TESTS

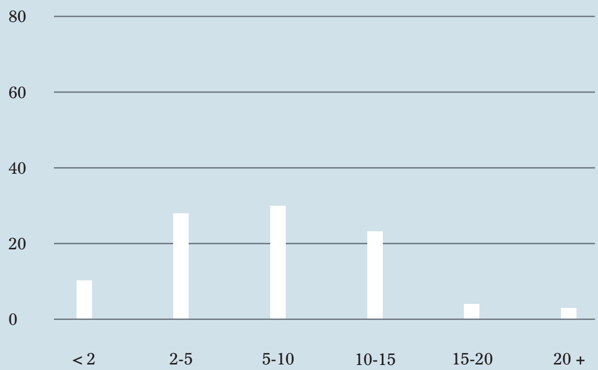
Developments in the financial market, including specifically developments in market interest rates, equity prices and the DKK/USD exchange rate affect the company's capital base and liquidity. Changes in the credit quality in the portfolio of loans also affects the capital base and liquidity. With the aim of quantifying the effect of a change in the above-mentioned factors for the capital base and liquidity, the company's carries out an internal stress test at least once every quarter.

The method used in the stress test is determined by the Board of Directors at least once a year. The result of the stress test is reported to the Board of Directors at least once every quarter.

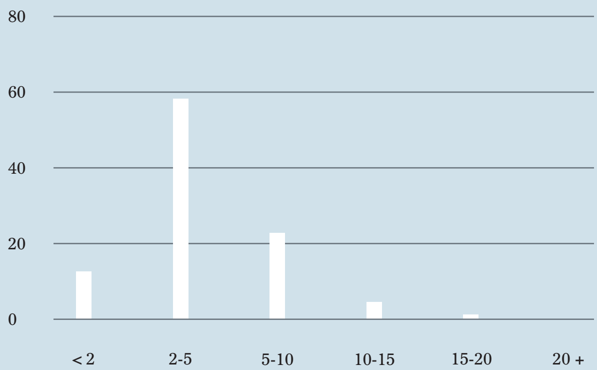
AGE DISTRIBUTION OF MORTGAGED VESSELS (PERCENTAGE OF TOTAL LENDINGS)

Sources: Own figures

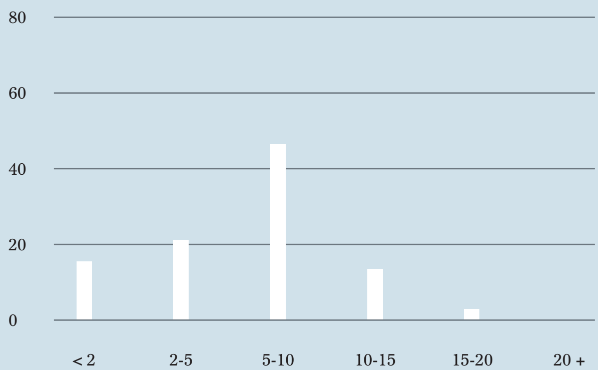
FERRIES /RO-RO



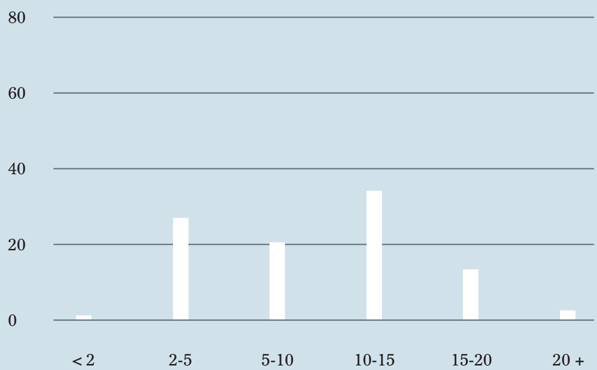
CONTAINER POST PANAMAX



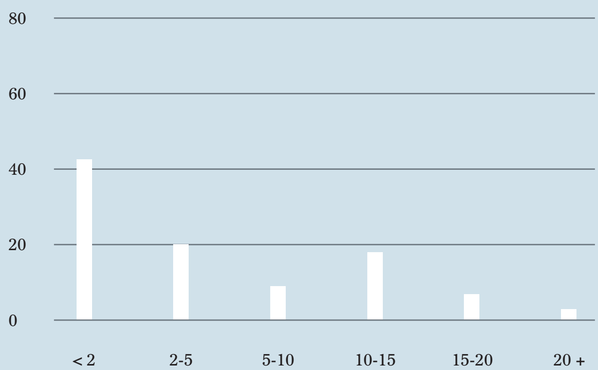
CRUDE / PRODUCT TANKERS



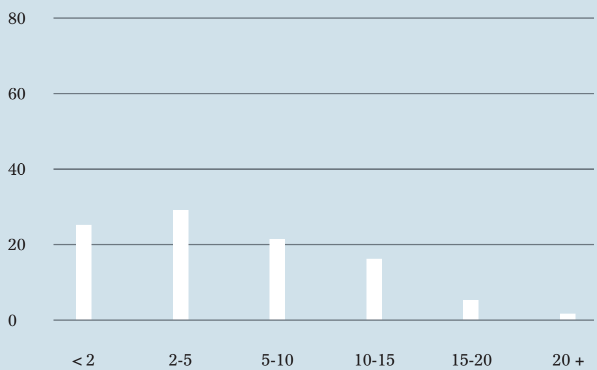
OFFSHORE



OTHERS

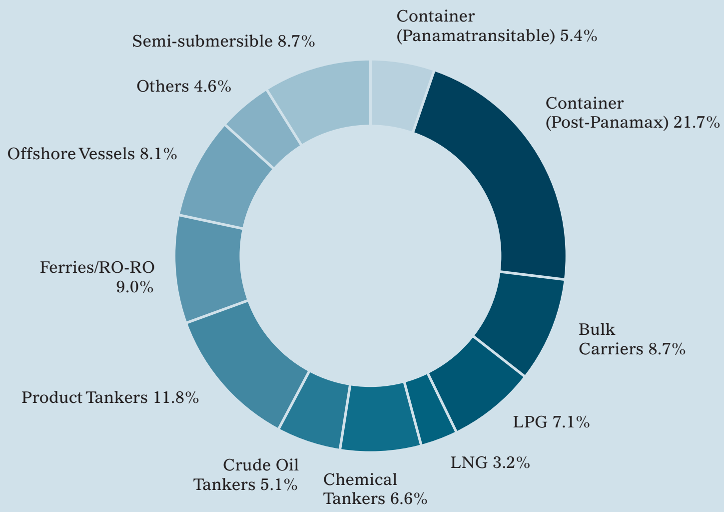


AGE DISTRIBUTION OF TOTAL SHIP PORTFOLIO

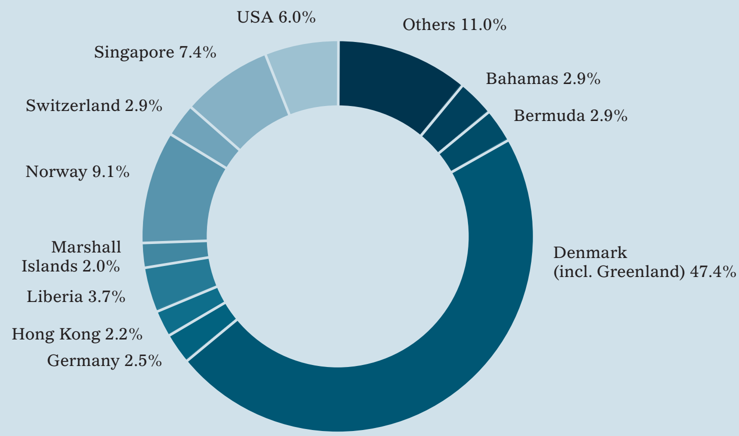


LOAN PORTFOLIO BY MORTGAGED VESSELS, ETC. (PERCENTAGE OF TOTAL LENDING) 31.12.2009

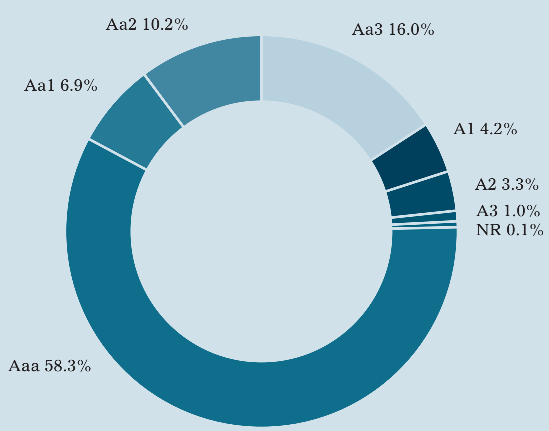
Sources: Own figures



DEBTOR DISTRIBUTION BY COUNTRY OF ULTIMATE RISK 31.12.2009

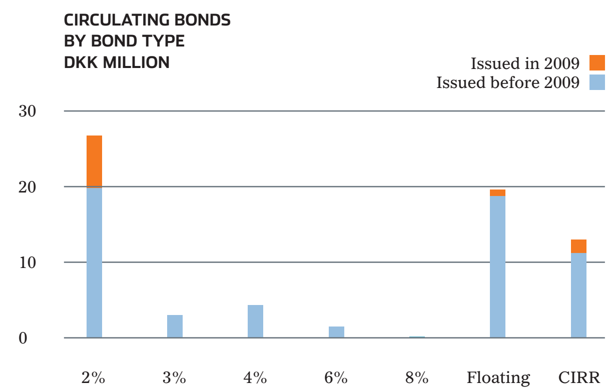


EXPOSURE ON FINANCIAL COUNTERPARTIES BY CREDIT RATING




ICELAND

BOND ISSUANCE



FUNDING

The rules governing bond issuance are described in the company's own act, the Executive Order and 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.

Danish Ship Finance 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
As an alternative to covered bonds as defined in the CRD, Danish Ship Finance may issue 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.

Bonds in circulation
Issued bonds are primarily bullet loans denominated in DKK. At 31 December 2009, bonds in circulation totalled DKK 65.0 billion, nominal value, of which bonds issued in DKK accounted for 82%. The bonds may be unlisted, but the bulk of the bonds are listed and traded on NASDAQ OMX Copenhagen A/S.

RATING

In September 2009, Danish Ship Finance was downgraded by Moody's Investors Service, which motivated the downgrade by general concern over shipping market developments. Bonds issued by Danish Ship Finance now carry an A2 rating by Moody's Investors Service, and the company's Issuer Rating is also A2. Moody's retains the rating on its negative watchlist.

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. The risk weight for debenture bonds is 10%.

Ship mortgage bonds
Bonds issued after 1 January 2008 which do not qualify for the covered bond designation. The risk weight for ship mortgage bonds is 20%.

All bonds issued by Danish Ship Finance are on the European Commission's list of bonds meeting the gilt-edged requirements of Article 22(4) of the UCITS directive (the "Investment Directive").

ORGANISATION AND MANAGEMENT

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 loan capital 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."

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 consistently comply 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 333.3 million, nominal value, and is divided into A shares with a nominal value of DKK 300.0 million and B shares with a nominal value of DKK 33.3 million. The shares are not listed for trading in a regulated market.

The shareholders have signed a shareholders' agreement that includes a provision to the effect that the shares shall not be freely negotiable until 12 July 2010. However, the provision allows for trading in the shares within the corporate group of each individual shareholder.

The following of the company's shareholders hold at least 5% of the total voting rights or own at least 5% of the share capital. The shareholders are listed alphabetically. None of the company's shareholders have controlling influence on Danish Ship Finance.

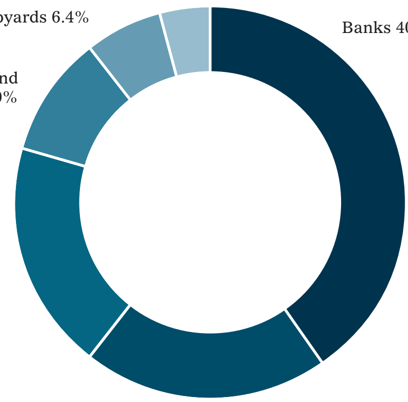
- A.P. Møller - Mærsk A/S
- Danmarks Nationalbank
- Danske Bank A/S
- Den Danske Maritime Fond
- Nordea Bank AB (publ.)

At the annual general meeting in 2009, the Board of Directors' proposal on dividends was adopted. No dividend was distributed to A shareholders. Pursuant to the articles of association, dividend corresponding to DKK 0.1665 per share was paid to the B shareholder. Since its conversion to a public limited company in 2005, the company has paid total dividends of DKK 173.9 million to the B shareholder, Den Danske Maritime Fond. The funds are used to develop and promote Danish shipping and the Danish shipbuilding industry.

DIVIDENDS

In accordance with the rules governing The Second Bank Package, Danish Ship Finance does not pay dividend to its A shareholders for the 2009 financial year. However, Danish Ship Finance is subject to a special rule, under which the company pays dividends of DKK 39.4 million to the company's B shareholder, Den Danske Maritime Fond.

THE SHARES IN THE COMPANY ARE DISTRIBUTED AMONG THE FOLLOWING SHAREHOLDER GROUPS:



CORPORATE GOVERNANCE AND STATUTORY INFORMATION THEREON

Corporate governance recommendations

There are no corporate governance regulations for bond-issuing ship finance institutes whose bonds are not listed. However, the Board of Directors has drawn up guidelines for corporate governance, which are available on the website. See www.shipfinance.dk/Investor-Relations/Corporate-Governance.aspx.

Financial reporting process

The overall responsibility for the company's control and risk management in relation to the financial reporting process rests with the Board of Directors and Management Board, including compliance with applicable legislation and other financial reporting regulations. Danish Ship Finance's control and risk management systems may 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 and the Management Board of Danish Ship Finance continually seek to ensure that the company's organisational structure and control systems are adequate and work satisfactorily. They regularly, and at least once a year, assess whether this is the case.

On an ongoing basis, the Management Board monitors compliance with relevant legislation and other financial reporting regulations and provisions and reports its findings to the Board of Directors.

Management structure

The general meeting elects six members to the Board of Directors, and the employees elect three. The Board of Directors defines the overall principles for the company's operations. The Board of Directors appoints the Management Board, which is in charge of the senior, day-to-day management, and reports to the Board of Directors.

Annual general meeting

The general meeting shall be the supreme authority in all company matters. The share capital is divided into A and B shares. Each A share of DKK 1 carries ten votes, and each B share of DKK 1 carries one vote. Other than this, there are no provisions that restrict the number of votes or limit the number of shares held by each individual shareholder.

The next annual general meeting will be held on 13 April 2010.

Board of Directors
At the annual general meeting held on 16 April 2009, Torben Schelde Jørgensen resigned from the Board of Directors. Fatiha Benali was elected as a new board member.

The Board of Directors subsequently elected its chairman and deputy chairman. Per Skovhus continued as chairman, and Jens Thomsen continued as deputy chairman.

Management Board
The Management Board consists of Erik I. Lassen, chief executive officer, and Per Schnack, executive vice president.

Management remuneration
The company does not have a written remuneration policy. The unwritten remuneration policy reflects shareholder and company interests. The remuneration policy is adapted to the company's specific circumstances, is reasonable relative to the duties and responsibilities undertaken and promotes long-term behaviour.

No unusual severance schemes exist for the management.

The Management Board does not have option schemes or other commission-based remuneration schemes. The company must comply with the rules of the Danish Act on State-funded Capital Injections into Credit Institutions, under which the variable part of a salary must not account for more than 20% of the fixed basic salary including pension.

AUDIT COMMITTEE

Danish Ship Finance has set up a statutory audit committee. Members of the audit committee are appointed by and from among the members of the Board of Directors. The committee consists of Fatiha Benali, who is the independent member with qualifications in accounting and auditing, Flemming Ipsen and Michael Rasmussen.

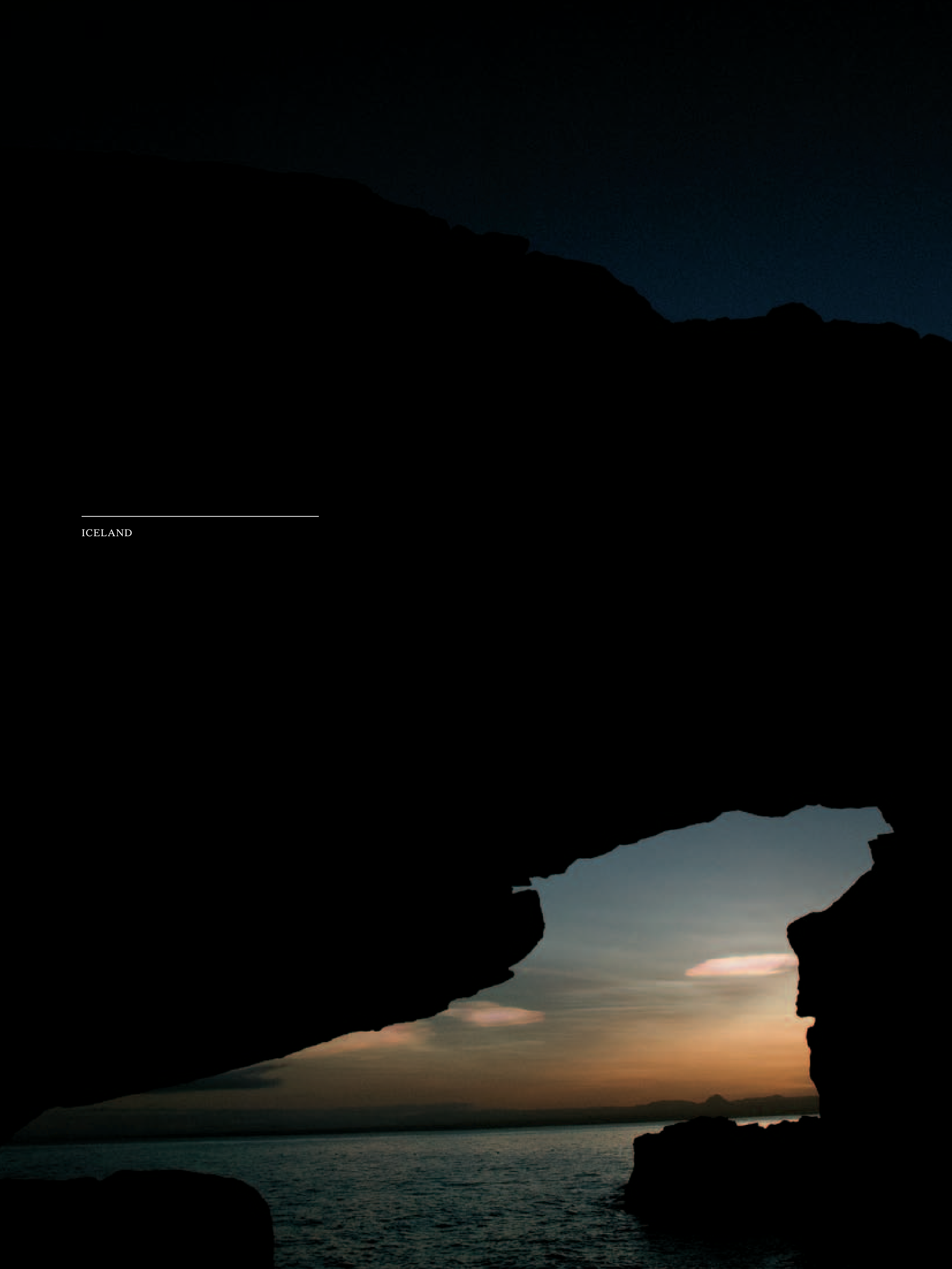
The independent member qualifies by, in her capacity as chief financial officer, working with a company that presents financial statements in accordance with the Danish Financial Business Act and IFRS.

The objective of the committee is to assist the board in:

- monitoring the financial reporting process;
- monitoring the efficiency of the issuer's internal control system and risk management systems;
- monitoring the statutory audit of the financial statements; and
- monitoring and verifying the independence of the auditors, including in particular the provision of additional services to the company.

It is the responsibility of the committee to assist the board of directors in meeting their obligations in relation to the above-mentioned areas. The committee has no decision-making powers but is a preparatory and monitoring body.

The committee regularly reports to the Board of Directors on the performance of its duties and its responsibilities. The reports are made orally at the board meetings and in the form of minutes.



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CORPORATE SOCIAL RESPONSIBILITY

In 2009, Danish Ship Finance implemented its Corporate Social Responsibility (CSR) policy. The policy aims to define the specific guidelines for the company's handling of social responsibility. The company has so far defined a policy for social, ethical and environmental issues. In addition, the policy sets out selected CSR focus areas and overall objectives of the CSR initiatives.

The CSR initiatives build on the following three principles:

- The company will align its policies to Danish standards.
- The company will focus on CSR initiatives for in-house use.
- CSR is to form an integral part of the corporate culture.

Danish Ship Finance will publish the statutory CSR report on its website. See www.shipfinance.dk/Investor-Relations/Corporate-Social-Responsibility-(CSR).aspx.

HUMAN RESOURCES

Danish Ship Finance employed 62 employees in 2009, of whom 24 were women and 38 were men.

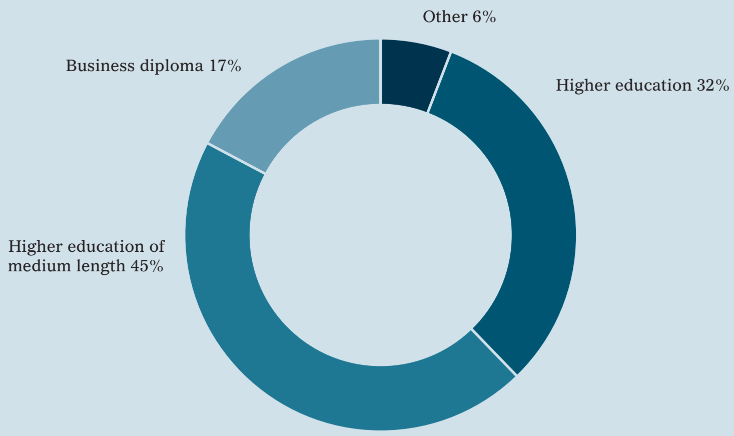
As the company has a vision of being a leading provider of ship financing, it is necessary that its employees have the right competencies. Highly skilled and motivated employees are the company's most important asset and a prerequisite for it to achieve its targets. This is achieved by providing training and development tools so as to enable employees and managers to update and develop their skills at all times. Resources are therefore used to provide training for each individual employee, both at the professional and the personal level. Expenses for training courses amounted to 2.1% of total staff costs in 2009. The company has set up a committee to arrange professional, relevant courses and plan lectures with in-house and external lecturers.

Danish Ship Finance also aims to safeguard employee health and wellness. Consequently, a number of insurance and health schemes are offered in order to insure and help the employees when the need arises.

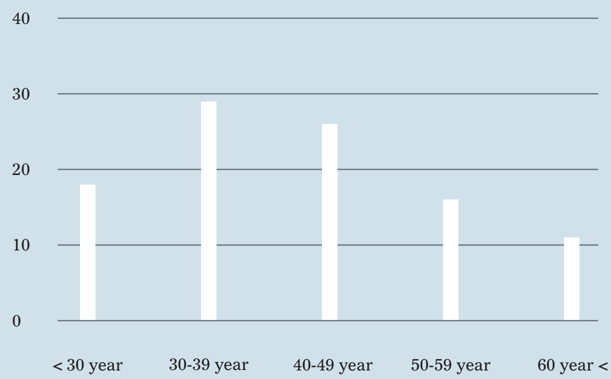
It is important for Danish Ship Finance that its employees thrive socially both at work and elsewhere. The company therefore has a social committee that arranges joint employee activities. The company also offers employees schemes such as a corporate lunch scheme and massage scheme.

HUMAN RESOURCES

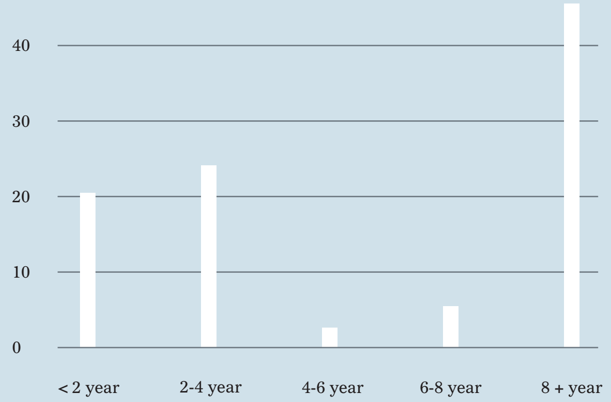
EDUCATIONAL BACKGROUND



DISTRIBUTION
BY AGE IN PERCENTAGE



AVERAGE SENIORITY
AS A PERCENTAGE OF TOTAL EMPLOYEES



DIRECTORSHIPS

DIRECTORSHIPS – BOARD OF DIRECTORS

The information relates to the occupations of the board members, directorships held in other Danish and foreign companies and other important management positions and directorships at the date of the publication of this annual report.

Per Skovhus
Danske Bank A/S
Elected to the Board of Directors of Danish Ship Finance on 28.04.2003
Member of the Board of Directors of:
Realkredit Danmark A/S

Jens Thomsen
Nationalbanken
Elected to the Board of Directors of Danish Ship Finance on 28.04.2003
Member of The Financial Business Council

Fatiha Benali
Tryg Vesta A/S
Elected to the Board of Directors of Danish Ship Finance on 16.04.2009

Thorkil H. Christensen
Danske Maritime
Elected to the Board of Directors of Danish Ship Finance on 19.04.1995
Member of the Board of Directors of:
Den Danske Maritime Fond (Deputy Chairman)

Erling Garrelts
Danmarks Skibskredit A/S
Elected to the Board of Directors of Danish Ship Finance on 24.04.2008

Flemming Ipsen
A.P. Møller - Mærsk A/S
Elected to the Board of Directors of Danish Ship Finance on 28.08.2006
Member of the Board of Directors of:
31 subsidiaries of A.P. Møller - Mærsk A/S Group in Denmark and abroad
The Britannia Steam Ship Insurance Association Limited
The Danish Institute of Arbitration (Deputy Chairman)

Lisbeth N. Pedersen
Danmarks Skibskredit A/S
Elected to the Board of Directors of Danish Ship Finance on 24.04.2008

Michael Rasmussen
Nordea Danmark A/S
Elected to the Board of Directors of Danish Ship Finance on 24.04.2008
Member of the Board of Directors of:
Industrialiseringsfondene for Udviklings-, Øst- og Vækstlande (IFU) (Chairman)
LR Realkredit A/S
Multidata A/S
Nordea Finans A/S (Chairman)
Nordea Kredit A/S (Chairman)
Nordea Liv & Pension Holding AB
PBS A/S

Henrik R. Søgaard
Danmarks Skibskredit A/S
Elected to the Board of Directors of Danish Ship Finance on 24.04.2008

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 2009. The annual report has been prepared in accordance with the provisions of Danish legislation on the presentation of accounts.

The Management's review includes a fair presentation of the developments in the company's activities and financial position as well as a description of the most material risks and elements of uncertainty that may affect the company.

The Board of Directors and the Management Board consider the applied accounting policies to be appropriate. Accordingly, the financial statements give a true and fair view of the company's financial position at 31 December 2009 as well as of its activities for the financial year 2009.

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

Copenhagen, 11 February 2010

MANAGEMENT BOARD

Erik I. Lassen
Chief Executive Officer

Per Schnack
Executive Vice President

BOARD OF DIRECTORS

Per Skovhus
Chairman

Jens Thomsen
Deputy Chairman

Fatiha Benali

Thorkil H. Christensen

Erling Garrelts

Flemming Ipsen

Lisbeth N. Pedersen

Michael Rasmussen

Henrik R. Søgaard

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF DANISH SHIP FINANCE A/S

We have audited the financial statements of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year ended 31 December 2009, comprising an income statement, balance sheet, statement of changes in equity and notes to the financial statements, including accounting policies and the management's review. The financial statements are presented in accordance with the Executive Order on a Ship Finance Institute. In addition, the financial statements have been presented in accordance with additional Danish disclosure requirements for listed financial businesses.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS AND THE MANAGEMENT'S REVIEW

Management is responsible for preparing and presenting financial statements that give a true and fair view in accordance with the Executive Order on a Ship Finance Institute, and a management's review that includes a fair review in accordance with the Executive Order on a Ship Finance Institute. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and presentation of financial statements and a management's review that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY AND BASIS OF OPINION

Our responsibility is to express an opinion on the financial statements and the management's review based on our audit. We conducted our audit in accordance with Danish Standards on Auditing These Standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance whether the financial statements and the management's review are free of material misstatement.

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

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

Our audit has not resulted 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 2009 and of the results of the company's operations and cash flows for the financial year ended 31 December 2009 in accordance with the Executive Order on a Ship Finance Institute and additional Danish disclosure requirements for listed financial businesses and the management's review includes a fair review in accordance with the Executive Order on a Ship Finance Institute.

Copenhagen, 11 February 2010

DELOITTE
Statsautoriseret Revisionsaktieselskab

Henrik Priskorn
State Authorised Public Accountant

Per Rolf Larssen
State Authorised Public Accountant

INCOME STATEMENT

NOTE	1 JANUARY - 31 DECEMBER DKK MILLION	2009	2008
3	Interest income	3,588.4	3,894.3
4	Interest expenses	(2,865.6)	(3,149.3)
5	**Net interest income**	**722.8**	**745.0**
	Dividends on shares. etc.	10.2	16.9
6	Fee and commission income	39.3	25.0
	Fees and commissions paid	(0.5)	-
	Net interest and fee income	**771.8**	**786.9**
7	Market value adjustments	507.8	(406.4)
8,9	Staff costs and administrative expenses	(81.8)	(86.9)
18,19	Depreciation and impairment of property, plant and equipment	(1.8)	(1.4)
14	Impairment charges on loans and receivables	(873.5)	(702.4)
	Profit/loss before tax	**322.5**	**(410.2)**
10			
	Tax	(59.9)	43.3
	Profit/loss for the year	**262.6**	**(366.9)**
	PROPOSED ALLOCATION OF PROFIT		
	Dividend for the financial year	39.4	5.6
	Retained earnings	223.2	(372.5)
		262.6	**(366.9)**

BALANCE SHEET

NOTE	AT 31 DECEMBER DKK MILLION	2009	2008
	ASSETS		
11	Due from credit institutions and central banks	759.4	1,102.7
12,13,14	Loans at amortised cost	48,437.6	48,117.7
15,16	Bonds at fair value	30,616.1	26,520.5
17	Shares, etc.	519.7	444.2
18	Land and buildings		
	Domicile property	64.7	64.9
19	Other tangible assets	8.0	8.5
	Current tax assets	2.4	-
24	Deferred tax assets	210.8	180.1
20	Other assets	4,328.1	5,285.2
	Total assets	**84,946.8**	**81,723.8**
	LIABILITIES AND EQUITY		
	Liabilities		
21	Due to credit institutions and central banks	8,303.4	8,412.1
22	Issued bonds at amortised cost	63,056.9	60,006.5
	Current tax liabilities	-	201.3
23	Other liabilities	3,601.3	4,278.1
	Total liabilities	**74,961.6**	**72,898.0**
	Provisions		
	Other provisions	45.0	40.0
	Total provisions	**45.0**	**40.0**
25	**Subordinated debt**		
	Subordinated debt	897.3	-
26	**Equity**		
	Share capital	333.3	333.3
	Tied-up reserve capital	8,343.1	8,343.1
	Revaluation reserves	9.6	9.6
	Retained earnings	356.9	99.8
	Total equity	**9,042.9**	**8,785.8**
	of which dividend proposed for the financial year	*39.4*	*5.6*
	Total liabilities and equity	**84,946.8**	**81,723.8**

BALANCE SHEET

NOTE	AT 31 DECEMBER DKK MILLION	2009	2008
	Off-balance sheet items		
28	Contingent liabilities	467.1	523.0
29	Other binding agreements	8,767.7	11,069.1
	Total off-balance sheet items	**9,234.8**	**11,592.1**

RECONCILIATION EQUITY

DKK MILLION	Share capital	Tied-up reserve capital	Retained earnings	Proposed dividends for the financial year	Total
Equity at 31 December 2007	**333.3**	**8.343.1**	**165.7**	**335.2**	**9.177.3**
Impact on equity at 1 January 2008 from transition to executive order on financial reports by credit institutions etc.:					
Amortised cost on loans	-	-	(55.0)	-	(55.0)
Fair-value adjustment of fixed-rate bonds hedged using derivatives	-	-	3.1	-	3.1
Adjustment of loan impairment charges	-	-	450.5	-	450.5
Revaluation of real property	-	-	12.2	-	12.2
Other tangible assets	-	-	8.0	-	8.0
Staff benefits	-	-	(5.0)	-	(5.0)
Change in deferred tax from the effects	-	-	(103.4)	-	(103.4)
Total impact at 1 January 2008	**-**	**-**	**310.4**	**-**	**310.4**
Equity at 1 January 2008	**333.3**	**8,343.1**	**476.1**	**335.2**	**9,487.7**
Dividends distributed	-	-	-	(335.2)	(335.2)
Profit/loss for the period	-	-	(372.3)	5.6	(366.7)
Equity at 31 December 2008	**333.3**	**8,343.1**	**103.8**	**5.6**	**8,785.9**
Dividends distributed	-	-	-	(5.6)	(5.6)
Profit/loss for the period	-	-	223.2	39.4	262.6
Equity at 31 December 2009	**333.3**	**8,343.1**	**327.0**	**39.4**	**9,042.9**

STATEMENT OF CHANGES IN EQUITY

DKK MILLION	Share capital	Tied-up reserve capital	Retained earnings	Proposed dividends for the financial year	Total
Equity at 31 December 2007	**333.3**	**8,343.1**	**165.7**	**335.2**	**9,177.3**
Dividends distributed	-	-	-	(335.2)	(335.2)
Profit/loss for the period	-	-	31.4	5.6	37.0
Equity at 31 December 2008 under previous accounting policies	**333.3**	**8,343.1**	**197.1**	**5.6**	**8,879.2**
Impact on equity at 1 January 2009 from transition to executive order on financial reports by credit institutions etc., cf. management's report.	-	-	(93.3)	-	(93.3)
Equity at 1 January 2009	**333.3**	**8,343.1**	**103.8**	**5.6**	**8,785.9**
Dividends distributed	-	-	-	(5.6)	(5.6)
Profit/loss for the period	-	-	223.2	39.4	262.6
Equity at 31 December 2009	**333.3**	**8,343.1**	**327.0**	**39.4**	**9,042.9**

LIST OF NOTES

NOTES

NOTE 1 CHANGES IN ACCOUNTING POLICIES

The annual report has been prepared in accordance with the Executive Order on a Ship Finance Institute and the Danish FSA's executive order on financial reports by credit institutions and investment companies, etc. ("executive order on financial reporting").

The accounting policies have been changed significantly compared with last year due to the implementation of the recognition and measurement provisions of the executive order on financial reporting.

In accordance with the rules of the Danish FSA, the company has restated the comparative figures. The key figures and ratios for 2005 to 2007 have not been restated because it was not possible to obtain the necessary data basis.

Effect of the policy changes
The policy changes resulted in an increase of equity at 1 January 2008 of DKK 310.4 million, a reduction of equity at 1 January 2009 of DKK 93.3 million, whilst the company's total assets and liabilities at 1 January 2009 increased by DKK 92.2 million.

The type of the specific changes in accounting policies, their effect on the financial figures and the reason for the change are described in the comments on the individual line items.

The effect of the policy changes has been recognised directly in equity at 1 January 2009, and the comparative figures for 2008 have been restated as a result of the policy changes. The total tax effect of the changes has been calculated at DKK 31.1 million, which is recognised under other assets.

Recognition and measurement
On initial recognition, assets and liabilities are measured at fair value. However, property, plant and equipment, including properties, are measured at cost on initial recognition. On subsequent recognition, assets and liabilities are measured as described below in respect of each relevant item. Financial instruments are recognised on the settlement date.

Properties (Land and buildings)
The company's property is used for the company's own operations (domicile property). Properties used for the company's own operations are measured at revalued amount. Previously, properties were measured at cost plus any improvements and less depreciation and impairment charges.

The financial impact is DKK 12.7 million.

NOTES

NOTE 1

Other property, plant and equipment

Tangible assets are measured 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. No changes have been made to this policy.

However, minor assets (additions below DKK 250 thousand) and art were previously written off in the year of acquisition over income statement. Going forward, all assets will be recognised as additions and depreciated over their expected useful lives. As a result of this change, tangible assets that had previously been written off on acquisition have been recognised as assets in the opening balance sheet and will be depreciated over their expected useful residual lives.

The financial impact is DKK 7.2 million.

Loans

From 1 January 2009, loans are measured at amortised cost (i.e. including fees and commission, which are considered an integral part of the effective rate of interest). Previously, loans were measured at cost, whilst fees and commission income were recognised in the income statement when the loan was established. The financial impact is a negative DKK 62.5 million.

Impairment charges on loans and receivables, etc. are made individually and collectively. Impairment charges are made when there is objective evidence of impairment.

Previously, loans were written down when losses were considered likely.

For individual impairment charges, objective evidence is considered to exist for example in case of breach of covenants, and the financial standing of the shipowner is included in the assessment. For impairment charges with a collective component, objective evidence is considered to exist for example in case of large rate falls within a vessel segment and such fall is expected to be of long duration, or the expected addition of new tonnage is likely to have an adverse effect on the rate level.

Impairment charges are made individually and with a collective component 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.

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.

The financial impact is a negative DKK 53.2 million.

NOTE 1

Bonds

Bonds are measured at fair value.

For listed bonds, the fair value is calculated as the officially quoted closing prices.

Listed securities were previously measured at the officially quoted prices at the balance sheet date, and unlisted securities were measured at the market value on the balance sheet date.

Bonds were previously recognised at the hedged values if a concurrent swap agreement providing effective hedging (asset swap) had been concluded.

The financial impact of the changes in measurement policies (valuation) for bonds is DKK 111.7 million, whilst the impact for hedging swaps in relation to the bonds (derivatives) is a negative DKK 137.2 million. The net financial impact of the measurement changes is thus a negative DKK 25.5 million, which is recognised in equity.

Another effect of the change is that a net amount of DKK 330.7 million will be reclassified (moved) from the item bonds (interest-rate and currency-hedged) to the item other assets (fair value of derivatives). This will not have any effect on equity.

Issued bonds

From 1 January 2009, 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). Issued fixed-rate bonds were previously recognised in the balance sheet at nominal values, as they were valued together with swap agreements.

As a result of the change, issued bonds have been adjusted to the lower amount of DKK 2,385.7 million, which represents a discount on the issued fixed-rate bonds at 1 January 2009. The amount has been reclassified from the item other liabilities (fair value of derivatives).

The company complies with the rules on applying hedge accounting for issued fixed-rate bonds. This resulted in an adjustment concerning hedge accounting of issued bonds in the amount of DKK 127.6 million.

The financial impact on equity is DKK 0.0 million.

NOTES

NOTE 1

Provisions and guarantees
Provisions and guarantees are basically recognised in the same way as before. Unlike previously, however, a staff obligation (holiday pay obligation, variable pay components, etc.) is recognised successively, regardless of whether the future payment is conditional on employment at the time of disbursement. Thus, what is emphasised is the probability of disbursement, whereas previously it was the actual obligation that was expensed at the time of disbursement.

This means that obligations, guarantees and other liabilities which are uncertain in respect of size or time of settlement are recognised as provisions when it is probable that the obligation will cause the company to incur costs. The obligation is calculated at the present value of the costs required to settle the obligation.

The financial impact is a negative DKK 3.1 million.

Derivatives
All derivatives are measured at fair value at the balance sheet date.

The company previously omitted to make value adjustments of certain types of transactions hedged in terms of interest rate and foreign currency in connection with hedging of fixed-rate issued bonds and loans, whilst other derivatives were measured at market value.

The company complies with the rules on applying hedge accounting for issued fixed-rate bonds.

Fair value adjustment of swaps concerning the portfolio of fixed-rate bonds, which is described under the line item bonds in this note 1, amounts to a negative DKK 137.2 million.

Except for the fair value adjustment of swaps concerning the portfolio of fixed-rate bonds, the financial impact on equity is DKK 0.0 million.

Hedge accounting
As mentioned above, the company will henceforth apply the special rules on hedge accounting to avoid the inconsistency that occurs when certain financial assets or financial liabilities (the hedged items) are measured at amortised cost, while derivatives (the hedging instruments) are measured at fair value. In the company, the hedge is established at the portfolio level for the following accounting items: loans, issued bonds and derivatives. The effectiveness is measured in an ongoing process.

NOTE 2 ACCOUNTING POLICIES

General

The annual report has been prepared in accordance with the Executive Order on a Ship Finance Institute and the Danish FSA's executive order on financial reports by credit institutions and investment companies, etc. ("executive order on financial reporting").

The accounting policies have been changed significantly compared with last year due to the implementation of the recognition and measurement provisions of the executive order on financial reporting. A description of the impact of the policy changes is provided in note 1 to the annual report.

In accordance with the rules of the Danish FSA, the company has restated the comparative figures. The key figures and ratios for 2005 to 2007 have not been restated because it was not possible to obtain the necessary data basis.

Accounting estimates and assessments

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:

- the fair value of financial instruments
- loan impairment charges

The estimates and judgments are based on assumptions that the management finds reasonable but that are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unexpected future events or situations may occur. Therefore, such estimates and assumptions are difficult to make and will always entail uncertainty, even under stable macroeconomic conditions, when they involve transactions with customers and other counterparties. Other people may make other estimates.

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.

Measurements of financial instruments that are only to a limited extent based on observable market data are subject to estimates. This for example applies to unlisted shares and certain bonds for which an active market no longer exists. See "Determination of fair value" below for a more detailed description.

NOTES

NOTE 2

Measurement of loans

The company makes impairment charges to account for impairment of loans that occurs after initial recognition. Impairment charges are made as a combination of individual charges and charges with a collective component and rely on a number of estimates, including identification of the loans or portfolios of loans with objective evidence of impairment, expected future cash flows and expected value of collateral. See the section on risk management in the management's review and the risk report for a more detailed description of loan impairment charges.

As described in the section in the management's review on losses on and impairment charges for loans, the company has adopted a new model for calculating impairment charges. The new model builds on other principles than previous calculations of loan impairment charges. Consequently, it has not yet been possible to carry out a back test of the calculations, and this may result in greater uncertainty in respect of the charges. In particular, impairment charges with a collective component build on assumptions which are widely based on verifiable data. A change in these assumptions would lead to a corresponding change in the impairment charges. Furthermore, the company makes a management estimate in order to make any necessary adjustments for events, which the model does not take into consideration.

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.

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.

Recognition and measurement

On initial recognition, assets and liabilities are measured at fair value. However, property, plant and equipment, including properties, are measured at cost on initial recognition. On subsequent recognition, assets and liabilities are measured as described below in respect of each relevant item. Financial instruments are recognised on the settlement date.

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.

NOTE 2

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 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.

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. Before the settlement date, changes in the value of financial instruments are recognised in the income statement. On subsequent recognition, financial instruments are measured as described below.

Classification

At the date of recognition, financial assets are divided into the following two categories:

- trading portfolio measured at fair value;
- loans and other financial receivables, measured at amortised cost.

At the date of recognition, financial liabilities are divided into the following two categories:

- trading portfolio measured at fair value;
- other financial liabilities measured at amortised cost.

The trading portfolio, which is measured at fair value, comprises the following financial assets and liabilities:

- Bonds at fair value
- Shares, etc.
- Derivatives (Other assets and Other liabilities)

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 group bases its valuation 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 an active market does not exist, 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 to measure fair value.

NOTES

NOTE 2

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.

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 hedge criteria cease to be met, the accumulated value adjustments of the hedged items are amortised over the term to maturity.

BALANCE SHEET

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. Amounts due from credit institutions and central banks are measured at amortised cost.

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

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

Shares, etc
Shares, etc. comprises investments in sector shares and share-based unit trust certificates.

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.

Determination of fair value
The fair value of shares, etc. is measured on the basis of the most recently observed market price at the balance sheet date.

NOTE 2

Loans

Loans comprise traditional loans against mortgages in ships and financing for building ships.

At 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

On loans and receivables, the company makes individual impairment charges and charges with a collective component. Impairment charges are made when there is objective evidence of impairment. The calculation of the charges is made by weighting all possible outcomes in respect of the expected cash flows from the loan.

For individual impairment charges, objective evidence is considered to exist for example in case of breach of covenants, and the financial standing of the shipowner is included in the assessment. For impairment charges with a collective component, objective evidence is considered to exist for example in case of large rate falls within a vessel segment and such fall is expected to be of long duration, or the expected addition of new tonnage is likely to have an adverse effect on the rate level.

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.

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.

Land and buildings

Land and buildings consist of the company's head office property located at Sankt Annæ Plads 1-3, DK-1250 Copenhagen, Denmark, which is used for the company's own operations.

Domicile property

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

NOTES

NOTE 2

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 5 years.

Other assets

Other assets includes 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.

Issued bonds

Issued bonds 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.

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.

Other liabilities

Other liabilities includes 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.

NOTE 2

Deferred tax

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 current tax rates.

Changes in deferred tax resulting from changes in tax rates are recognised in the income statement.

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 comprises guarantee commitments made as part of the lending activities.

Other binding agreements

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

INCOME STATEMENT

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 individual impairment is made on the basis of the value after impairment.

NOTE 2

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 comprises realised and unrealised market value adjustments of financial instruments, shares, investments and other securities and exchange rate adjustments.

The profit impact of fair value hedging is also recognised under market value 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 payment
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 items consists only 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.

	DKK MILLION	2009	2008
NOTE 3	INTEREST INCOME		
	Interest from credit institutions	10.6	147.5
	Interest on loans	1,639.3	2,207.9
	Index revaluations of index-linked loans	2.9	8.7
	Interest on bonds	1,146.1	1,265.1
	Other interest income	25.0	12.5
	Derivatives		
	Interest rate contracts	759.8	237.9
	Foreign exchange contracts	4.7	14.7
	Total interest income	**3,588.4**	**3,894.3**
	Of this amount, income from genuine purchase and resale transactions recognised in		
	Due from credit institutions and central banks	-	-
NOTE 4	INTEREST EXPENSES		
	Interest to credit institutions	(161.4)	(149.6)
	Interest on issued bonds	(2,658.5)	(2,961.1)
	Index revaluations on issued bonds	(2.9)	(8.7)
	Interest on subordinated debt	(3.5)	-
	Other interest expenses	(39.3)	(29.9)
	Total interest expenses	**(2,865.6)**	**(3,149.3)**
	Of this amount, interest expenses on genuine sale and repurchase transactions recognised in		
	Due to credit institutions and central banks	159.2	41.5

NOTES

DKK MILLION	2009	2008
NOTE 5 NET INTEREST INCOME		
Net interest income from lending operations		
Interest on loans	1.641.8	2,216.1
Interest on bonds	639.8	712.2
Interest on block issues included in interest due from credit institutions	(9.5)	126.2
Interest to credit institutions	(110.9)	(32.9)
Interest expenses on issued bonds	(2,661.4)	(2,969.8)
Interest on subordinated debt	(3.5)	-
Other interest expenses	(26.9)	(29.9)
Derivatives		
Interest rate contracts	759.8	237.9
Foreign exchange contracts	4.7	14.7
Total net interest income from lending operations	**233.9**	**274.5**
Net interest income from financing operations		
Interest on bonds	506.3	553.0
Interest on loans	0.4	0.5
Interest due from credit institutions excluding interest on block issues	20.1	21.2
Other interest income	25.0	12.5
Interest to credit institutions	(50.5)	(116.7)
Other interest expenses	(12.4)	0.0
Total net interest income from financing operations	**488.9**	**470.5**
Total net interest income	**722.8**	**745.0**

NOTES

	DKK MILLION	2009	2008
NOTE 6	FEE AND COMMISSION INCOME		
	Guarantee commission	3.0	2.1
	Fee and other commission income	36.3	22.9
	Total fee and commission income	**39.3**	**25.0**
NOTE 7	MARKET VALUE ADJUSTMENTS		
	Market value adjustment of bonds	504.7	110.0
	Market value adjustment of shares	94.8	(232.8)
	Exchange rate adjustments	16.6	38.2
	Market value adjustment of financial instruments	(108.3)	(321.8)
	Total market value adjustments	**507.8**	**(406.4)**
NOTE 8	STAFF COSTS AND ADMINISTRATIVE EXPENSES		
	Remuneration of Board of Directors and Management Board		
	Board of Directors	(4.8)	(5.2)
	Management Board	(1.7)	(1.4)
	Staff costs		
	Wages	(37.7)	(38.8)
	Pensions	(4.7)	(4.0)
	Social security costs and financial services employer tax	(8.5)	(10.3)
	Other administrative expenses	(24.4)	(27.2)
	Total staff costs and administrative expenses	**(81.8)**	**(86.9)**
	Number of employees - full-time equivalents	59	58
	Average number of employees - full-time equivalents	59	57

NOTE 8

REMUNERATION OF MANAGEMENT BOARD

DKK '000	2009	2008	2009	2008
	Erik I. Lassen		Per Schnack	
Contractual remuneration	2,204	2,112	1,936	1,854
Pension	272	261	239	230
Tax value of car	119	57	75	71
Cash bonus	-	294	-	368
Share-based payment	-	-	-	-
Total	**2,596**	**2,724**	**2,250**	**2,522**

Erik I. Lassen and Per Schnack joined the Management Board on 9 April 2008.
For 2008, the contractual remuneration and pension is restated to full-year amounts.

The cash bonus paid in 2008 concerned 2007.

The pension scheme is a defined contribution scheme, and there are no unusual severance terms for members of the Management Board.

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

For 2009, a deduction in the taxable income of DKK 4.4 million is expected to be made in respect of remuneration to the Management Board because the company received the capital injection in December 2009.

REMUNERATION OF THE BOARD OF DIRECTORS	DKK '000
Chairman	300
Deputy Chairman	225
Other board members	150
In addition, members of the Audit Committee will receive	50

NOTES

	DKK MILLION	2009	2008
NOTE 9	AUDIT FEES		
	Audit fees, statutory audit	(0.8)	(0.8)
	Non-audit services	(1.1)	(1.0)
	Total fees	**(1.9)**	**(1.8)**
NOTE 10	TAX		
	Tax on profit/loss for the year		
	Estimated tax on profit/loss for the year	(90.6)	(134.5)
	Changes in deferred tax	30.7	179.7
	Adjustment of prior-year tax charges	0.0	(1.9)
	Total tax	**(59.9)**	**43.3**
	Effective tax rate	Pct.	Pct.
	Tax rate in Denmark	25.0	25.0
	Non-taxable income and non-deductible expenses	(6.4)	(14.5)
	Adjustment of prior-year tax charges	0.0	(0.5)
	Effective tax rate	**18.6**	**10.6**
NOTE 11	DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Genuine purchase and resale transactions (repo reverse)	-	-
	Other receivables	759.4	1,102.7
	Total due from credit institutions and central banks	**759.4**	**1,102.7**
	Broken down by due date:		
	Demand deposits	29.7	50.5
	Up to 3 months	715.6	1,037.8
	From 3 months to 1 year	0.0	0.0
	From 1 to 5 years	14.1	14.4
	Over 5 years	0.0	0.0
	Total due from credit institutions and central banks	**759.4**	**1,102.7**

DKK MILLION	2009	2008

NOTE 12

LOANS AT AMORTISED COST. DEVELOPMENTS DURING THE YEAR

At 1 January	48,117.7	38,760.0
Additions	9,001.0	12,897.2
Index revaluations during the year	2.9	8.7
Ordinary repayments and redemptions	(5,221.6)	(5,172.0)
Extraordinary prepayments	(834.1)	(1,574.4)
Net change concerning revolving credit facilities	(1,276.0)	2,243.3
Net change concerning debentures with Danmarks Nationalbank	(105.3)	(264.2)
Exchange adjustment of loans	(328.0)	1,931.9
Change in amortised cost for the year	(34.5)	(7.5)
Depreciation, amortisation and impairment for the year	(884.5)	(705.3)
At 31 December	**48,437.6**	**48,117.7**

DKK MILLION	2009	2008

NOTE 13

LOANS AT AMORTISED COST. SPECIFICATIONS OF LOANS AT YEAR-END

Loans secured against a ship's mortgage	50,264.3	48,960.9
Danmarks Nationalbank	-	102.4
Gross loans at exchange rates at the balance sheet date	**50,264.3**	**49,063.3**
Loan impairment charges	(1,826.7)	(945.6)
Total loans	**48,437.6**	**48,117.7**
Total loans broken down by due date:		
Demand deposits	0.0	0.0
Up to 3 months	1,609.1	922.7
From 3 months to 1 year	4,851.7	5,033.5
From 1 to 5 years	23,291.8	21,359.8
Over 5 years	18,685.0	20,801.7
Total loans	**48,437.6**	**48,117.7**
Total loans		
Loans at fair value	48,996.5	49,265.0
Loans at amortised cost	48,437.6	48,117.7

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

Loans and receivables subject to individual impairment charges (breach of covenants)		
Value of loans with objective evidence of impairment		
Loans and receivables before impairment charges	8,584.9	5,053.9
Impairment charges	(1,090.7)	(750.1)
Total impaired loans and receivables	**7,494.2**	**4,303.8**

NOTE 14

IMPAIRMENT CHARGES

DKK MILLION	2009	2008
The following impairment charges were made on receivables		
Individual impairment charges	1,090.7	750.1
Impairment charges with a collective component	781.0	235.5
Total impairment charges	**1,871.7**	**985.6**
As a percentage of loans and impairment charges		
Individual impairment charges	2.3	1.6
Impairment charges with a collective component	1.6	0.5
Total impairment charges	**3.9**	**2.1**
Distribution of impairment charges		
Amount set off against loans	1,826.7	945.6
Provisions made for other liabilities	45.0	40.0
Total impairment charges	**1,871.7**	**985.6**
Movements in impairment charges		
At 1 January	985.6	280.3
Additions	1,353.7	812.7
Reversal of impairment charges from previous years	(465.0)	(107.4)
Losses covered by impairment charges from previous years	(2.6)	-
Total impairment charges	**1,871.7**	**985.6**

NOTES

	DKK MILLION	2009	2008
NOTE 14	**Losses on and impairment charges on receivables**		
	New impairment charges	(1,353.7)	(812.7)
	Reversed impairment charges	465.0	107.4
	Reclassification of interest	14.5	1.0
	Losses not covered by impairment charges from previous years	0.9	-
	Received on claims previously written off	1.6	1.9
	Total losses on and impairment charges on receivables	**(873.5)**	**(702.4)**
	Impairment charges broken down by countries:		
	Bahamas	72.6	-
	Belgium	9.8	-
	Bermuda	105.0	87.2
	Cayman Islands	28.2	65.8
	Cyprus	65.3	53.5
	Denmark	679.4	394.8
	France	45.8	-
	Hong Kong	4.3	2.8
	Iceland	21.8	-
	Isle of Man	7.2	-
	Italy	69.3	13.3
	Liberia	35.1	43.3
	Marshall Islands	36.2	-
	Norway	119.4	3.9
	Switzerland	169.4	99.2
	Singapore	70.0	8.8
	Sweden	52.5	6.4
	Germany	214.3	166.6
	USA	66.1	40.0
	Total impairment charges	**1,871.7**	**985.6**

NOTES

	DKK MILLION	2009	2008
NOTE 15	BONDS AT FAIR VALUE		
	Bond portfolio		
	Non-callable bonds	22,262.2	17,753.8
	Callable bonds	8,353.9	8,766.7
	Total bond portfolio	**30,616.1**	**26,520.5**
	Bond portfolio		
	Government bonds and bonds issued by KommuneKredit	2,401.8	1,397.2
	Mortgage bonds	28,214.3	25,123.3
	Total bond portfolio	**30,616.1**	**26,520.5**
NOTE 16	BOND HOLDINGS BY TIME TO MATURITY		
	Bond portfolio		
	Bonds with a maturity of up to and including 1 year	4,804.7	81.9
	Bonds with a maturity of over 1 year and up to and including 5 years	17,969.4	16,307.8
	Bonds with a maturity of over 5 years and up to and including 10 years	2,008.7	2,919.5
	Bonds with a maturity of over 10 years	5,833.3	7,211.3
	Total bond holdings specified by time to maturity	**30,616.1**	**26,520.5**
NOTE 17	SHARES, ETC.		
	Unit trust certificates (shares) listed on NASDAQ OMX Copenhagen	315.6	255.4
	Unlisted shares/unit trust certificates recognised at fair value	204.1	188.8
	Total shares, etc.	**519.7**	**444.2**

DKK MILLION	2009	2008

NOTE 18 LAND AND BUILDINGS. DOMICILE PROPERTY

Domicile property		
Revaluation, 1 January	65.0	65.0
Property improvements during the year	0.0	0.0
Revaluation incl. improvements, 31 December	**65.0**	**65.0**
Accumulated depreciation, 1 January	0.1	0.0
Depreciation for the year	0.2	0.1
Accumulated depreciation, 31 December	**0.3**	**0.1**
Total revaluation, 31 December	**64.7**	**64.9**

The domicile property was revalued at 1 January 2008 on transition to the executive order on financial reporting. No external experts were involved in valuing the domicile property.

Since 1 January 2008, no value adjustments have been recognised in equity.

The domicile property comprises the office property at Sankt Annæ Plads 1-3, Copenhagen, the public valuation of which was assessed at DKK 93.0 million at 1 October 2008.

NOTE 19 OTHER TANGIBLE ASSETS

Cost, 1 January	20.1	19.0
Additions during the year	1.3	1.8
Disposals during the year	(0.4)	(0.7)
Cost, 31 December	**21.0**	**20.1**
Accumulated depreciation, 1 January	11.6	11.0
Disposals during the year	(0.3)	(0.7)
Depreciation during the year	1.7	1.3
Accumulated depreciation, 31 December	**13.0**	**11.6**
Total other tangible assets	**8.0**	**8.5**

NOTES

	DKK MILLION	2009	2008
NOTE 20	OTHER ASSETS		
	Interest receivable	780.2	1,418.8
	Prepayments to swap counterparties	13.0	-
	Receivables concerning CIRR financing	106.7	133.6
	Market value of derivatives	3,402.7	3,698.3
	Miscellaneous receivables	25.5	34.5
	Total other assets	**4,328.1**	**5,285.2**

	DKK MILLION	2009	2008
NOTE 21	DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Repo transactions	8,301.4	8,412.0
	Other amounts due	2.0	0.1
	Total due to credit institutions and central banks	**8,303.4**	**8,412.1**
	Broken down by due date:		
	On demand	2.0	0.1
	Up to 3 months	8,301.4	8,412.0
	From 3 months to 1 year	0.0	0.0
	From 1 to 5 years	0.0	0.0
	Over 5 years	0.0	0.0
	Total due to credit institutions and central banks	**8,303.4**	**8,412.1**

	DKK MILLION	2009	2008
NOTE 22	ISSUED BONDS AT AMORTISED COST		
	At 1 January	60,006.5	61,095.4
	Additions in conjunction with block issues	9,043.8	5,524.2
	Amortisation of cost	494.1	492.6
	Adjustment for hedge accounting	603.0	872.6
	Index revaluations during the year	2.9	8.7
	Ordinary redemptions	(7,093.4)	(7,987.0)
	At 31 December	**63,056.9**	**60,006.5**
	Specification of issued bonds		
	Bonds issued in DKK		
	Bullet bonds	51,620.9	49,841.8
	Index-linked bonds, nominal value	10.5	91.5
	Total nominal value	**51,631.4**	**49,933.3**
	Index premium	15.3	126.2
	Total Danish bonds	**51,646.7**	**50,059.5**
	Bonds issued in foreign currency		
	Amortising CIRR bonds, at year-end exchange rates	10,554.4	9,947.0
	Bullet bonds, at year-end exchange rates	855.8	-
	Total bonds issued in foreign currency	**11,410.2**	**9,947.0**
	Total issued bonds	**63,056.9**	**60,006.5**
	Broken down by term to maturity:		
	At call	0.0	0.0
	Up to 3 months	313.0	242.8
	From 3 months to 1 year	5,568.0	5,571.6
	From 1 to 5 years	22,677.7	21,454.5
	Over 5 years	34,498.2	32,737.6
	Total issued bonds	**63,056.9**	**60,006.5**

NOTES

	DKK MILLION	2009	2008
NOTE 23	OTHER LIABILITIES		
	Interest payable	566.1	1,429.8
	Market value of derivatives	3,016.7	2,833.3
	Other liabilities	18.5	15.0
	Total other liabilities	**3,601.3**	**4,278.1**
NOTE 24	DEFERRED TAX		
	Deferred tax, 1 January	(180.1)	30.7
	Estimated deferred tax on the profit for the year	(30.7)	(179.7)
	Adjustment due to change in accounting policies	-	(31.1)
	Total deferred tax	**(210.8)**	**(180.1)**

	2009	2009	2009	2008
	Deferred tax assets	Deferred tax liabilities	Deferred tax net	Deferred tax net
Property, plant and equipment	(0.4)	4.3	**3.9**	3.2
Loans	(41.0)	26.7	**(14.4)**	(17.0)
Issued bonds	(199.9)		**(199.9)**	(159.8)
Employee obligations	(0.4)		**(0.4)**	(0.4)
Other			**-**	(6.1)
Total deferred tax	**(241.7)**	**31.0**	**(210.8)**	**(180.1)**

	DKK MILLION	2009	2008
NOTE 25	SUBORDINATED DEBT		
	Principal	900.0	-
	Origination fees for amortisation	(2.7)	-
	Subordinated debt	**897.3**	**0.0**

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.

Prepayment of subordinated debt must be approved by the Danish FSA.

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

Currency	Borrower	Principal	Interest rate	Received	Due	Repayment price
DKK	Danish Ship Finance	900.0	9.49%	2009	No due date	100.0 at repayment before 2015 105.0 at repayment before 2016 110.0 at repayment in 2016 and later years

The hybrid tier 1 capital was received under the Second Bank Package.

NOTE 26	DKK MILLION	2009	2008
	EQUITY		
	Share capital		
	A shares	300.0	300.0
	B shares	33.3	33.3
	Total share capital	**333.3**	**333.3**
	Tied-up reserve capital	8,343.1	8,343.1
	Revaluation reserves	9.6	9.6
	Retained earnings	356.9	99.8
	Total equity	**9,042.9**	**8,785.8**
	of which proposed dividend, cf. allocation of profit	39.4	5.6

The share capital is divided into the following denominations:

A shares 300,000,000 shares of DKK 1.00 each

B shares 33,333,334 shares of DKK 1.00 each

Each A share of DKK 1.00 entitles the holder to 10 votes

Each B share of DKK 1.00 entitles the holder to 1 vote

NOTE 27 SOLVENCY

DKK MILLION	2009	2008
Tier 1 capital		
Share capital	333.3	333.3
Tied-up reserve capital	8,343.1	8,343.1
Retained earnings	356.9	99.8
Total tier 1 capital	**9,033.3**	**8,776.2**
Deductions in Tier 1 capital		
Proposed dividend	39.4	5.6
Deferred tax assets	210.8	-
Additional straining relative to the Executive Order on a Ship Finance Institut	432.9	280.2
Total deductions in tier 1 capital	**683.1**	**285.8**
Tier 1 capital less deductions	**8,350.2**	**8,490.4**
Subordinated debt		
Subordinated debt	897.3	-
Total tier 1 capital	**9,247.5**	**8,490.4**
Supplementary capital		
Revaluation reserves	9.6	9.6
Supplementary capital less deductions	**9.6**	**9.6**
Capital base less deductions	**9,257.1**	**8,500.0**
Weighted items not included in the trading portfolio	52,349.7	52,032.1
Weighted off-balance sheet items	4,830.8	6,024.5
Weighted items involving counterparty risk outside the trading portfolio	793.2	582.9
Weighted items involving market risk, etc.	5,527.8	6,794.5
Weighted items involving operational risk	1,377.1	717.0
Total weighted items	**64,878.6**	**66,151.0**
Tier 1 capital less deductions as a percentage of total risk-weighted items	**14.3**	**12.8**
Solvency ratio pursuant to the Executive Order on a Ship Finance Institute	**14.3**	**12.8**
Minimum requirement fixed at 8%		
Weighted items with market risk, etc. consist of		
Items with position risk: Debt instruments	3,774.1	5,418.9
Items with position risk: Shares	521.8	454.1
Total currency position	1,231.9	921.5
Total weighted items with market risk, etc.	**5,527.8**	**6,794.5**

NOTES

	DKK MILLION	2009	2008
NOTE 28	CONTINGENT LIABILITIES		
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken guarantee commitments of	445.4	458.8
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken obligations to take over loan commitments at the end of syndication periods expiring before the loans mature for an amount of	-	59.5
	Other financial guarantees	16.5	-
	Payment guarantee provided to the Danish Securities Centre	3.6	3.2
	Guarantees provided to the Danish Securities Centre	1.6	1.5
	Total contingent liabilities	**467.1**	**523.0**
NOTE 29	OTHER BINDING AGREEMENTS		
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken commitments in relation to unutilised drawing rights on loans with revolving credit facilities in the amount of	1,490.7	1,123.7
	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	409.5	1,062.1
	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	6,867.5	8,883.3
	Total other binding agreements	**8,767.7**	**11,069.1**

DKK MILLION

NOTE 30 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 8.

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

The company has no related parties with a controlling influence.

NOTE 31 HEDGE ACCOUNTING AT 31 DECEMBER 2009

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.

	Nominal value	Carrying amount	Fair value
Commitments			
Issued bonds	35,139.3	33,291.7	33,817.2
Total commitments	**35,139.3**	**33,291.7**	**33,817.2**
Derivatives			
Interest rate swaps	(35,139.3)	(475.4)	(475.4)
Total derivatives	**(35,139.3)**	**(475.4)**	**(475.4)**
Net	**0.0**	**32,816.3**	**33,341.8**

NOTES

	DKK MILLION	2009	2008
NOTE 32	NOTIONAL PRINCIPALS OF OUTSTANDING DERIVATIVES AT 31 DECEMBER		
	Swap agreements		
	Swap agreements have been made with the following parties to hedge the exchange rate exposure on loans and issued bonds:		
	Danmarks Nationalbank	680.7	1,105.3
	Banks	49,418.8	48,599.6
	Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:		
	Receivables	454.1	654.9
	Banks	64,304.1	58,299.2
	Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:		
	Banks	4,253.7	4,387.2
	Forward currency agreements:		
	Forward currency sales	-	132.1
	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	1,199.2	1,955.8
	Forward securities transactions		
	Buying	100.0	-
	Selling	-	751.8

DKK MILLION	POSITIVE	NEGATIVE
NOTE 33 MARKET VALUES OF OUTSTANDING DERIVATIVES AT 31 DECEMBER 2009		
Swap agreements:		
Swap agreements have been made with the following parties to hedge the exchange rate exposure on loans and issued bonds:		
Danmarks Nationalbank	158.3	-
Banks	2,649.5	858.8
Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:		
Receivables	-	64.0
Banks	608.0	2,094.2
Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:		
Banks	49.7	124.3
Forward currency agreements:		
Forward currency sales	-	-
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	0.4	14.6
Forward securities transactions		
Buying	0.0	-
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%	158.3	
Counterparty with risk weight of 20%	1,557.5	
Counterparty with risk weight of 100%	-	
Value of total counterparty risk calculated according to the market valuation method for counterparty risk		
Counterparty with risk weight of 0%	158.3	
Counterparty with risk weight of 20%	3,307.5	
Counterparty with risk weight of 100%	-	

NOTES

DKK MILLION

NOTE 34

EXCHANGE RATE RISK AND USE OF DERIVATIVES
AT 31 DECEMBER 2009

The total unhedged foreign currency position at 31 December 2009, translated at year-end exchange rates into DKK amounts to DKK 908.3 million (DKK 533.4 million at 31 December 2008). All amounts are translated into DKK at the year-end exchange rates. The net position is specified as follows:

	USD	Other currencies	Total foreign currency	DKK	Total
Loans at year-end exchange rates	43,881.5	4,905.9	48,787.4	1,476.9	50,264.3
Loan impairment charges				(1,826.7)	(1,826.7)
Loans as per the balance sheet					**48,437.6**
Due from credit institutions and central banks	578.3	133.1	711.4	48.0	759.4
Bond portfolio	0.0	1,392.9	1,392.9	29,223.2	30,616.1
Interest receivable, etc.	226.6	90.4	317.0	461.9	778.9
Other assets	12.5	1.8	14.3	4,340.5	4,354.8
Total assets as per the balance sheet	**44,698.9**	**6,524.1**	**51,223.0**	**33,723.8**	**84,946.8**
Issued bonds at year-end exchange rates	(10,218.5)	(855.8)	(11,074.3)	(51,982.6)	(63,056.9)
Issued bonds as per the balance sheet					**(63,056.9)**
Due to banks	0.0	(4.9)	(4.9)	(8,298.5)	(8,303.4)
Interest payable	(187.3)	(74.2)	(261.5)	(304.6)	(566.1)
Other payables				(3,977.5)	(3,977.5)
Total equity				(9,042.9)	(9,042.9)
Total liabilities as per the balance sheet	**(10,405.8)**	**(934.9)**	**(11,340.7)**	**(73,606.1)**	**(84,946.8)**
Derivatives					
- receivables	353.6	5,.730.8	**6,084.4**		
Derivatives					
- payables	(34,576.7)	(10,481.7)	**(45,058.4)**		
Total net position	**70.0**	**838.3**	**908.3**		
(translated into DKK)					

	DKK MILLION	2009	2008
NOTE 35	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.

	2009	2008
Interest rate risk		
An interest rate increase of 1 percentage point		
Change in results	**(181.5)**	(187.5)
Change in equity	**(181.5)**	(187.5)
An interest rate fall of 1 percentage point		
Change in results	**181.5**	187.5
Change in equity	**181.5**	187.5
Equity risk		
An increase in the value of the shares of 10 percent		
Change in results	**52.0**	44.4
Change in equity	**52.0**	44.4
A decline in the value of the shares of 10 percent		
Change in results	**(52.0)**	(44.4)
Change in equity	**(52.0)**	(44.4)
Exchange rate risk		
An appreciation of the USD exchange rate vis-à-vis DKK		
Change in results	**47.3**	39.0
Change in equity	**47.3**	39.0
Percentage change in solvency	**(1.8%)**	(1.6%)
A depreciation of the USD exchange rate vis-à-vis DKK		
Change in results	**(47.3)**	(39.0)
Change in equity	**(47.3)**	(39.0)
Percentage change in solvency	**1.8%**	1.6%

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 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.

	DKK MILLION	2009	2008

NOTE 36

FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

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

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

	2009	2008
Loans		
Measured at amortised cost	**48,437.6**	48,117.7
Measured at fair value	**48,996.5**	49,265.0

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.

	2009	2008
Issued bonds		
Measured at amortised cost, incl. hedging	**63,056.9**	60,006.5
Measured at fair value	**63,326.0**	60,945.5

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.

NOTE 37	DKK MILLION	2009	2008
	CREDIT RISK		
	Total credit exposure distributed on balance sheet and off-balance sheet items		
	Due from credit institutions and central banks	759.4	1,102.7
	Loans at amortised cost	48,437.6	48,117.7
	Bonds at fair value	30,616.1	26,520.5
	Shares, etc.	519.7	444.2
	Derivatives	3,402.7	3,698.3
	Total balance sheet items	**83,735.5**	**79,883.4**
	Off-balance sheet items		
	Contingent liabilities	467.1	523.0
	Other binding agreements	8,767.7	11,069.1
	Total off-balance sheet items	**9,234.8**	**11,592.1**

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 2009**	**Share of loans 2008**
0 - 20 %	29%	32%
20 - 40 %	27%	29%
40 - 60 %	23%	23%
60 - 80 %	16%	12%
80 - 100 %	2%	1%
Over 100 %	3%	3%

DKK MILLION

NOTE 37

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 2.4% of the loan portfolio at 31 December 2009 (2.3% in 2008).

It appears from the table above that 79% of the loan amounts is secured through mortgages within 60% of the most recently calculated market value of the mortgage, and 95% of the loans are within 80% of the most recently calculated market value of the mortgage, which is consistent with the levels in 2008.

The market value of ships has generally declined by about 42% since mid-2008 and by 26% since the end of 2008.

Credit quality on loans neither subject to default or impairment

The shipping markets are currently affected by the general economic slowdown combined with a general excess supply of ships. 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 38

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.

Layout & Production: Sylvester Hvid & Co
Photo: Joachim Ladefoged

DANISH SHIP FINANCE A/S (DANMARKS SKIBSKREDIT A/S)
SANKT ANNÆ PLADS 3 / DK-1250 COPENHAGEN K
TEL. +45 33 33 93 33 / FAX +45 33 33 96 66 / CVR NO. 27 49 26 49
DANISH@SHIPFINANCE.DK / WWW.SHIPFINANCE.DK