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DANISH SHIP FINANCE

ANNUAL REPORT 2013

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OBJECTIVE AND VISION

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

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

Danish Ship Finance aims to obtain satisfactory financial results for its owners and is therefore dedicated to creating value, which is secured through controlled growth in lending while focusing on high credit quality and appropriate diversification in the loan portfolio.

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

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

DANISH SHIP FINANCE A/S AT A GLANCE

BUSINESS AREA

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

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

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

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 2013, Danish Ship Finance had loans of DKK 42,383 million, total assets of DKK 67,222 million and equity of DKK 9,983 million. The company had first mortgages in 559 ships.

The profit after tax for the year was DKK 477 million, an increase of just under 52% compared with 2012. The profit is considered satisfactory in light of the challenges facing both the shipping market and the financial markets. The improvement is primarily attributable to lower loan impairment charges than in 2012.

The solvency ratio was 17.0% at 31 December 2013 after proposed dividends. The tier 1 capital ratio was also 17.0%. The company's internally calculated solvency ratio was 8.5% at the end of 2013. This gives the company a solvency need buffer of 8.5 percentage points.

The company's loans to Danish shipowners accounted for 44% of total loans before impairment charges. The loans to the foreign shipowners were divided between 54 shipowners and 23 countries.

Danish Ship Finance still maintains highly satisfactory liquidity resources. Through bond issues and the existence of a liquid portfolio of bonds, the company has secured ample liquidity coverage for all existing loans and loan offers until expiry. There was strong investor interest in the company's bonds, and funding was raised on competitive terms.

The company expects to pay dividends of DKK 405 million to its shareholders, of which Den Danske Maritime Fond will receive DKK 72 million.

KEY FIGURES AND RATIOS

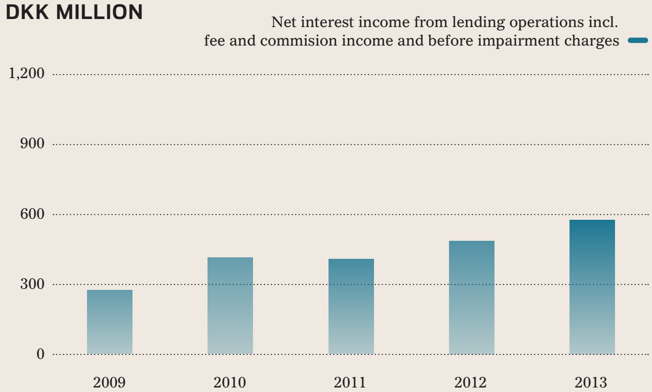
KEY FIGURES DKK MILLION	2013	2012	2011	2010	2009
Net interest income from lending operations	541	439	348	360	234
Net interest income from financing operations	350	447	476	521	489
Total net interest income	891	886	824	881	723
Net interest and fee income	937	940	886	945	772
Market value adjustments	(25)	105	(135)	(2)	508
Staff costs and administrative expenses	(97)	(94)	(90)	(84)	(82)
Loan impairment charges etc.	(166)	(523)	(333)	(245)	(874)
Profit/loss before tax	647	427	326	613	323
Profit/loss for the year	477	314	244	493	263
Loans	42,383	46,364	46,948	49,472	48,438
Bonds	21,066	30,091	26,944	29,216	30,616
Subordinated debt	-	-	899	898	897
Equity	9,983	9,773	9,666	9,496	9,043
Total assets	67,222	83,002	78,998	84,346	84,947

RATIOS	2013	2012	2011	2010	2009
Solvency ratio	17.0	15.2	16.3	15.3	14.3
Tier 1 capital ratio	17.0	15.1	16.3	15.3	14.3
Return on equity before tax (%)	6.5	4.4	3.4	6.6	3.6
Return on equity after tax (%)	4.8	3.2	2.5	5.3	2.9
Income/cost ratio (DKK) *)	3.4	1.7	1.8	2.9	1.3
Income/cost ratio (ex. impairment charges)	9.3	11.0	8.3	11.0	15.3
Foreign exchange position (%)	11.5	9.5	6.9	12.7	13.3
Gearing of loans	4.2	4.7	4.9	5.2	5.4
Annual growth in lending (%)	(8.6)	(1.2)	(5.1)	2.1	0.7
Impairment ratio for the year	0.4	1.0	0.7	0.5	1.7
Accumulated impairment ratio	6.7	5.8	4.6	3.9	3.7

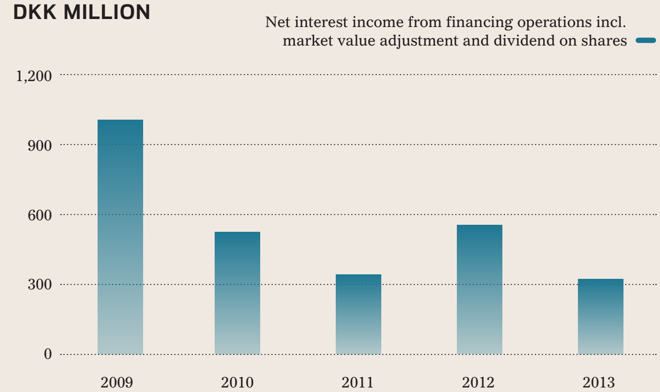
Key ratios are calculated in accordance with Appendix 6 of the Danish FSA's instructions for financial reporting in credit institutions and investment companies, etc.

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

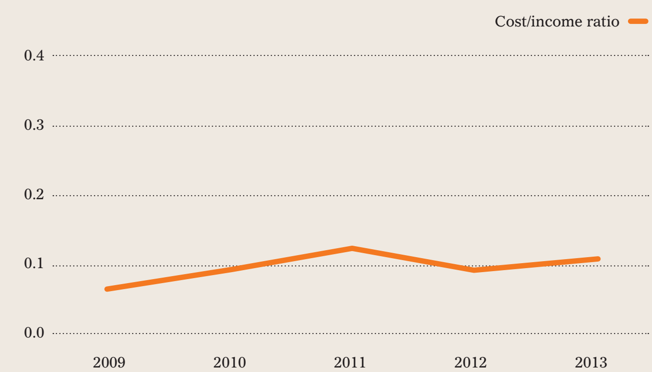
NET INCOME FROM LENDING OPERATIONS
DKK MILLION



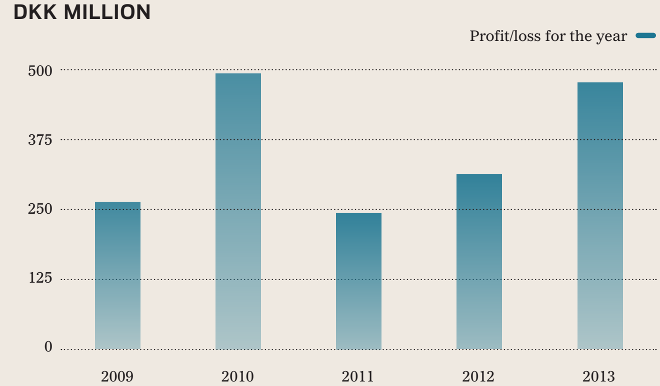
NET INCOME FROM FINANCING OPERATIONS
DKK MILLION



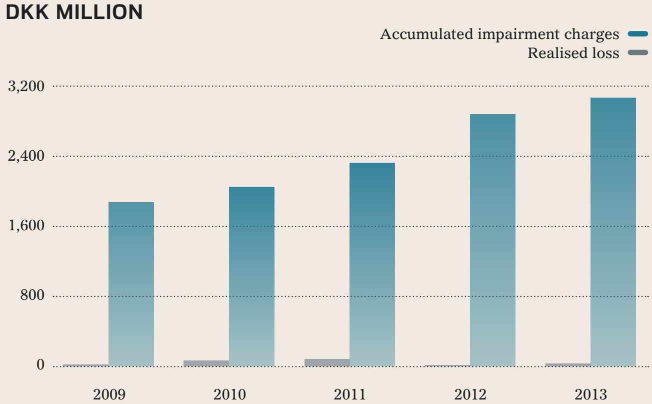
COST/INCOME RATIO



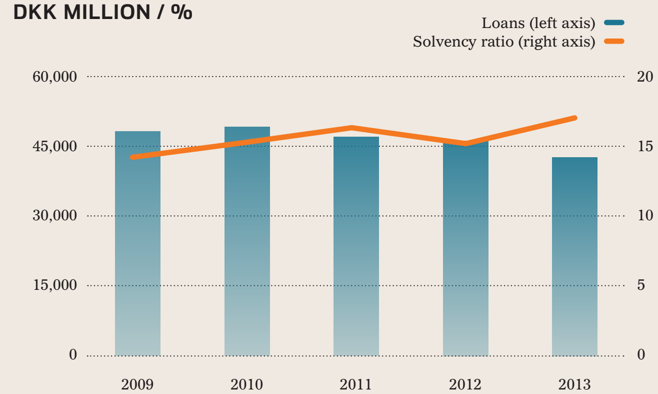
PROFIT/LOSS FOR THE YEAR
DKK MILLION



ACCUMULATED IMPAIRMENT CHARGES AND REALISED LOSS
DKK MILLION



LOANS/SOLVENCY RATIO
DKK MILLION / %



2013

The global economy was characterised by moderate growth in 2013. According to the International Monetary Fund (IMF), the global economy expanded by 2.9%, slightly less than expected at the beginning of the year and 0.3 of a percentage point less than the growth rate recorded in 2012.

Economic growth in China remains strong, but the economy has lost steam compared to previous years. China has been the key driver of the increase in global seaborne trade over the past ten years, and developments in China remain crucial for freight rates. China recorded a growth rate of 7.6% in 2013, which was in line with 2012 but 1.7 percentage point lower than in 2011.

While Asia and the USA both recorded decent economic growth in 2013, Europe recorded an actual contraction of GDP of nearly 0.5%.

Overall, global seaborne trade rose by 3.8% in 2013, which was in line with the historical average. This created a positive sentiment in many shipping segments, particularly towards the end of the year.

The shipping market cannot escape the fact that, during the past five years, the expansion of the fleet has been much greater than growth in demand for maritime transport. The excess supply of vessels was not absorbed in 2013, but the excess supply did slow down for the first time in many years.

The Clarksons ClarkSea Index, the leading freight rate index, was at USD 10,400 per day in 2013, only marginally better than in 2012. A level close to USD 10,000 per day indicates that freight earnings are only just sufficient to cover the daily operating costs of the vessels. However, the year ended at a decent level of USD 17,100 per day on account of rising prices during the final quarter of the year.

The positive trends towards the end of the year were also discernible in ship prices. According to Clarksons, ship prices measured in USD generally rose by 11% in 2013, as compared to a price fall of 15% in 2012.

Despite the positive end-of-year trends, 2013 should in general be considered another bad year for the shipping industry as a whole. However, the various segments took different paths.

At the beginning of the year and over the summer period, dry bulk and tanker rates were very low, and the rate increase towards the end of the year was unable to offset the effects of this low level. During the final few months of the year, the favourable rate developments triggered a decent increase in ship prices in the dry bulk and product tanker segments. There were only marginal price increases in the crude oil tanker segment.

The container market remains split between a number of line operators who own their own vessels and a large number of shipowners and project companies that hire out their vessels to the line operators. While line operators have found it difficult to implement the announced rate increases but have still generally managed to reach break-even, the shipowners who hire out vessels have faced a more difficult situation. Due to excess capacity, the line operators have often returned leased vessels when the contract expired, while retaining their own vessels on the routes. The value of the container vessels declined in 2013.

Many of the small shipping segments have not been hit as hard by the crisis and have generally performed quite well. Rates and ship prices in these segments were stagnant to slightly declining.

Despite the buoyant trends in global trade with several segments finally recording major increases in ship prices, it is still too early to conclude that the almost six-year long shipping crisis is over. First of all, too many vessels have been delivered in recent years relative to demand and secondly, there is a substantial pent-up capacity reserve because slow steaming is becoming more widespread.

Nevertheless, a fair volume of fresh capital is being channelled to the shipping industry on expectations that the market is bottoming out and that rates and ship prices will rise in the years ahead. Unfortunately, much of the investment is being allocated to newbuildings, and this may contribute to postponing or slowing the recovery due to the stronger inflow of new tonnage, considering the many deliveries made in recent years. Partly owing to this trend, orders for new vessels more than doubled from 2012 to 2013.

Competition in the market remained fairly unchanged relative to 2012. There is still ample debt capital for the creditworthy shipowners, whereas many small and medium-sized shipowners with a weak capital structure are finding it hard to source capital. Credit margins have fallen but remain at an acceptable level relative to the lenders' funding costs. In 2013, Danish Ship Finance welcomed new customers meeting the quality requirements that have characterised the company's lending policy for many years.

Export credit institutions in Asia have actively provided financing. They have partly replaced some of the capacity that left the market when a number of international banks discontinued their ship financing activities.

PERFORMANCE RELATIVE TO EXPECTATIONS

The company had not provided concrete guidance on pre-tax profit for the year. The sub-components of the profit were largely in line with expectations.

Earnings before market value adjustments and impairment charges were at the same level as in 2012. As expected, the company recorded an increase in earnings on lending operations and a decline in interest income on the securities portfolio due to the low level of interest rates. The expectations were based on an unchanged level of lending, so it was encouraging to see that earnings were maintained despite the lower lending volume.

As expected, new net impairment charges had to be made. This item was at its lowest level since 2008, so the company's expectations that the charges would not exceed the level of the preceding years were met. It should be noted that the impairment charges expensed in the first half of the year were more than offset by the reversal of charges during the second half.

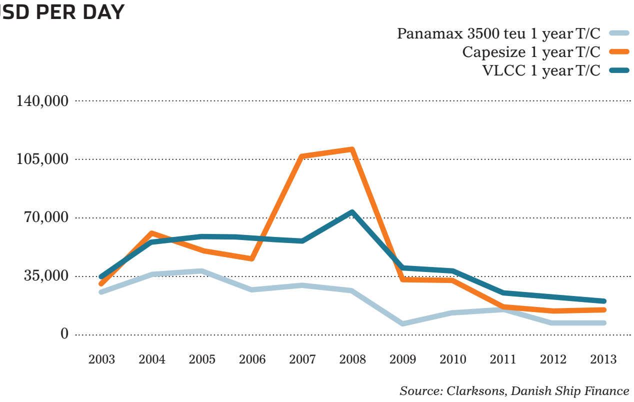
The low duration of the securities portfolio was expected to lead to a low level of market value adjustments. That also turned out to be the case.

In its guidance, the company expected the year-end DKK/USD exchange rate to affect its profit and solvency ratio. Overall, the decline in the DKK/USD exchange rate lifted the profit and the solvency ratio.

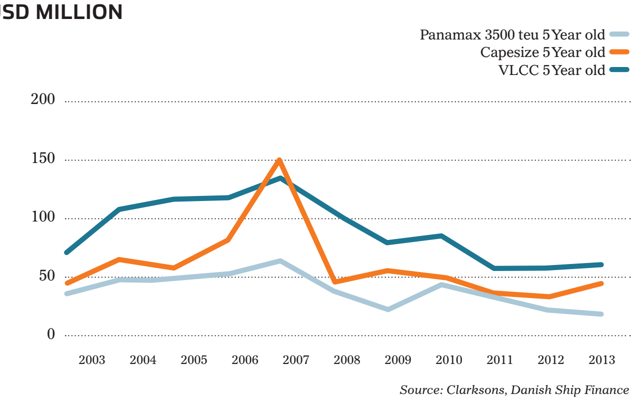
ACTIVITIES DURING THE YEAR

Loan offers submitted in 2013 amounted to DKK 4.5 billion, against DKK 5.1 billion in 2012. While the overall loan offer amount was less than in 2012, the year's activity was based on a higher number of loan offers. The number of loan offers indicates that there are still creditworthy shipowners despite the industry having experienced six consecutive years of crisis. Loan disbursements amounted to DKK 5.4 billion compared with DKK 7.9 billion in 2012. The loans disbursed more or less equalled ordinary repayments of the loan portfolio.

TIMECHARTER RATE
USD PER DAY



SHIP PRICES BY SEGMENT
USD MILLION



As a result of rate developments in the early months of the year, a few more customers requested respite with respect to loan repayments. However, no new issues arose during the second half of 2013, and permanent or temporary solutions were identified for a number of the existing loan cases.

At the end of 2013, loans with objective evidence of impairment amounted to DKK 4.5 billion, against DKK 4.8 billion at the end of 2012. The decline was primarily due to the decline in the DKK/USD exchange rate as most of the loans in question had been granted in USD. The weighted loan-to-value ratio on relevant exposures was 59% after impairment charges.

Losses actually incurred since the crisis broke out accounted for less than 0.1% p.a. measured in proportion to total lending, which is a very low level.

Considering the fact that the shipping market is currently witnessing its worst crisis for decades, the trends described above are considered to be acceptable. The credit quality in lending is generally considered to be good, and this is the result of a consistent lending policy focused on lending to the most creditworthy shipping companies against a mortgage on the financed vessels.

THE FINANCIAL MARKET

Economic developments in 2013 were characterised by central bank forward guidance, management of short-term interest rates and long-term refinancing operations. In July, the European Central Bank (ECB) started using forward guidance, committing to a signal of low or lower interest rates for a prolonged period. This forward guidance contributed to reducing overall volatility in the financial markets and to a contraction of credit spreads.

The importance of the euro area debt crisis seems to be fading with investors. Strong banking system liquidity combined with low interest rates and inflation also contributed to the overall contraction of credit spreads.

FIXED INCOME MARKETS

European interest rates and the exchange rate of the euro rose sharply at the beginning of the year on renewed optimism from the equity and credit markets. Higher-than-expected repayments of LTRO loan tranches, which totalled approximately EUR 1,000 billion, contributed to the change of sentiment.

When the ECB announced negative economic growth in the fourth quarter of 2012, EUR rates fell until they bottomed out in early May 2013. Over the summer period, rates surged because the first strong signals from the Federal Reserve about tapering its massive asset purchases caused mounting pressure on USD and EUR rates. In particular, USD rates rose during 2013 with 10-year swap rates ending the year up by about 125 bp, against an increase in similar DKK and EUR rates of about 70 bp. Since yields on 10-year Danish government bonds rose by 15-20 bp more than German bonds, Danish rates ended slightly higher than German rates.

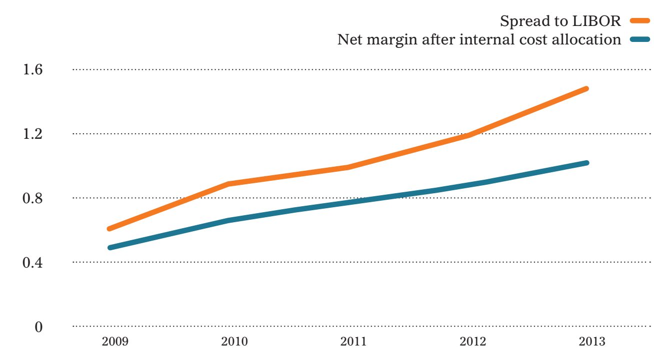
In terms of returns, Danish mortgage bonds performed well in 2013 with callable high-coupon and adjustable-rate mortgage bonds yielding higher returns than duration-equivalent government bonds. Callable bonds peaked in May when low interest rates and low volatility were particularly beneficial for pricing, but after the summer-period rate increases, callable bonds lost ground to adjustable-rate mortgage bonds, which offered a more stable performance in 2013.

The implementation of new liquidity coverage requirements (LCR and NSFR) may impact the proportion of mortgage bonds that the banks may be allowed to use in order to meet the liquidity coverage requirements. In addition, discussions are ongoing with respect to amendments to national legislation concerning the handling of refinancing risk on short-term adjustable-rate mortgage bonds. Amendments to the regulations on mortgage bonds may affect the pricing of and demand for mortgage bonds.

Danish Ship Finance's securities portfolio consists primarily of Danish mortgage bonds.

MARGIN EARNINGS ON LOANS

%



BOND ISSUANCE AND RATING

The company only had a limited need for new issuance in 2013 because previous bond issues had secured ample liquidity coverage for all existing loans and loan offers. Therefore, there was a limited issuance need in 2013, and Danish Ship Finance's total bond issuance in 2013 amounted to nominally DKK 3.85 billion with an average maturity of 7.2 years. The company bought back issued bonds for DKK 6.1 billion with a maturity of 2 years. At the end of the year, the weighted maturity of the company's funding was 4.4 years, while weighted maturity on lending was 3.3 years. This is the result of the mandatory principle of balance and active use of the possibility of prefunding loans.

There were no changes to the company's rating in 2013. Moody's maintains the company's rating at Baa2 with a negative outlook.

NEW RULES

The EU has adopted new capital adequacy rules in the form of a directive (CRD IV) and a regulation (CRR), which is intended to reduce the risk of a new financial crisis breaking out. The rules will be phased in from 2014 to 2019, and a number of transition rules will apply during this period. The rules will apply indirectly to Danish Ship Finance and will involve a gradual increase of the capital requirement and stricter liquidity requirements for the players in the financial sector. The new rules will also include a substantial increase in data reporting to the Danish FSA.

Owing to the company's prudent risk profile, the balance principle – which ensures a balance between lending and funding – and its high tier 1 capital ratio, the requirements are not expected to have any major impact on the business. In fact, the company already meets the final requirements expected to take effect in 2019.

The Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as "EMIR") entered into force in August 2012, but many of the provisions of the regulation are supplemented with technical standards, which only entered into force in 2013. The purpose of the regulation is to mitigate systemic risk in the financial markets, create greater transparency and reduce operational risk. The number of requirements that companies will be subject to varies according to company characteristics.

Danish Ship Finance is characterised as a non-financial counterparty which is below the clearing threshold, which means that the company is not obliged to clear standardised OTC derivates transactions via a central counterparty. Danish Ship Finance is obliged to report all derivatives transactions to a trade repository and maintain appropriate procedures to measure, monitor and mitigate operational risk and counterparty risk for derivatives not cleared.

INSPECTION BY THE DANISH FSA

In February 2013, the Danish Financial Supervisory Authority performed a functional examination of the company's credit area. The examination included a review of more than 80% of the nominal loans. The Danish FSA had no comments on the impairment charges made at the end of 2012 or the calculation of solvency using the 8+ approach.

INCOME STATEMENT AND BALANCE SHEET

INCOME STATEMENT

The profit for the year amounted to DKK 477 million compared with DKK 314 million in 2012, representing an increase of just under 52%. The financial performance is considered satisfactory under the still difficult market conditions.

Net earnings from lending operations including fee income amounted to DKK 586 million, against DKK 488 million in 2012. The increase in net earnings of some 20% was the result of new lending of DKK 5.4 billion at rising credit margins, and a DKK 57 million reduction in interest expenses after repayment in December 2012 of the hybrid tier 1 capital from the Second Bank Package to the Danish state.

Interest and dividend earnings from financing operations fell to DKK 350 million from DKK 453 million in 2012 due to refinancing of higher-coupon bonds to lower-coupon bonds.

Net interest and fee income totalled DKK 937 million, against DKK 940 million in 2012.

Market value adjustments of securities and foreign exchange amounted to an expense of DKK 25 million compared with an income of DKK 105 million in 2012. In the first half of 2013, the company sold its portfolio of unit trust certificates (shares), realising an income of DKK 45 million, while the equity portfolio the year before provided an income of DKK 75 million. The market value adjustments were also attributable to price losses on the repurchase of issued bonds and exchange-rate adjustments of currency positions.

At the end of 2013, the securities portfolio consisted primarily of Danish mortgage bonds, while a small proportion was invested in Danish government bonds.

Staff costs and administrative expenses were up from DKK 94 million in 2012 to DKK 97 million. The expenses were affected by higher payroll costs and non-recurring costs incurred. The average number of employees rose to 61 from 60 in 2012.

Loan impairment charges amounted to a net expense of DKK 166 million compared with a net expense of DKK 523 million in 2012. Total impairment charges rose from DKK 2,884 million at 31 December 2012 to DKK 3,071 million at year-end 2013. The impairment charges accounted for 6.7% of the total loans and guarantees, which was 0.9 of a percentage point higher than the year before.

Realised losses were DKK 28 million in 2013, up from DKK 1 million in 2012. Losses incurred thus remain at a very low level. Movements in impairment charges in 2013 are specified in note 13 to the financial statements.

Tax on the profit for the year represents an expense of DKK 170 million against an expense of DKK 113 million in 2012. Because of a reduction of the corporation tax rate, the company has revised its accounting estimates of deferred tax assets. The tax expense for the year therefore includes an additional expense of DKK 9 million to cover the decrease in deferred tax assets. For 2013, the expense translates into an effective tax rate of 26.3%.

BALANCE SHEET AND CAPITAL STRUCTURE

Total assets fell to DKK 67,222 million at 31 December 2013 from DKK 83,002 million at 31 December 2012.

Lending calculated at amortised cost less impairment charges declined by DKK 3,981 million from DKK 46,364 million in 2012 to DKK 42,383 million in 2013. Over the course of the year, there was an increase in new loans of DKK 5,448 million, against an increase in 2012 of DKK 7,876 million. For further details on movements in lending, see note 11 to the financial statements.

Issued bonds fell from DKK 59,416 million at 31 December 2012 to DKK 48,657 million at year-end 2013. As part of its efforts to maintain strong liquidity resources, Danish Ship Finance normally issues bonds well in advance of the loan disbursements, which makes the company less sensitive to short-term fluctuations in the capital market. In 2013, ordinary and extraordinary redemption of issued bonds amounted to DKK 13,861 million, among other things due to buybacks of issued bonds with short terms to maturity. In 2013, new bond issues amounted to DKK 3,789 million, against DKK 11,439 million in 2012. Movements in issued bonds and a specification of bond types are set out in note 21 to the financial statements.

The bond portfolio fell to DKK 21,066 million from DKK 30,091 million at 31 December 2012. The reduction compared with 2012 was due to the reduction in the proportion of loans granted, but still not disbursed, which is invested in short-term bonds until the loans are disbursed, and a decline in repo transactions. The bond portfolio is specified in notes 14 and 15 to the financial statements.

Including the profit for the year, the company's equity amounted to DKK 9,983 million as compared with DKK 9,773 million at 31 December 2012. Dividends to the shareholders of DKK 405 million have been proposed for 2013, against DKK 267 million in 2012. The proposed dividend for the 2013 financial year is included in equity but is expected to be disbursed after the approval by the shareholders at the annual general meeting in April 2014, 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 17.0% at the end of 2013 against 15.2% at 31 December 2012. The 1.8 percentage point increase in the solvency ratio at year-end 2013 was due to an increase in the capital base less deductions during the period and a decrease in weighted assets. The decrease was due especially to the weaker USD, which reduced loans measured in DKK. The current solvency ratio is considered more than adequate relative to the company's risk profile. When calculating the capital adequacy, the risk-weighted items were overall reduced by DKK 4,311 million. Note 25 provides a specification of the company's solvency.

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

The exchange rate of the USD vis-à-vis DKK was 565.91 at the end of 2012, and by the end of 2013 the exchange rate had fallen to 541.27, corresponding to a 4.4% decline for the year as a whole. Movements in the USD/DKK exchange rate resulted in an average exchange rate for 2013 of 561.60, which was 3.1% lower than in 2012.

In 2013, movements in the USD/DKK exchange rate, other things being equal, had a negative impact on net interest and fee income of about DKK 16 million based on the lower average exchange rate, and a positive impact on impairment charges of DKK 117 million because of the lower year-end exchange rate. Profit after tax and equity rose by DKK 75 million as a result of the change.

Compared with the exchange rate of USD at the beginning of the year, the changing dollar rate reduced total assets by DKK 1.7 billion and increased the solvency by 0.5% because of a reduction in risk-weighted items for loans and loan offers submitted.

UNCERTAINTY IN RECOGNITION AND MEASUREMENT

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

EVENTS AFTER THE BALANCE SHEET DATE

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

OUTLOOK

MARKET EXPECTATIONS

THE SHIPPING MARKET

2014 looks set to become another challenging year for the large economies, although there are signs that the worst years of the crisis are behind us. The IMF estimates that the global economy will expand by 3.6% in 2014, with growth being propelled primarily by the USA. Expectations are that the European economy will once again expand by about 1%. In China, economic growth is forecast to be on a level with 2013. If these forecasts are met, it will have a positive effect on demand for maritime transport.

A number of the leading shipping segments experienced satisfactory rate levels towards the end of 2013. Barring events that affect the global change in sentiment and adversely affect demand, the shipping industry should be able to retain the positive momentum.

It would be unrealistic to expect moderation with respect to newbuildings as long as the shipyards have as much capacity as they do now. Shipyard capacity has opened up for orders for large series of ships in segments where reluctance would have been preferable. On a positive note, however, the order book as a percentage of the fleet in operation has settled at a lower level in most segments. As fleets have been extensively renewed in many segments, only very few older vessels remain to be scrapped in these segments if trends fail to turn as positive as many would seem to expect. In that light, the size of the order book continues to give rise to some concern.

A positive trend in freight rates should therefore be driven by stable and positive global economic growth and a, hopefully, moderate inflow of new vessels. Going into 2014, there are some positive signs in the market, but the recovery remains fragile, and solutions still need to be found to many of the imbalances in the global economy. Overall, however, there are hopes for some general improvements in the shipping markets in the years ahead. However, shipping will always be a volatile industry, and even given a stable demand pattern, the individual segments will still experience major seasonal fluctuations.

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

This means that Danish Ship Finance will continue to focus on loans to shipowners who have weathered the storm so far and have the necessary management skills and financial resources to withstand a few more years with rates and ship prices still under pressure.

COMPETITIVE SITUATION

A slightly less dismal outlook for the shipping industry is expected to attract new lending capacity, and recent years' competition for the most creditworthy shipowners is thus set to continue. This could put margins and loan conditions under pressure. However, the next few years are not expected to see a return to pre-crisis levels, among other things because banks are now subject to tougher legislative capital adequacy requirements and the need for longer-term funding to match the long-term loans typically needed for ships.

Focus will of course be on existing customers, but the company will also continue its efforts to establish new customer relations with creditworthy shipowners. Danish Ship Finance is one of the few lenders for the shipping industry that has retained a stable course during the financial and shipping crisis, and this stance is expected to represent a strength when engaging with prospective customers.

FINANCIAL GUIDANCE

The company's financial guidance is based on the assumption that loan repayments will exceed the inflow of new loans.

Against this background, the company expects unchanged earnings from lending activities before impairment charges in 2014. However, if loans are repaid faster than expected, for example due to early repayments or the settlement of loan issues, earnings may be slightly lower in 2014 than in 2013.

Interest income on the securities portfolio is expected to be in line with that recorded in 2013.

Overall, the company expects a profit before impairment charges and market value adjustments on a level with or slightly below that for 2013.

Market value adjustments are expected to be adversely affected by reductions in terms to maturity in the bond portfolio, which carries a higher coupon than the market rate. Other market value adjustments are expected to be at a moderate level in 2014 due to the low duration of the securities portfolio. Overall, the return on the securities portfolio is expected to be lower in 2014 because of very low interest rates.

A further deterioration of the outlook for the shipping industry could lead to additional impairment charges. If the company succeeds in settling a few major loan issues in the course of the year, some impairment charges could be reversed in 2014. The losses forecast in connection with the loan case settlement are expected to be at a low level and to be fully covered by existing impairment charges that are based on a prudent assessment of the collateral values of the ship mortgages.

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

CAPITAL MANAGEMENT

Pursuant to the Executive Order on Capital Adequacy, Danish Ship Finance must maintain a certain amount of capital relative to its activities, so that the capital adequacy as a minimum matches the company's risk profile and complies with the legislative framework.

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

CALCULATION METHOD

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

CAPITAL REQUIREMENT, CAPITAL BASE AND SOLVENCY

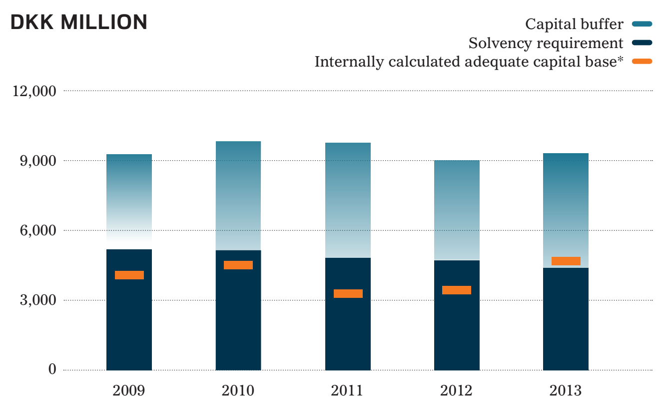
The solvency requirement (also referred to as the Pillar I requirement) is the capital base required to maintain a solvency ratio of 8%, which is the current statutory minimum requirement. The capital base is the sum of tier 1 capital, hybrid tier 1 capital and tier 2 capital, and the relationship between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

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

At 31 December 2013, the solvency requirement and the risk-weighted items amounted to DKK 4,385 million and DKK 54,817 million, respectively. The capital base less deductions amounted to DKK 9,312 million at 31 December 2013, resulting in a solvency ratio of 17.0%. This gives the company a capital buffer of DKK 4,927 million relative to the statutory solvency requirement. The company finds that the capital buffer is sufficient for the company to continue its lending activities during a period of difficult business conditions.

The company's capital base consists predominantly of core capital (Tier 1) in the form of share capital, tied-up reserve capital and retained earnings. The capital base less deductions at 31 December 2013 amounted to DKK 9,312 million, against DKK 8,963 million in 2012. The company's tier 1 capital less deductions at 31 December 2013 was DKK 9,302 million.

STATEMENT OF CAPITAL
DKK MILLION



* *The company's internally calculated adequate capital base must not be lower than the solvency requirement, equal to 8% of the risk-weighted items pursuant to the Danish Executive Order on Capital Adequacy, and in the preceding years, the individual solvency need was therefore fixed at 8%. For 2013, the internally calculated adequate capital base is calculated using the 8+ approach in accordance with section 124(5) of the Danish Financial Business Act and the Danish FSA's guidelines. Consequently, an individual supplement to the solvency requirement is included for 2013.*

Other than the consolidation after dividends, the increase of the capital base in 2013 driven by a reduction of deductions for deferred tax assets and reduced additional straining. The company maintains only moderate revaluation reserves which are included in the tier 2 capital. The reduction in risk-weighted items was due primarily to a decline in the loan portfolio and sale of unit trust certificates.

CALCULATION OF SOLVENCY

DKKm/%	2013	2012
Capital base less deductions	9,312	8,963
Risk-weighted items	54,817	59,128
Solvency ratio	**17.0**	**15.2**

INDIVIDUAL SOLVENCY NEED AND ADEQUATE CAPITAL BASE

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

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

METHODOLOGY

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

The guidelines define benchmarks and calculation methods within six risk areas that an institution would usually find relevant when determining its solvency need. In addition, the Executive Order on Capital Adequacy defines a number of aspects that should also be included. The institutions must assess whether there are other relevant risk elements they should consider when calculating their solvency need.

The table below shows the company's solvency need.

INDIVIDUAL SOLVENCY NEED AND ADEQUATE CAPITAL BASE

DKKm	2013
Total weighted items	54,817
Pillar I requirement (8 per cent of weighted items)	4,385
Earnings	**-**
Growth in lending	**-**
Credit risk	
- Credit risks for large customers in financial difficulty	247
- Other types of credit risk	-
- Concentration risks	46
Market and liquidity risks	-
Operational and control risk	**-**
Institution size	**-**
Settlement risk	**-**
Strategic risk	**-**
Reputational risk	**-**
Total adequate capital base	**4,679**
Individual solvency need, per cent	**8.5**

At the end of 2012, the internally calculated adequate capital base and the internally calculated individual solvency ratio amounted to DKK 3,464 million and 5.9%, respectively. The company's adequate capital base cannot be lower than the solvency requirement, equal to 8% of the risk-weighted items pursuant to the Danish Executive Order on Capital Adequacy. Against this background, the individual solvency ratio was fixed at 8% at 31 December 2012. At the end of 2013, the individual solvency ratio was 8.5%, or an increase of 0.5 of a percentage point.

The increase in the internally calculated adequate capital based is due to a change en methodology based on the new FSA guidelines and not a change in the risk profile.

More information on the company's capital management, including a more detailed description of the company's calculation of the adequate capital base, is provided in the Risk report available on the company's website,
www.shipfinance.dk/en/InvestorRelations/Risikorapport.

NEW CAPITAL ADEQUACY RULES

The implementation of CRD IV brings stricter capital requirements and introduces two new liquidity requirements. The capital requirements are briefly described below, while the liquidity requirements are reviewed in "Cash management".

The CRD IV introduces stricter requirements on how much the tier 1 capital (excl. hybrid tier 1 capital) should represent of the capital base. In 2014, the requirement will be raised from 2 to 4%, equal to at least half of the capital requirement. In 2015, the requirement will be raised to 4.5%. In the period from 2016 to 2019, two buffers: a capital conservation buffer and a counter-cyclical buffer – will be introduced, increasing the required size of the capital base. The buffer requirements must be met using common equity tier 1 capital. Similarly, the solvency need supplement to the fixed statutory solvency requirement of 8% must be met using common equity tier 1 capital. The solvency need supplement is calculated when determining the individual solvency need.

Since the company's capital predominantly consists of common equity tier 1 capital in the form of tied-up reserve capital, the company already holds sufficient common equity tier 1 capital to comply with the future requirements. Furthermore, the company expects to comply with the capital requirement after the rules on buffers take effect.

CASH MANAGEMENT

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

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

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

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

- An appreciating USD
- An increase in interest rates
- A widening of credit spreads
- Losses on customers

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

REGULATION

Danish Ship Finance must comply with the balance principle, which entails defined absolute limits for the liquidity risk exposure a company may undertake when there is a difference between payments on lending and on funding.

CRD IV introduces two new liquidity requirements:

- a requirement on adequate short-term liquidity (LCR); and
- a requirement on adequate stable funding (NSFR).

The LCR requirement aims to ensure that the institutions have adequate liquidity to meet their payment obligations over a 30-day stressed period. A number of important technical standards still need to be adopted in connection with the LCR requirement, including the category of assets to be used when calculating the liquid assets.

The LCR requirement will be phased in from 2015 to 2018.

The NSFR requirement is intended to ensure that the institutions to a greater extent use medium and long-term funding for their loans, thus providing an appropriate liquidity level over a period of one year. As with the LCR requirement, a number of important technical standards have yet to be adopted for the NSFR requirement.

The NSFR will apply from 2018 at the earliest.

Like other institutions, Danish Ship Finance must report a large number of items in relation to LCR and NSFR to the Danish FSA. The LCR items are reported monthly, with 31 March 2014 as the reference date, while the NSFR items are reported quarterly, also with 31 March 2014 as the reference date.

Danish Ship Finance will still be subject to the balance principle, and the new requirements are not expected to lead to changes to the company's cash management processes.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

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

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

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

OVERALL CONTROL ENVIRONMENT

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

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

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

In accordance with applicable legislation, the Board of Directors, including the Audit Committee, regularly assesses the need for an internal audit function. The Board of Directors has decided that the combination of an internal control function, whose efforts are supervised by the external auditors, which regularly monitors compliance with the company's in-house business processes and control procedures in all significant areas and sharp attention by the external auditors helps to provide a satisfactory audit and control level.

RISK ASSESSMENT

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

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

CONTROL ACTIVITY

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

INFORMATION AND COMMUNICATION

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

MONITORING AND REPORTING

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

WHISTLEBLOWER SCHEME

In accordance with the Danish Financial Business Act, the company is required no later than 31 March 2014 to implement an internal whistleblower scheme, which will enable its employees to report any instances of non-compliance with the financial legislation. The company will regularly assess whether to expand the scheme so that the employees may also report instances of economic crime.

CREDIT RISK

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

LENDING

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

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

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

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

DIVERSIFICATION

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

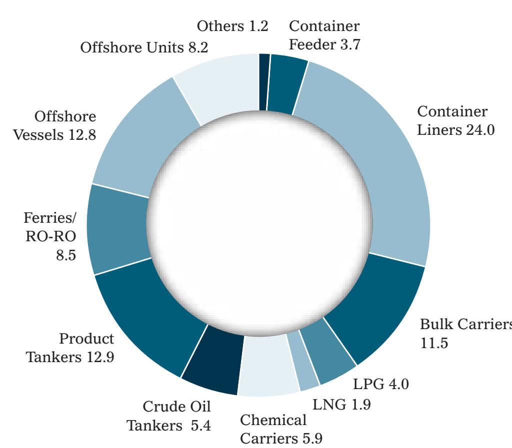
MOVEMENTS IN THE FIVE LARGEST DEBTORS BEFORE IMPAIRMENT CHARGES

DKKm	2013	2012
Five largest debtors	20,241	24,052
Total loans and guarantees	46,012	50,131

The five largest loans at 31 December 2013 were secured by mortgages in 123 vessels comprising 10 vessel types. One loan is substantially larger than the rest and typically represents 35-40% of total lending. At the end of the year, however, the share was somewhat below the usual level.

The risk diversification on borrowers focuses on diversification on vessel types in each loan. The largest loan was thus secured through mortgage on vessels distributed on five different vessel types (loans for Container Feeder and Container Liners accounted for 69%, Offshore Units 26% and Offshore Vessels 5%). The other four loans were secured through mortgages in 9 different vessel types.

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



GRANTING OF LOANS

The Management Board and the credit manager have been allocated authorities by the Board of Directors allowing them to grant loans up to pre-determined limits. The granting of loans must be disclosed at the subsequent ordinary board meeting. Loans over and above the predefined limits must be approved by the Board of Directors.

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

As in previous years, the Board of Directors was the authorising body in the majority of all loans granted in 2013.

ONGOING MONITORING

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

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

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

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

INSURANCE OF SHIP'S MORTGAGES

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

As a general rule, the insurance includes:

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

In addition, most of the loans are covered by Mortgage Interest Insurance and Mortgagee Additional Perils Pollution Insurance. This insurance covers the risk in most situations which the primary insurance policies do not cover, for example due to shortcomings in relation to the ship's seaworthiness.

INSPECTION OF SHIPS

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

MARKET VALUATIONS

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

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

LOSSES AND IMPAIRMENT CHARGES

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

The overall guidelines for the company's impairment charges are laid down in the Executive order on financial reports of credit institutions, investment companies, etc. It appears from the executive order that, in addition to individual impairment charges, the company must also make collective impairment charges.

The Danish Financial Supervisory Authority has accepted that Danish Ship Finance may omit to make collective 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.

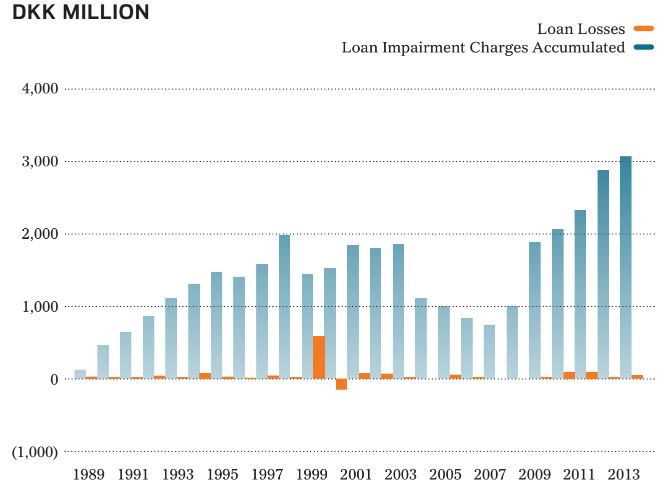
A distribution of individual and collective impairment charges is provided in note 13 to the financial statements

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

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

The company's accumulated impairment charges amounted to DKK 3,071 million at 31 December 2013 against DKK 2,884 million last year. This represented an increase of DKK 187 million.

LOAN IMPAIRMENT CHARGES AND CREDIT LOSSES
DKK MILLION

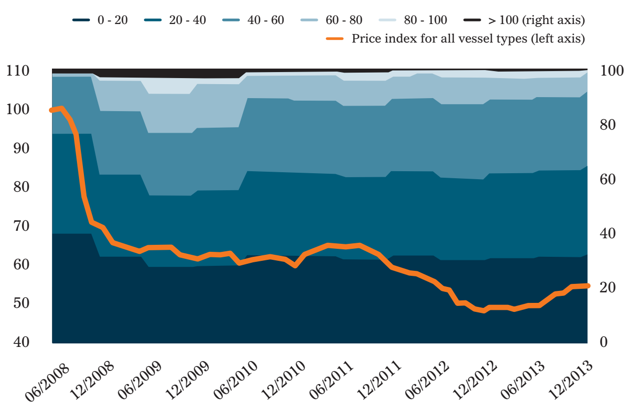


The accumulated impairment charges accounted for 6.7% of the company's total loans and guarantees, which was 0.9 percentage point higher than the year before. The increase in the impairment ratio was due to reduced lending and adverse trends in the financial standing of a small number of borrowers in 2013 triggered by the crisis in parts of the shipping industry. Danish Ship Finance incurred losses of DKK 28 million in 2013, against DKK 1 million in 2012. Losses actually incurred thus remain at a very low level.

Accumulated losses since the company was established in 1961 were DKK 890 million at 31 December 2013. This corresponded to 2.0% of total gross lending at 31 December 2013.

LOAN TO VALUE INTERVALS VS. PRICE INDEX FOR ALL SHIPS

INDEX/%



Source: Clarksons, Danish Ship Finance

The chart above shows a breakdown of the loan portfolio into LTV (loan to value) ranges, which are calculated every six months. The LTV ranges show the proportion of the loans placed within a given range. It can be deduced from the chart that 92% of the loan amounts incl. guarantees and after impairments, are secured by mortgages within 60% of the valuations at this time. The breakdown is compared with developments in ship prices based on a price index from Clarksons, showing price developments for all vessel types. The chart shows that even major declines in ship prices do not materially change the collateral securing the loan. The reason is that instalments are regularly received and that a number of loan agreements include a right for the company to demand reduction and/or additional collateral if the value of the ship mortgage drops below a pre-arranged minimum threshold.

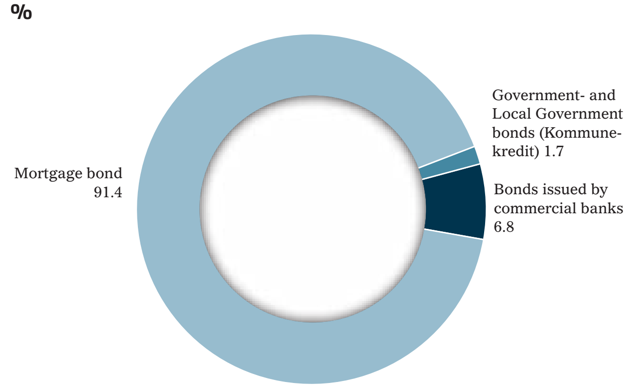
FINANCIAL COUNTERPARTIES

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

Most of the portfolio consists of mortgage bonds, which leads to an excess cover relative to the statutory requirement that at least 60% of the capital base requirement must be invested in investment grade assets. At 31 December 2013, the company had invested DKK 12,507 million in investment grade securities, corresponding to 446% of the statutory requirement.

DISTRIBUTION OF SECURITIES PORTFOLIO

%



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

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

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

Emphasis is on financial counterparties having high credit ratings, as a substantial proportion of business transactions with the counterparties involves long-term contracts with a potentially large increase in market value.

ONGOING MONITORING

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

GRANTING OF LINES

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

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

CONTRACTUAL BASIS

The contractual basis for transactions with financial counterparties is based primarily on market standards such as ISDA and GMRA agreements, which allow netting in the case of default on the part of the financial counterparty. Furthermore, CSA agreements have been concluded with a number of the company's financial counterparties.

The Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as "EMIR") entered into force in 2012. Like the rest of the Danish financial sector, Danish Ship Finance is subject to the regulation. The regulation stipulates an obligation to clear certain types of derivatives via a central counterparty. This obligation applies to financial counterparties and non-financial counterparties that exceed the clearing threshold. Danish Ship Finance is characterised as a non-financial counterparty, which is below the clearing threshold, as EMIR defines financial counterparties as credit institutions approved pursuant to the credit institution directive. Danish Ship Finance is exempt from this directive.

Non-financial counterparties will have a central clearing obligation only if certain threshold values for trading volumes are exceeded. As the company's trading volume do not exceed these thresholds, it is not under an obligation to perform central clearing.

As for the financial counterparties, the company must ensure that it has appropriate procedures to measure, monitor and mitigate operational risk and counterparty risk for non-cleared OTC derivatives. In addition, all of the company's OTC derivative transactions must be reported to a trade depository, providing more specific details about the agreement.

Derivative transactions not cleared through a central counterparty will from 31 March 2014 generally be subject to a separate capital requirement (CVA requirement) to hedge the risk of losses due to impairment of the counterparty's creditworthiness. The company may reduce the scope of the CVA requirement by entering into agreements on mutual collateral for the value of derivative contracts (referred to as CSA contracts).

MARKET RISK

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

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

INTEREST RATE RISKS

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

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

The Bond Executive Order also stipulates that the interest rate risk on the company's assets, liabilities and off-balance sheet items must not exceed 8% of the company's capital base. Interest rate risks are adjusted using a minimum and a maximum for the option-adjusted duration. The current maximum option-adjusted duration on the securities portfolio has been restricted to 6 years. Danish Ship Finance has calculated the option-adjusted duration at approximately 1.2 years at 31 December 2013.

Using the Danish FSA's guidelines for calculating interest rate risks, the risk was calculated at DKK 495 million at 31 December 2013, corresponding to 5.3% of the capital base, against DKK 224 million in 2012.

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

EXCHANGE RATE RISK

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

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

EQUITY RISK

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

DERIVATIVES

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

LIQUIDITY RISK

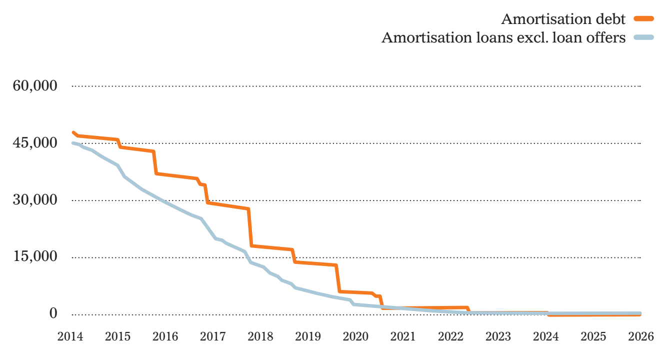
Liquidity risk is the risk that the company is unable to meet its payment obligations as they fall due.

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

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

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

DEVELOPMENTS IN ISSUED BONDS RELATIVE TO LOANS
DKK MILLION



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

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

OPERATIONAL RISK

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

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

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

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

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

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

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

BOND ISSUANCE

FUNDING

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

Covered bonds as defined by the CRD

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

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

Ship mortgage bonds

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

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

Issued bonds

Issued bonds are primarily bullet loans denominated in DKK. The issued bonds at amortised cost amounted to DKK 48,657 million at 31 December 2013, of which 87.2% are DKK-denominated issues, while the remainder are CIRR bonds issued in USD. The bonds may be unlisted, but with the exception of CIRR bonds all of the bonds are listed and traded on NASDAQ OMX Copenhagen.

The company only had a limited need for new issues in 2013 because previous bond issues had secured ample liquidity coverage for all existing loans and loan offers. The company's total bond issuance in 2013 amounted to nominally DKK 3.85 billion with an average maturity of 7.2 years.

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

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

RATING

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

Issuer rating	Baa2
Bond rating	Baa2
Seniority	Senior unsecured
Outlook	Negative

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

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

The company's bonds are designated "senior unsecured".

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

The "unsecured" designation in principle means that no specific collateral has been provided for the loan. The designation therefore does not fairly describe the company's bonds, which have priority over the underlying loans and ship mortgages.

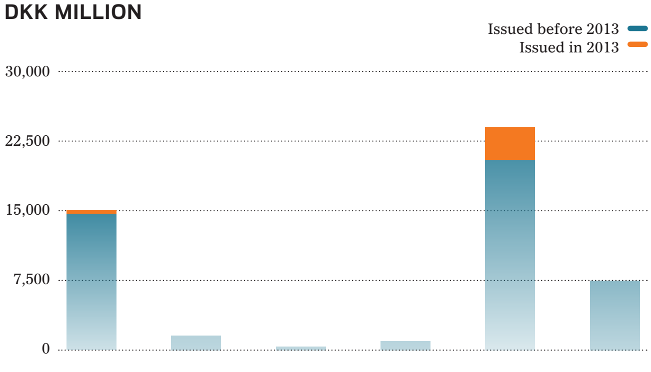
Under the Investment Directive, bonds issued by Danish Ship Finance or by Danish mortgage-credit institutions are considered "gilt-edged" bonds and also designated as covered bonds. The rules stipulate that proceeds from the bond issuance should be invested in assets which, during the whole period of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

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

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

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

CIRCULATING BONDS BY BOND TYPE DKK MILLION



ISSUED BONDS

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

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

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

SHARE CAPITAL

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

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

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

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

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

Dividends
At the annual general meeting in 2013, the Board of Directors' proposal on dividends based on the financial statements for 2012 was adopted.

Based on the financial statements for 2013, the Board of Directors of Danish Ship Finance recommends that the company pays DKK 334 million in dividends to the company's A shareholders and DKK 72 million in dividends to the company's B shareholder, Den Danske Maritime Fond.

Since its conversion to a public limited company in 2005, the company has paid total dividends of DKK 371 million to the B shareholder, Den Danske Maritime Fond, exclusive of proposed dividends for 2013. The funds are used to develop and promote Danish shipping and the Danish shipbuilding industry.

ORGANISATION, MANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

The next annual general meeting will be held at the company's address on 10 April 2014.

Board of Directors
Former Governor Jens Thomsen acts as chairman, and Executive Vice President Peter Lybecker acts as deputy chairman.

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

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

In 2013, the Board of Directors held eight ordinary meetings with an average participation rate of 85%. In addition, the Board of Directors held a number of electronic board meetings in connection with the processing of credit recommendations of a standard nature.

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

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

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

Targets and policies with respect to the under-represented gender

The company adopted the “Operation Chain Reaction” recommendations defined by the Ministry of Gender Equality and Ecclesiastical Affairs with the aim of promoting female board representation by working to increase the number of female managers in the company generally. The Ministry has subsequently assessed that developments are too slow and has therefore introduced rules on targets and policies for the gender composition of the management team.

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

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

The company’s Board of Directors consists of nine members, of whom six are elected by the shareholders in general meeting and three are elected by the employees. Of the shareholder-elected board members, two are women and four are men. The company endeavours to ensure that at least two of the board members elected by the shareholders represent the under-represented gender. The target defined is that at least 33.33% of the board members elected by the shareholders should be of the under-represented gender.

Moreover, the company has prepared a policy for increasing the proportion of the under-represented gender at the company’s other management levels. The company endeavours to offer professional development courses matching the wishes and ambitions of its employees. Such courses are offered to all employees with due consideration for the individual employee’s situation.

More information on the company's efforts for the under-represented gender is provided in the CSR report on the company's website, http://skibskredit.dk/da/om-selskabet/csr.

Day-to-day management

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

CORPORATE GOVERNANCE

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

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

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

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

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

Remuneration

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

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

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

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

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

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

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

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

AUDIT COMMITTEE

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

The audit committee consists of Business Financial Officer Fatiha Benali, Group CFO and a member of the Executive Board Trond Ø. Westlie and Executive Vice President Peter Lybecker. Business Financial Officer Fatiha Benali (chairman), is the independent member with competencies in finance and accounting. She qualifies by being Business Financial Officer of a company that presents financial statements in accordance with the Danish Financial Business Act and IFRS.

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

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

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

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

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

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

Additional information on the corporate social responsibility is provided in the CSR report on the company's website, www.skibskredit.dk/en/Publikationer/Download/~/media/publikationer/csr/csr-report-2013-UK.

HUMAN RESOURCES

At the end of 2013, Danish Ship Finance had 63 employees, of whom 26 were women and 37 were men.

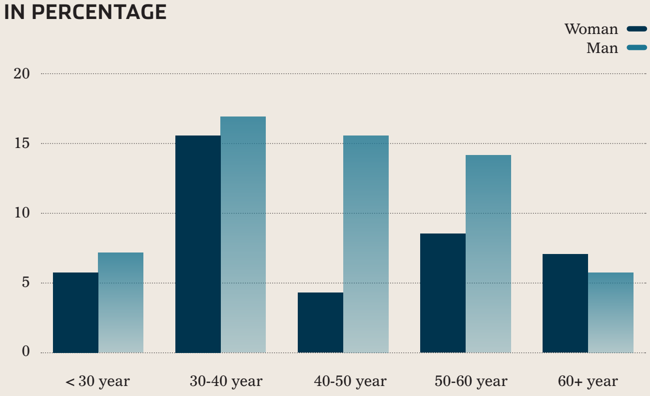
For the company to retain its position as the leading ship financing institute, it is important that it is able to attract and retain competent employees. In order to create an attractive framework for its employees, Danish Ship Finance offers its staff a number of insurance and healthcare schemes. The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

The employees generally have an extensive educational background and are specialists in their fields. In order to develop employee competencies, the company spends resources on training for each employee. In 2013, expenses for training courses and other training amounted to 2.0% of total staff costs. Training courses are intended to ensure professional and personal development. The employees have a high degree of influence with respect to selecting continuing training and courses. The purpose of training is to further develop employee qualifications and to motivate and challenge the employees.

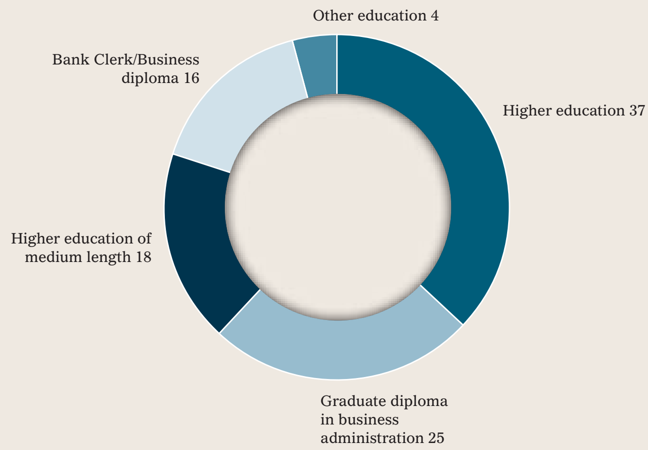
The company generally records a high level of job satisfaction, and the general job satisfaction measured in 2013 was at a satisfactory level. The survey showed an overall improvement since the latest survey held in 2012. In order to retain this level, in collaboration with external HR partners the company remains focused on employee satisfaction.

Additional information on the employee satisfaction survey is provided in the CSR report on the company's website, www.skibskredit.dk/en/Publikationer/Download/~/media/publikationer/csr/csr-report-2013-UK.

DISTRIBUTION BY AGE AND GENDER IN PERCENTAGE



EDUCATIONAL BACKGROUND
%



SENIORITY
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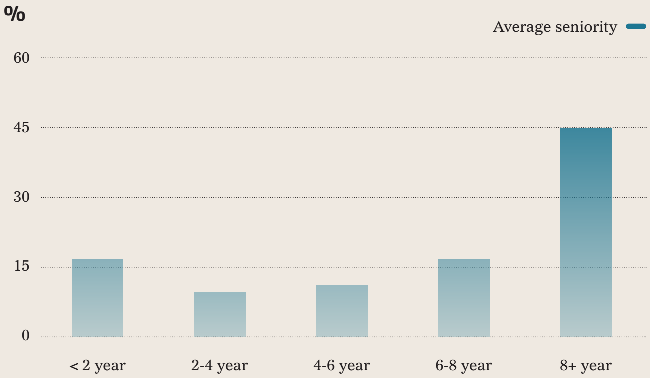


DIRECTORSHIPS

DIRECTORSHIPS – BOARD OF DIRECTORS

The information set out below describes positions held by board members, other directorships, other senior management positions and fiduciary positions at the date of publication of the annual report for 2013 of Danish Ship Finance. The text also describes how long each member has held a seat on the Board of Directors and the special competencies held by each member.

Former Governor Jens Thomsen
Chairman
Date of birth: 15.05.1942
Nationality: Danish
Considered to be an independent board member.
Elected to the Board of Directors on 28.04.2003
Competencies:
Broad knowledge of macro-economics, financial issues, legislation and financial risk management.

Executive Vice President Peter Lybecker
Nordea Bank A/S
Deputy Chairman
Date of birth: 08.10.1953
Nationality: Danish
Considered to be a non-independent board member.
Elected to the Board of Directors on 08.04.2013
Member of the board of directors of:
Nets Holding A/S (Chairman)
Bluegarden Holding A/S (Chairman)
Bankernes Kontantservice A/S (Chairman)
VP Securities A/S (Chairman)
Fionia Asset Company A/S (Chairman)
Nordea Kredit Realkreditaktieselskab A/S (Deputy Chairman)
Nordea Finans Danmark A/S
Nordea Finance Sweden Plc
Nordea Finance Finland Ltd.
Nordea Bank Russia
Competencies:
Broad knowledge of banking and financial risk management, including credit risks, IT, Finance and accounting and general management of international businesses.

Business Financial Officer Fatiha Benali
Tryg A/S
Date of birth: 17.02.1969
Nationality: Danish
Considered to be an independent board member.
Elected to the Board of Directors on 16.04.2009
Competencies:
Broad knowledge of finance and accounting and IT.

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

Senior Relationship Manager Marcus F. Christensen
Danmarks Skibskredit A/S
Date of birth: 20.11.1979
Nationality: Danish
Elected to the Board of Directors on 29.03.2012
Competencies:
Broad knowledge of credit granting, ship financing and problem handling.

Head of Research Christopher Rex
Danmarks Skibskredit A/S
Date of birth: 28.01.1979
Nationality: Danish
Elected to the Board of Directors on 29.03.2012
Competencies:
Broad knowledge of macroeconomics, financial risk management and international shipping.

Member of the Executive Board Glenn Söderholm
Danske Bank A/S
Date of birth: 26.07.1964
Nationality: Swedish
Considered to be a non-independent board member.
Elected to the Board of Directors of Danish Ship Finance on 07.11.2013
Competencies:
Broad knowledge of financial risk management and financial markets

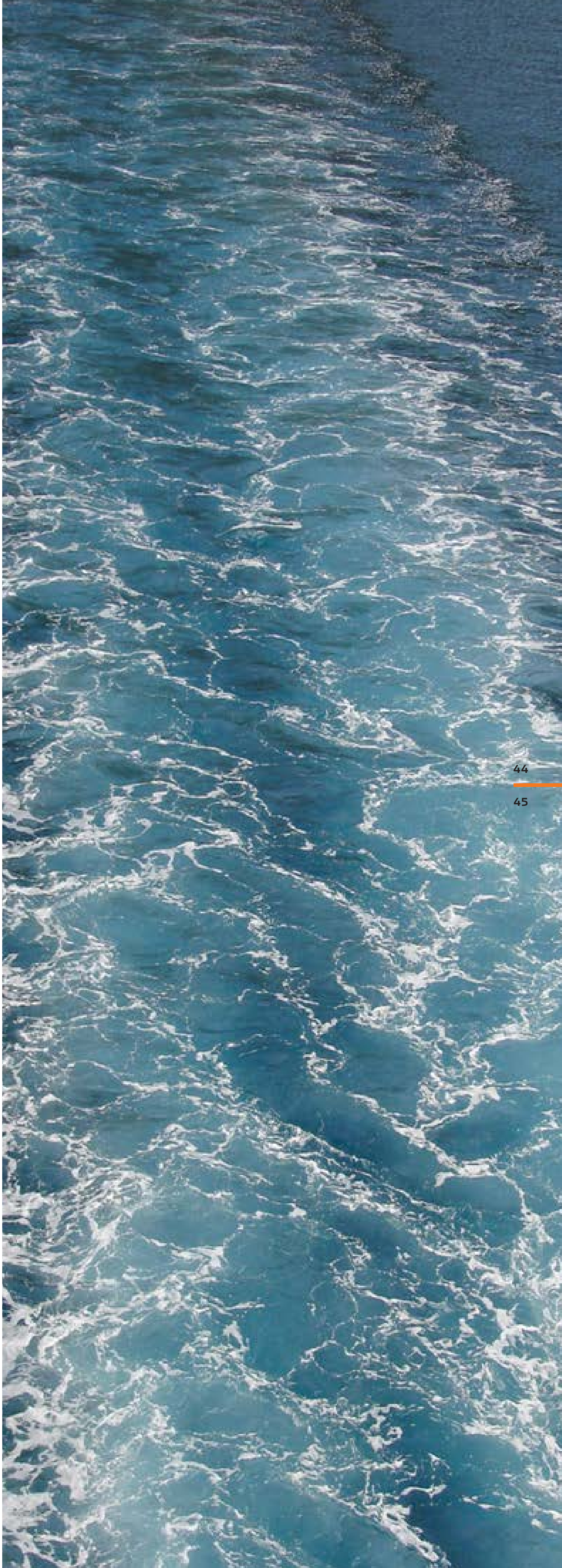
Senior Relationship Manager Henrik R. Søgaard
Danmarks Skibskredit A/S
Date of birth: 09.02.1959
Nationality: Danish
Elected to the Board of Directors on 24.04.2008
Competencies:
Broad knowledge of credit granting, ship financing and problem handling.

Group CFO and a member of the Executive Board
Trond Ø. Westlie
A.P. Møller-Mærsk A/S og Firmaet A.P. Møller
Date of birth: 08.06.1961
Nationality: Norwegian
Considered to be an independent board member.
Elected to the Board of Directors on 24.03.2011
Member of the board of directors of:
Dansk Supermarked A/S (Deputy Chairman)
Danske Bank A/S
Mærsk A/S
Maersk Drilling Holding A/S
Maersk Drilling A/S
Maersk Shipping 1 A/S
Maersk Shipping 2 A/S
Maersk Olie & Gas A/S
Rederiet A.P. Møller A/S
Odense Staalskibsværft A/S
APM Terminals B.V.
APM Terminals Management B.V.
Pepita A/S
Shama A/S
Tønsberg Delikatesse A/S
Competencies:
Broad knowledge of shipping operations, financial risk management, bond issuance, finance and accounting and general management of international businesses.

DIRECTORSHIPS – MANAGEMENT BOARD

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

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



STATEMENT BY THE MANAGEMENT BOARD AND THE BOARD OF DIRECTORS

The Board of Directors and the Management Board have today considered and adopted the annual report of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year ended 31 December 2013. The annual report has been prepared in accordance with the Danish Financial Business Act. Furthermore, the annual report has been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

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

Furthermore, in our opinion, the financial statements give a true and fair view of the company's assets and liabilities and financial position at 31 December 2013 and of the results of the company's operations for the financial year ended 31 December 2013.

We recommend the annual report for adoption at the annual general meeting to be held on 10 April 2014.

Copenhagen, 27 February 2014

MANAGEMENT BOARD

Erik I. Lassen
Chief Executive Officer

Per Schnack
Executive Vice President

BOARD OF DIRECTORS

Jens Thomsen
Chairman

Peter Lybecker
Deputy Chairman

Fatiha Benali

Jenny N. Braat

Marcus F. Christensen

Christopher Rex

Glenn Söderholm

Henrik R. Søgaard

Trond Ø. Westlie

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF DANISH SHIP FINANCE A/S

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year ended 31 December 2013, comprising an income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including accounting policies. The financial statements are presented in accordance with the Danish Financial Business Act. Furthermore, the financial statements are presented in accordance with additional Danish disclosure requirements for interim reports of issuers of listed bonds.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the preparation of financial statements that give a true and fair view. The purpose of this is to design procedures that are appropriate in the circumstances but not to express an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Our audit did not result in any qualification.

OPINION

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31 December 2013 and of the results of the company's operations for the financial year ended 31 December 2013 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds.

STATEMENT ON THE MANAGEMENT'S REPORT

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

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

Copenhagen, 27 February 2014

DELOITTE
Statsautoriseret Revisionspartnerselskab

Henrik Wellejus
State-authorised public accountant

Per Rolf Larssen
State-authorised public accountant

INCOME STATEMENT

NOTE	1 JANUARY - 31 DECEMBER DKK MILLION	2013	2012
2	Interest income	2,401	2,825
3	Interest expenses	(1,510)	(1,939)
4	**Net interest income**	**891**	**886**
	Dividends on shares, etc.	1	6
5	Fee and commission income	45	53
	Fees and commissions paid	0	(5)
	Net interest and fee income	**937**	**940**
6	Market value adjustments	(25)	105
7,8	Staff costs and administrative expenses	(97)	(94)
17,18	Depreciation and impairment of property, plant and equipment	(2)	(1)
13	Impairment charges on loans and receivables	(166)	(523)
	Profit/loss before tax	**647**	**427**
9	Tax	(170)	(113)
	Profit/loss for the year	**477**	**314**
	Other income	-	-
	Total income for the year	**477**	**314**
	PROPOSED ALLOCATION OF PROFIT		
	Dividend for the financial year	405	267
	Retained earnings	72	47
	Total	**477**	**314**

BALANCE SHEET

NOTE	AT 31 DECEMBER DKK MILLION	2013	2012
	ASSETS		
10	Due from credit institutions and central banks	914	1,627
11,12,13	Loans at amortised cost	42,383	46,364
14,15	Bonds at fair value	21,066	30,091
16	Shares, etc.	3	630
17	Land and buildings		
	Domicile property	64	64
18	Other tangible assets	8	8
	Current tax assets	41	83
23	Deferred tax assets	162	330
19	Other assets	2,581	3,805
	Total assets	**67,222**	**83,002**
	LIABILITIES AND EQUITY		
	Liabilities		
20	Due to credit institutions and central banks	6,710	10,550
21	Issued bonds at amortised cost	48,657	59,416
22	Other liabilities	1,872	3,263
	Total liabilities	**57,239**	**73,229**
24	**Equity**		
	Share capital	333	333
	Tied-up reserve capital	8,343	8,343
	Revaluation reserves	10	10
	Retained earnings	1,297	1,087
	Total equity	**9,983**	**9,773**
	of which dividend proposed for the financial year	405	267
	Total liabilities and equity	**67,222**	**83,002**
	Off-balance sheet items		
26	Contingent liabilities	418	758
27	Other binding agreements	2,904	4,398
	Total off-balance sheet items	**3,322**	**5,156**

STATEMENT OF CHANGES IN EQUITY

DKK MILLION	Share capital	Tied-up reserve capital	Retained earnings	Proposed dividends for the financial year	Total
Equity at 1 January 2012	**333**	**8,343**	**783**	**207**	**9,666**
Dividends distributed	-	-	-	(207)	(207)
Profit/loss for the period	-	-	47	267	314
Equity at 31 December 2012	**333**	**8,343**	**830**	**267**	**9,773**
Dividends distributed	-	-	-	(267)	(267)
Profit/loss for the period	-	-	72	405	477
Equity at 31 December 2013	**333**	**8,343**	**902**	**405**	**9,983**

LIST OF NOTES

NOTES

NOTE 1

ACCOUNTING POLICIES

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

The accounting policies are consistent with those applied last year.

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

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

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

The financial statements for 2013 include a change in estimates for measuring fair value. As a result of the change, financial instruments must be measured using exit price instead of closing price if there is a difference between the two. As a result of the change, the profit is DKK 1 million higher than under the previous policies. In the half-year report, the change was described as a change of accounting policy. This has been reassessed in connection with the annual report and has no effect on the financial results in the annual or half-year financial statements.

Because of the lowering of the corporation tax rate, the annual report for 2013 contains changes to accounting estimates concerning deferred tax assets. The change resulted in a reduction of profit for the year and in deferred tax assets of DKK 9 million.

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

Measurement of financial instruments that are only to a limited extent based on observable market data, are subject to estimates. This applies to unlisted shares and shares acquired through reconstruction of loan exposures as well as certain bonds for which an active market no longer exists. See "Determination of fair value" below and note 31 for a more detailed description.

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

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

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

Segment information

NOTE 1

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

Offsetting

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

Translation of transactions in foreign currency

The financial statements are presented in Danish kroner, and the functional currency is Danish kroner.

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

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

Rounding

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

Financial instruments – general

Purchases and sales of financial instruments are measured at their fair value as at the settlement date, which is usually the same as the transaction price. See the description under the individual items. Before the settlement date, changes in the value of financial instruments are recognised.

Classification

Financial instruments are divided into financial assets and financial liabilities.

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

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

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

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

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

NOTE 1

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

Hedged risks that meet specific criteria qualify for fair value hedge accounting and are treated accordingly. The interest rate risk on the hedged liabilities is recognised at fair value as a value adjustment of the hedged items with value adjustment recognised in the income statement.

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

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

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

If no active market exists, the fair value of standard and simple financial instruments, such as interest rate and currency swaps and unlisted bonds, is measured according to generally accepted valuation techniques. Market-based parameters are used for measuring fair value.

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

The fair value of shares, etc. is measured on the basis of listed market prices at the balance sheet date. Shares acquired through reconstruction of loan exposures are measured at cost less impairment charges.

BALANCE SHEET

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

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

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

NOTE 1

Impairment charges
Loan impairment charges are made individually and collectively when objective evidence of impairment has been ascertained and the discounted value of the expected future cash flows is lower than the carrying amount of the loan. In other words, the loan is impaired.

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

Objective evidence of impairment is believed to exist for groups of loans when the outlook for a vessel segment is considered to be of such a nature that, based on experience, it involves a higher risk of loss. Objective evidence is believed to exist for individual loans if the debtor is experiencing significant financial difficulty, including in case of default or breaches of loan covenants that have not been dealt with. Irrespective of the category, impairment charges are made at an individual loan level.

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

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

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

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

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

Shares, etc.
Shares, etc. comprises investments in sector shares, share-based unit trust certificates and shares acquired through reconstruction of loan exposures.

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

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

NOTE 1

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OFF-BALANCE SHEET ITEMS

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

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

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

NOTES

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

NOTE 1

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

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

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

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

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

STAFF COSTS AND ADMINISTRATIVE EXPENSES

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

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

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

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

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

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

	DKK MILLION	2013	2012
NOTE 2	INTEREST INCOME		
	Due from credit institutions	7	6
	Loans and other receivables	1,412	1,508
	Bonds	628	813
	Other interest income	1	0
	Derivatives		
	Interest rate contracts	357	496
	Foreign exchange contracts	(3)	2
	Total interest income	**2,401**	**2,825**
	Of this amount, income from genuine purchase and resale transactions recognised in		
	Due from credit institutions and central banks	1	-
NOTE 3	INTEREST EXPENSES		
	Credit institutions	0	(41)
	Issued bonds	(1,280)	(1,654)
	Interest on subordinated debt	-	(82)
	Other interest expenses	(230)	(163)
	Total interest expenses	**(1,510)**	**(1,939)**
	Of this amount, interest expenses on genuine sale and repurchase transactions recognised in		
	Due to credit institutions and central banks	-	(41)

NOTE 4	DKK MILLION	2013	2012
	NET INTEREST INCOME		
	Net interest income from lending operations		
	Loans and other receivables	1,412	1,508
	Bonds	72	183
	Due from credit institutions	5	4
	Interest to credit institutions	0	0
	Issued bonds	(1,285)	(1,654)
	Interest on subordinated debt	-	(82)
	Other interest expenses	(15)	(18)
	Derivatives		
	Interest rate contracts	357	496
	Foreign exchange contracts	(3)	2
	Total net interest income from lending operations	**541**	**439**
	Net interest income from financing operations		
	Bonds	562	630
	Due from credit institutions	2	2
	Other interest income	1	-
	Interest to credit institutions	-	(40)
	Other interest expenses	(215)	(145)
	Total net interest income from financing operations	**350**	**447**
	Total net interest income	**891**	**886**

DKK MILLION		2013	2012
NOTE 5	**FEE AND COMMISSION INCOME**		
	Guarantee commission	6	10
	Fee and other commission income	39	43
	Total fee and commission income	**45**	**53**
NOTE 6	**MARKET VALUE ADJUSTMENTS**		
	Market value adjustment of bonds	(482)	145
	Market value adjustment of shares	45	75
	Exchange rate adjustments	(21)	26
	Market value adjustment of financial instruments	433	(141)
	Total market value adjustments	**(25)**	**105**

DKK MILLION	2013	2012
NOTE 7 STAFF COSTS AND ADMINISTRATIVE EXPENSES		
Remuneration of Board of Directors and Management Board		
Management Board	(6)	(6)
Board of Directors	(2)	(2)
Total remuneration of Board of Directors and Management Board	**(8)**	**(8)**
Staff costs		
Wages	(48)	(47)
Pensions	(5)	(5)
Social security costs and financial services employer tax	(12)	(11)
Total staff costs	**(65)**	**(63)**
Other administrative expenses	(24)	(23)
Total staff costs and administrative expenses	**(97)**	**(94)**
Number of employees - full-time equivalents	59	61
Average number of employees - full-time equivalents	61	60

DKK '000

NOTE 7, CONTINUED

REMUNERATION OF THE BOARD OF DIRECTORS

2013		Ordinary fee	Committee fee	Total fees
Jens Thomsen, Chairman		300		300
Thomas F. Borgen (retired as of 7 November 2013)		225		225
Peter Lybecker (member as of 8 April 2013 and Deputy Chairman as of 7 November 2013)	*)	75	25	100
Fatiha Benali	*)	150	50	200
Jenny N. Braat		150		150
Glenn Söderholm (member as of 7 November 2013)		0		0
Michael Rasmussen (retired as of 8 april 2013)	*)	75	25	100
Trond Ø. Westlie	*)	150	50	200
Henrik R. Søgaard	**)	150		150
Marcus F. Christensen	**)	150		150
Christopher Rex	**)	150		150
Total		**1,575**	**150**	**1,725**

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

*) Member of Audit Committee
**) Employee representative

NOTE 7, CONTINUED

DKK '000	2013	2012
REMUNERATION OF MANAGEMENT BOARD		
Erik I. Lassen		
Contractual remuneration	2,672	2,646
Pension	330	327
Tax value of car	154	101
Total	**3,156**	**3,074**
Per Schnack		
Contractual remuneration	2,405	2,381
Pension	297	294
Tax value of car	104	100
Total	**2,806**	**2,775**

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

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

DKK '000

NOTE 7, CONTINUED

INFORMATION ON REMUNERATION POLICY

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

The Board of Directors of Danish Ship Finance A/S has approved the temuneration policy for 2013, which was adopted by the company´s annual general meeting on 8 April 2013. The remuneration policy is available on the company´s website.

It appears from the remuneration policy that it has been resolved for 2013 that no variable remuneration will be disbursed to members of the Board of Directors, the Management Board and other employees whose activities have a material impact on the company´s risk profil.

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

2013	**Fixed remuneration/ fee**	**Variable remuneration**	**Total remuneration/ fee**	**Number of recipients**
Board of Directors	1,725	-	1,725	11
Management Board	5,962	-	5,962	2
Other employees whose activities have an impact on the company's risk profile	3,556	-	3,556	2
Total	**11,243**	**-**	**11,243**	

DKK MILLION	2013	2012

NOTE 8

AUDIT FEES

Audit fees, statutory audit	(1)	(1)
Tax consulting service	0	0
Non-audit services	0	0
Total fees	**(1)**	**(1)**

NOTES

	DKK MILLION	2013	2012
NOTE 9	TAX		
	Tax on profit/loss for the year		
	Estimated tax on profit/loss for the year	(2)	(1)
	Changes in deferred tax	(159)	(108)
	Adjustment for reduction of corporation tax rate	(9)	-
	Adjustment of prior-year tax charges	-	(4)
	Total tax	**(170)**	**(113)**
	Effective tax rate	**Pct.**	**Pct.**
	Tax rate in Denmark	25.0	25.0
	Non-taxable income and non-deductible expenses	(0.2)	0.4
	Adjustment for reduction of corporation tax rate	1.5	-
	Adjustment of prior-year tax charges	-	1.0
	Effective tax rate	**26.3**	**26.4**
NOTE 10	DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Genuine purchase and resale transactions (repo reverse)	0	0
	Other receivables	914	1,627
	Total due from credit institutions and central banks	**914**	**1,627**
	Broken down by due date		
	Demand deposits	26	62
	Up to 3 months	888	1,565
	Total due from credit institutions and central banks	**914**	**1,627**
NOTE 11	LOANS AT AMORTISED COST		
	At 1 January	46,364	46,948
	Additions	5,448	7,876
	Ordinary repayments and redemptions	(5,724)	(5,280)
	Extraordinary prepayments	(961)	(831)
	Net change concerning revolving credit facilities	(345)	(1,335)
	Exchange rate adjustment of loans	(2,202)	(427)
	Change in amortised cost for the year	(10)	(30)
	Depreciation, amortisation and impairment for the year	(187)	(557)
	At 31 December	**42,383**	**46,364**

NOTE 12	DKK MILLION	2013	2012
	LOANS AT AMORTISED COST		
	Gross loans at exchange rates at the balance sheet date	45,454	49,248
	Loan impairment charges	(3,071)	(2,884)
	Total loans	**42,383**	**46,364**
	Total loans broken down by due date		
	Up to 3 months	1,383	1,875
	From 3 months to 1 year	4,755	5,117
	From 1 to 5 years	28,792	26,649
	Over 5 years	7,453	12,723
	Total loans	**42,383**	**46,364**
	Total loans		
	Loans at fair value	42,925	47,314
	Loans at amortised cost	42,383	46,364

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

	2013	2012
Loans subject to individual impairment charges		
Value of loans with objective evidence of impairment		
Loans for which respite and more lenient repayment terms have been granted	6,022	5,446
Impairment charges	(2,166)	(1,759)
Total loans for which respite and more lenient repayment terms have been granted	**3,855**	**3,687**
Other loans with objective evidence of impairment	863	1,310
Impairment charges	(209)	(245)
Total other loans with objective evidence of impairment	**654**	**1,065**
Total loans subject to individual impairment charges	**4,509**	**4,752**

Reference is made to note 35 setting out LTV ranges for the entire loan portfolio and for loans subject to individual impairment charges.

NOTE 13	DKK MILLION	2013	2012
	IMPAIRMENT CHARGES		
	The following impairment charges were made on receivables		
	Individual impairment charges	2,375	2,003
	Impairment charges with a collective component	695	881
	Total impairment charges	**3,071**	**2,884**
	As a percentage of loans and impairment charges and guarantees issued		
	Individual impairment charges	5.2	4.0
	Impairment charges with a collective component	1.5	1.8
	Total impairment charges	**6.7**	**5.8**
	Distribution of impairment charges		
	Amount set off against loans	3,071	2,884
	Provisions made for other liabilities	-	-
	Total impairment charges	**3,071**	**2,884**
	Movements in impairment charges		
	At 1 January	2,884	2,328
	Additions	1,001	1,260
	Reversal of impairment charges from previous years	(786)	(703)
	Losses covered by impairment charges from previous years	(28)	(1)
	Total impairment charges	**3,071**	**2,884**
	Losses on and impairment charges on receivables		
	New impairment charges	(1,001)	(1,260)
	Reversed impairment charges	786	703
	Reclassification of interest	44	34
	Losses not covered by impairment charges from previous years	-	-
	Realisation of acquired assets	5	-
	Received on claims previously written off	0	0
	Total losses on and impairment charges on receivables	**(166)**	**(523)**

DKK MILLION	2013	2012

NOTE 14

BONDS AT FAIR VALUE

	2013	2012
Bond portfolio		
Own non-callable bonds	103	437
Non-callable bonds	12,305	22,393
Callable bonds	8,761	7,698
Portfolio of bonds, total before offsetting own bonds	**21,169**	**30,528**
Own bonds (offset against issued bonds at amortised cost)	(103)	(437)
Total bond portfolio	**21,066**	**30,091**
Bond portfolio		
Own bonds	103	437
Government bonds and bonds issued by KommuneKredit	1,333	570
Mortgage bonds	19,733	29,521
Portfolio of bonds, total before offsetting own bonds	**21,169**	**30,528**
Own bonds (offset against issued bonds at amortised cost)	(103)	(437)
Total bond portfolio	**21,066**	**30,091**

NOTE 15

BOND HOLDINGS BY TIME TO MATURITY

	2013	2012
Bond portfolio		
Own bonds with a maturity of over 1 year and up to and including 5 years	103	437
Bonds with a maturity of up to and including 1 year	1,837	4,910
Bonds with a maturity of over 1 year and up to and including 5 years	10,072	16,444
Bonds with a maturity of over 5 years and up to and including 10 years	537	1,267
Bonds with a maturity of over 10 years	8,620	7,470
Portfolio of bonds, total before offsetting own bonds	**21,169**	**30,528**
Own bonds (offset against issued bonds at amortised cost)	(103)	(437)
Total bond holdings specified by time to maturity	**21,066**	**30,091**

	DKK MILLION	2013	2012
NOTE 16	**SHARES, ETC.**		
	Unit trust certificates (shares) listed on NASDAQ OMX Copenhagen	-	375
	Unlisted shares/unit trust certificates recognised at fair value	3	255
	Total shares, etc.	**3**	**630**
NOTE 17	**LAND AND BUILDINGS**		
	Domicile property		
	Revaluation, 1 January	65	65
	Property improvements during the year	0	0
	Revaluation incl. improvements, 31 December	**65**	**65**
	Accumulated depreciation, 1 January	1	1
	Depreciation for the year	0	0
	Accumulated depreciation, 31 December	**1**	**1**
	Total revaluation, 31 December	**64**	**64**

The domicile property comprises the office property at Sankt Annæ Plads 3, Copenhagen, the public valuation of which was assessed at DKK 79 million at 1 October 2012.

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

	DKK MILLION	2013	2012
NOTE 18	OTHER TANGIBLE ASSETS		
	Cost, 1 January	24	23
	Additions during the year	2	2
	Disposals during the year	0	(1)
	Cost, 31 December	**26**	**24**
	Accumulated depreciation, 1 January	16	15
	Disposals during the year	0	0
	Depreciation during the year	2	1
	Accumulated depreciation, 31 December	**18**	**16**
	Total other tangible assets	**8**	**8**
NOTE 19	OTHER ASSETS		
	Interest receivable	367	579
	Prepayments to swap counterparties	14	14
	Receivables concerning CIRR financing	29	44
	Market value of derivatives	2,151	3,148
	Miscellaneous receivables	20	20
	Total other assets	**2,581**	**3,805**
NOTE 20	DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Repo transactions	6,464	10,509
	Other amounts due	246	41
	Total due to credit institutions and central banks	**6,710**	**10,550**
	Broken down by due date		
	On demand	246	41
	Up to 3 months	6,464	10,509
	Total due to credit institutions and central banks	**6,710**	**10,550**

NOTE 21	DKK MILLION	2013	2012
	ISSUED BONDS AT AMORTISED COST		
	At 1 January	59,416	55,538
	Additions in conjunction with block issues	3,789	11,439
	Amortisation of cost	316	430
	Adjustment for hedge accounting	(1,022)	(506)
	Exchange rate adjustment	(290)	(107)
	Own bonds	309	(406)
	Ordinary and extraordinary redemptions	(13,861)	(6,972)
	At 31 December	**48,657**	**59,416**
	Specification of issued bonds		
	Bonds issued in DKK		
	Bullet bonds	41,449	50,960
	Amortising CIRR bonds	1,086	1,201
	Total Danish bonds	**42,535**	**52,161**
	Bonds issued in foreign currency		
	Amortising CIRR bonds, at year-end exchange rates	6,219	7,661
	Total bonds issued in foreign currency	**6,219**	**7,661**
	Own bonds	(97)	(406)
	Total issued bonds	**48,657**	**59,416**
	Broken down by term to maturity		
	Up to 3 months	2	3,106
	From 3 months to 1 year	0	4,561
	From 1 to 5 years	17,507	22,535
	Over 5 years	31,245	29,620
	Issued bonds, total before settin off against portfolio of own bonds	**48,754**	**59,822**
	Own bonds	(97)	(406)
	Total issued bonds	**48,657**	**59,416**

	DKK MILLION	2013	2012
NOTE 22	OTHER LIABILITIES		
	Interest payable	328	448
	Market value of derivatives	1,527	2,765
	Other liabilities	17	50
	Total other liabilities	**1,872**	**3,263**
NOTE 23	DEFERRED TAX		
	Deferred tax, 1 January	(330)	(438)
	Estimated deferred tax on the profit for the year	159	108
	Adjustment for reduction of corporation tax rate	9	-
	Total deferred tax	**(162)**	**(330)**

	2013	2013	2013	2012
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax net**	**Deferred tax net**
Property, plant and equipment	0	4	4	4
Loans	(35)	7	(28)	(22)
Issued bonds	-	31	31	(270)
Employee obligations	(1)	-	(1)	(1)
Balance of tax losses	(178)	-	(178)	(41)
Adjustment for reduction of corporation tax rate	-	9	9	-
Total deferred tax	**(214)**	**52**	**(162)**	**(330)**

NOTE 24	DKK MILLION	2013	2012
	EQUITY		
	Share capital		
	A shares	300	300
	B shares	33	33
	Total share capital	**333**	**333**
	Tied-up reserve capital	8,343	8,343
	Revaluation reserves	10	10
	Retained earnings	1,297	1,087
	Total equity	**9,983**	**9,773**
	of which proposed dividend, cf. allocation of profit	405	267

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 25	DKK MILLION	2013	2012
	SOLVENCY		
	Tier 1 capital		
	Share capital	333	333
	Tied-up reserve capital	8,343	8,343
	Retained earnings	1,297	1,087
	Total tier 1 capital	**9,973**	**9,763**
	Deductions in Tier 1 capital		
	Proposed dividend	405	267
	Deferred tax assets	162	330
	Additional straining relative to the Executive Order on a Ship Finance Institute	104	213
	Total deductions in tier 1 capital	**671**	**810**
	Tier 1 capital less deductions	**9,302**	**8,953**
	Supplementary capital		
	Revaluation reserves	10	10
	Supplementary capital less deductions	**10**	**10**
	Capital base less deductions	**9,312**	**8,963**
	Weighted items		
	Weighted items not included in the trading portfolio	43,549	48,902
	Weighted off-balance sheet items	1,866	2,953
	Weighted items involving counterparty risk outside the trading portfolio	586	780
	Weighted items involving market risk, etc.	7,125	4,781
	Weighted items involving operational risk	1,692	1,712
	Total weighted items	**54,817**	**59,128**
	Tier 1 capital less deductions as a percentage of total risk-weighted items	**17.0**	**15.1**
	Solvency ratio pursuant to the Executive Order on a Ship Finance Institute	**17.0**	**15.2**
	Weighted items with market risk, etc. consist of		
	Items with position risk: Debt instruments	6,051	3,923
	Items with position risk: Shares	7	5
	Total currency position	1,067	853
	Total weighted items with market risk, etc.	**7,125**	**4,781**

NOTE	DKK MILLION	2013	2012
NOTE 26	CONTINGENT LIABILITIES		
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken guarantee commitments of	412	752
	Payment guarantee provided to the Danish Securities Centre	4	4
	Guarantees provided to the Danish Securities Centre	2	2
	Total contingent liabilities	**418**	**758**
NOTE 27	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	226	602
	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	53	22
	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	2,625	3,774
	Total other binding agreements	**2,904**	**4,398**

NOTE 28 RELATED PARTIES

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

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

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

The company has no related parties with a controlling influence.

DKK MILLION

NOTE 29

HEDGE ACCOUNTING

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

2013	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	16,942	17,490	17,440
Total commitments	**16,942**	**17,490**	**17,440**
Derivatives			
Interest rate swaps	(16,942)	(1,215)	(1,215)
Total derivatives	**(16,942)**	**(1,215)**	**(1,215)**
Net	**0**	**16,275**	**16,225**

2012	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	25,274	26,523	25,927
Total commitments	**25,274**	**26,523**	**25,927**
Derivatives			
Interest rate swaps	(25,274)	(2,244)	(2,244)
Total derivatives	**(25,274)**	**(2,244)**	**(2,244)**
Net	**0**	**24,279**	**23,683**

DKK MILLION	2013	2012
NOTE 30 NOTIONAL PRINCIPALS OF OUTSTANDING DERIVATIVES		
Swap agreements		
Swap agreements have been made with the following parties to hedge the exchange rate exposure on loans and issued bonds:		
Credit institutions	46,268	49,284
Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:		
Receivables	539	569
Credit institutions	42,447	63,917
Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:		
Credit institutions	22,460	17,392
Forward interest rate and currency agreements		
Forward interest rate and currency agreements have been made with the following parties to hedge interest rate and exchange rate risk:		
Credit institutions	18,612	12,622
Forward securities transactions		
Buying	-	208
Selling	-	-

NOTE 31	DKK MILLION	2013 POSITIVE	2013 NEGATIVE	2012 POSITIVE	2012 NEGATIVE
	MARKET VALUES OF OUTSTANDING DERIVATIVES				
	Swap agreements				
	Swap agreements have been made with the following parties to hedge the exchange rate exposure on loans and issued bonds:				
	Credit institutions	1,094	805	1,250	1,334
	Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:				
	Receivables	1	72	2	105
	Credit institutions	1,054	362	1,905	671
	Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:				
	Credit institutions	137	663	98	954
	Forward interest rate and currency agreements				
	Forward interest rate and currency agreements have been made with the following parties to hedge interest rate and exchange rate risk:				
	Credit institutions	17	18	7	56
	Forward securities transactions				
	Buying	-	-	1	-
	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%	-		-	
	Counterparty with risk weight of 20%	1,004		1,691	
	Counterparty with risk weight of 1000%	0		0	
	Value of total counterparty risk calculated according to the market valuation method for counterparty risk:				
	Counterparty with risk weight of 0%	-		-	
	Counterparty with risk weight of 20%	2,303		3,262	
	Counterparty with risk weight of 100%	0		0	

DKK MILLION

NOTE 32

EXCHANGE RATE RISK AND USE OF DERIVATIVES AT 31 DECEMBER 2013

The total unhedged foreign currency position at 31 December 2013, translated at year-end exchange rates into DKK amounts to DKK 1,066 million (DKK 471 million at 31 December 2012).

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

The net position is specified as follows

	USD	OTHER CURRENCIES	TOTAL CURRENCY	DKK	TOTAL
Loans at year-end exchange rates	37,342	6,646	43,988	1,466	45,454
Loan impairment charges				(3,071)	(3,071)
Loans as per the balance sheet					**42,383**
Due from credit institutions and central banks	354	14	368	546	914
Bond portfolio	0	885	885	20,181	21,066
Interest receivable, etc.	236	36	272	95	367
Other assets			0	2,492	2,492
Total assets as per the balance sheet	**37,932**	**7,581**	**45,513**	**21,709**	**67,222**
Issued bonds at year-end exchange rates	(6,219)	0	(6,219)	(42,438)	(48,657)
Issued bonds as per the balance sheet					**(48,657)**
Due to banks	0	(246)	(246)	(6,464)	(6,710)
Interest payable	(120)	(11)	(131)	(197)	(328)
Other payables				(1,544)	(1,544)
Total equity				(9,983)	(9,983)
Total liabilities as per the balance sheet	**(6,339)**	**(257)**	**(6,596)**	**(60,626)**	**(67,222)**
Derivatives - receivables	3,272	3,892	7,164		
Derivatives - payables	(34,318)	(10,697)	(45,015)		
Total net position (translated into DKK)	**547**	**519**	**1,066**		

NOTE 33	DKK MILLION	2013	2012
	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.

	2013	2012
Interest rate risk		
An interest rate increase of 1 percentage point		
Change in results	(108)	(168)
Change in equity	(108)	(168)
An interest rate fall of 1 percentage point		
Change in results	108	168
Change in equity	108	168
Equity risk		
An increase in the value of the shares of 10 %		
Change in results	0	47
Change in equity	0	47
A decline in the value of the shares of 10 %		
Change in results	0	(47)
Change in equity	0	(47)
Exchange rate risk		
An appreciation of the USD exchange rate vis-à-vis DKK		
Change in results	(313)	(329)
Change in equity	(313)	(329)
Percentage point change in solvency	(2.0)	(1.7)
A depreciation of the USD exchange rate vis-à-vis DKK		
Change in results	313	329
Change in equity	313	329
Percentage point change in solvency	2.0	1.7

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

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

NOTE 34	DKK MILLION	2013	2012

FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

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

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

DKK MILLION	2013	2012
Loans		
Measured at amortised cost	42,383	46,364
Measured at fair value	42,925	47,314
Difference between carrying amounts and fair-value based value of loans, total	**542**	**950**

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

DKK MILLION	2013	2012
Issued bonds		
Measured at amortised cost, incl. hedging	48,657	59,416
Measured at fair value	49,326	59,286
Difference between carrying amounts and fair-value based value of issued bonds total	**669**	**(130)**

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 35	DKK MILLION	2013	2012
	CREDIT RISK		
	Total credit exposure distributed on balance sheet and off-balance sheet items		
	Due from credit institutions and central banks	914	1,627
	Loans at amortised cost	42,383	46,364
	Bonds at fair value	21,066	30,091
	Shares, etc.	3	630
	Derivatives	2,151	3,148
	Total balance sheet items	**66,517**	**81,860**
	Off-balance sheet items		
	Contingent liabilities	418	758
	Other binding agreements	2,904	4,398
	Total off-balance sheet items	**3,322**	**5,156**

NOTE 35, CONTINUED

CREDIT RISK IN THE LOAN PORTFOLIO

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

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

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

LOAN-TO-VALUE RANGE	SHARE OF LOANS 2013	SHARE OF LOANS 2012
0 - 20 %	33%	31%
20 - 40 %	32%	31%
40 - 60 %	27%	27%
60 - 80 %	7%	8%
80 - 90 %	1%	1%
90 - 100 %	0%	1%
Over 100 %	0%	1%

Loans for shipbuilding financing is included in the"over 100%" category in the table above. No mortgage is registered on vessels during the building period, but the company receives a guarantee from the borrower, and is secured through assignment and subrogation in the building contract and subrogation in the refundment guarantee provided by the shipyard's bank. Loans for shipbuilding accounted for 0.2% of the loan portfolio at 31 December 2013 (0.8% in 2012).

It appears from the table above that 92% (89% in 2012) of the loan amounts is secured through mortgages within 60% of the most recently calculated market value of the mortgage, and 99% (97% in 2012) of the loans are within 80% of the most recently calculated market value of the mortgage.

The weighted loan-to-value ratio on the loan portfolio was 62 % (67% in 2012) after impairment charges.

The market value of ships in the loan portfolio has generally declined by 9% since the end of December 2012 meassured in DKK compared with 5% in US dollars.

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

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

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

NOTE 35, CONTINUED

CREDIT RISK

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

LOAN-TO-VALUE RANGE	SHARE OF LOANS 2013	SHARE OF LOANS 2012
0 - 20 %	35%	28%
20 - 40 %	33%	27%
40 - 60 %	26%	25%
60 - 80 %	6%	16%
80 - 90 %	0%	4%
90 - 100 %	0%	0%
Over 100 %	0%	0%

It appears from the table above that 94% (80% in 2012) of the loan amounts is secured through mortgages within 60% of the most recently market value of the mortgage, and 100% (96% in 2012) of the loans are within 80% of the most recently calculated market value of the mortgage.

The weighted loan-to-value ratio on loans subject to individual charges was 59% (72% in 2012) after impairment charges.

NOTE 36

REFERENCE NOTE

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

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