ANNUAL REPORT 2011

DANISH
SHIP FINANCE

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ANNUAL REPORT 2011

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DANISH SHIP FINANCE AT A GLANCE

BUSINESS AREA

Danish Ship Finance is a ship finance institute which uses a simple and effective business model for financing 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, which ensures liquidity for lending throughout the maturity. The company is thus not dependent on ongoing refinancing of outstanding loans. Additional lending activities may require new bond issuance.

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

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 2011, Danish Ship Finance had loans of DKK 46.9 billion, total assets of DKK 79.0 billion and equity of DKK 9.7 billion. The company had first mortgages in 528 vessels.

The company's loans were fairly evenly spread between Danish and foreign shipowners. The loans to the foreign shipowners were divided between 49 shipowners and 22 countries.

The profit after tax for the year was DKK 243.7 million. The profit is considered satisfactory in light of the challenges facing the shipping market and the financial markets.

The accumulated impairment charges amounted to DKK 2.3 billion at 31 December 2011. The charges thus rose by DKK 269.2 million. The increase was to some extent caused by the appreciating USD. Measured as a percentage of lending, impairment charges rose from 3.9% at the end of 2010 to 4.6% at 31 December 2011. The charges are considered adequate to cover any losses that may arise under the present economic conditions.

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

The solvency ratio was 16.3% at 31 December 2011 after proposed dividends. The tier 1 capital ratio was also 16,3%.

The company's credit assessments affect the price of liquidity and capital procurement. In November 2011, Moody's Investors Service Ltd. changed Danish Ship Finance's issuer and bond rating from A2 with a "negative outlook" to A2 "under review for possible downgrade". Moody's' action was triggered by factors such as the outlook for the shipping industry, but should also be seen in the context of the fact that Moody's does not have in-depth knowledge of the credit quality of the individual loans. The company is currently in a dialogue with Moody's, which is not expected to be completed until at the end of the first quarter of 2012.

KEY FIGURES AND RATIOS

KEY FIGURES DKK MILLION	2011	2010	2009	2008	2008 *)	2007 **)
Net interest income from lending operations	348	360	234	275	256	174
Net interest income from financing operations	476	521	489	471	470	443
Total net interest incom	824	881	723	745	726	617
Net interest and fee income	886	945	772	787	796	659
Market value adjustments	(135)	(2)	508	(406)	(378)	(160)
Staff costs and administrative expenses	(90)	(84)	(82)	(87)	(92)	(86)
Impairment charges on loans and receivables, etc.	(333)	(245)	(874)	(702)	(200)	104
Profit/loss before tax	326	613	323	(410)	128	519
Profit/loss for the year	244	493	263	(367)	37	394
Loans	46,948	49,472	48,438	48,118	51,044	42,690
Bonds	26,944	29,216	30,616	26,521	26,851	21,394
Subordinated debt	899	898	897	-	-	-
Equity	9,666	9,496	9,043	8,786	8,879	9,177
Total assets	78,998	84,346	84,947	81,724	81,632	76,660

RATIOS	2011	2010	2009	2008	2008 *)	2007 **)
Solvency ratio	16.3	15.3	14.3	12.8	13.0	15.3
Tier 1 capital ratio	16.3	15.3	14.3	12.8	13.0	15.3
Return on equity before tax (%)	3.4	6.6	3.6	(4.5)	1.4	5.7
Return on equity after tax (%)	2.5	5.3	2.9	(4.0)	0.4	4.3
Cost/income ratio (DKK) ***)	1.8	2.9	1.3	0.5	1.4	(25.1)
Cost/income ratio (ex. impairment charges)	8.3	11.0	15.3	4.3	4.5	5.9
Foreign exchange position (%)	6.9	12.7	13.3	10.9	10.7	1.7
Gearing of loans	4.9	5.2	5.4	5.5	5.7	4.7
Annual growth in lending (%)	(5.1)	2.1	0.7	24.1	19.6	13.1
Impairment ratio for the year	0.7	0.5	1.7	1.4	0.4	(0.2)
Accumulated impairment ratio	4.6	3.9	3.7	2.0	1.8	1.7

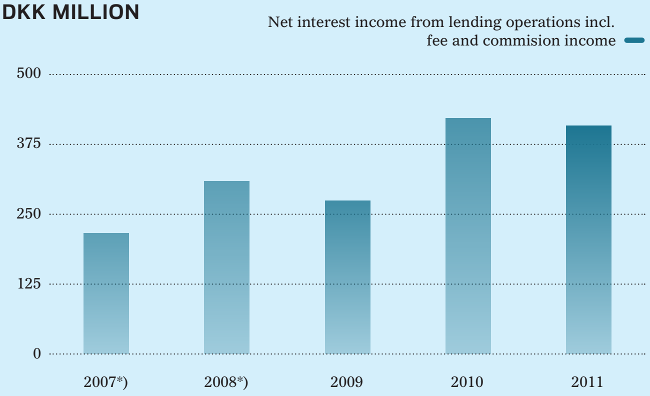
Key ratios are calculated in accordance with Appendix 6 of the Danish FSA's instructions for financial reporting in credit institutions and investment companies, etc.

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

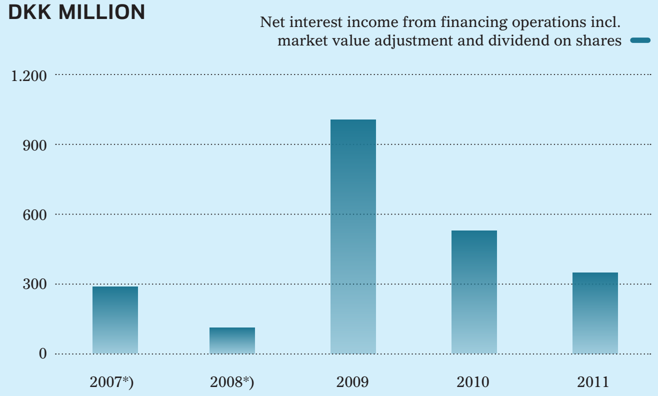
**) *For 2007 the key figures and ratios have not been restated because it was not possible to obtain the necessary data basis to re-assess loan impairment charges with retroactive effect.*

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

NET INCOME FROM LENDING OPERATION
DKK MILLION

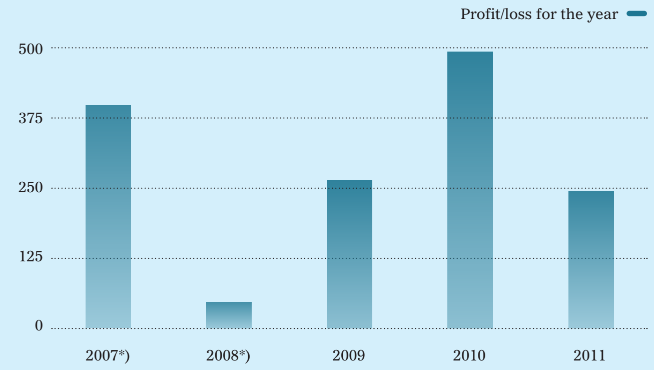


NET INCOME FROM FINANCING OPERATION
DKK MILLION

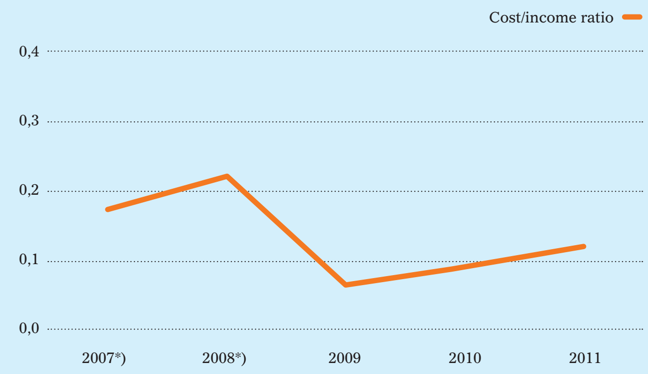


STAFF COSTS AND ADMINISTRATIVE EXPENSES
DKK MILLION

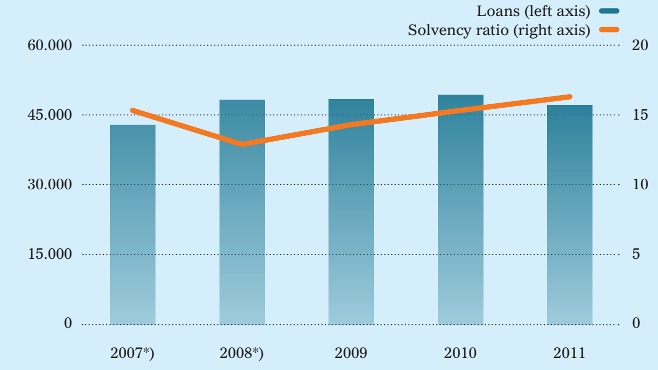
PROFIT/LOSS FOR THE YEAR
DKK MILLION



COST/INCOME RATIO



LOANS/SOLVENCY RATIO
DKK MILLION / %



**) For 2007 and 2008 the figures have not been restated.*

2011

The crisis in Europe did not overshadow the growth achieved in China, Brazil and other developing economies. Global trade is now above the pre-crisis level in 2008 overall, which is a positive factor. That 2011 was generally still a tough year for shipping companies was in part due to the continuing delivery of large volumes of vessels in most segments.

Many shipowners in the tanker and container segments in particular faced a challenging year. The tanker market continued the dismal trends of 2010, with rates remaining at unacceptably low levels throughout most of the year. Container lines experienced rising volumes but plummeting rates. Towards the end of the year, there were budding signs of consolidation with a number of shipping lines announcing they would merge routes. However, it remains to be seen whether these initiatives will have a permanent positive impact on freight rates after a number of the shipping companies announced sharp rate increases at the beginning of 2012. The dry bulk market also struggled, though demand growth was sufficiently strong to prevent the many new vessels entering service in 2011 from pushing rates to the floor until at the end of the year. Among the other segments it is worth mentioning that Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and offshore recorded acceptable earnings over the year and also have decent prospects going forward.

The hard times caused contracting to slow somewhat in a number of segments. Measured as a percentage of the fleet in operation, the total order book was reduced over the course of the year because the delivery of vessels exceeded contracting for new vessels in nearly every segment. However, during the first half-year contracts were signed for many large container vessels, so a return to satisfactory freight rates may take some time in this segment.

With a few Asian exceptions, ship financing has in recent years been dominated by lenders based in Europe. As a result of the financial crisis – primarily a European phenomenon in 2011 – ship financing activities, a niche area, remain subdued at many banks. A number of banks have announced their intention to focus more on national clients in their lending operations or to reduce their lending. Thus the competition situation is very different compared with before the crisis. For the remaining lenders – including Danish Ship Finance – the competition situation improved in 2011. Competition for loans to the best shipping companies, which have traditionally been Danish Ship Finance's focus area, remains quite fierce. However, even in the current market with demand below pre-crisis levels, fewer competitors should mean better lending conditions and improved earnings.

Many of the vessels ordered in 2011 were financed via national export credit schemes. Without these schemes, contracting of new vessels would have been at a lower level because the bank market would not have had the capacity – or desire – to participate in the financing of such a large number of vessels at a time when slowing the growth of the world fleet would seem more appropriate.

PERFORMANCE RELATIVE TO EXPECTATIONS

At the most recent presentation of financial statements, management expected an increase in earnings on lending operations before impairment charges. However, ordinary and extraordinary loan repayments exceeded loan disbursements. This resulted in marginally lower lending, and as a result the expected growth in earnings failed to materialise. Nevertheless, earnings from lending were on a par with 2010 because of an increase in net earnings per lent krone on loans.

Management had forecast a profit before impairment charges of DKK 635-685 million after expenses (and recognition of losses due to the effect of maturity reduction of high-yielding bonds). The result of these items was DKK 640.0 million, which is satisfactory.

New net impairment charges in local currency were not expected to exceed the 2010 level. This proved incorrect as impairment charges rose relative to 2010. The impairment charges reflect management's probability-weighted estimate of the size of the future credit losses that the company may incur. Actual losses is a statement of the losses actually incurred by the company during the reporting period. Actual losses in 2011 were

DKK 84.9 million compared with the forecast of an amount below DKK 100 million. As in previous years, this is a moderate level of losses in view of the company's loan portfolio, impairment charges, core earnings and equity. As in previous years, realised losses are covered by impairment charges previously made. The final calculations of actual losses incurred for 2011 and 2010 showed that the amounts were lower than the impairment charges recognised for the specific exposures.

ACTIVITIES DURING THE YEAR

In 2011, the company recorded a decent increase in the portfolio of accepted loan offers, which rose to DKK 8.0 billion from DKK 2.3 billion in 2010. The level of activity reflects the fact that, despite the crisis, there are many well-run shipping companies with a good credit quality. However, some of the offers were scheduled for disbursement in 2012 or later, and this, combined with the relatively small portfolio of accepted loan offers that were scheduled for disbursement in 2011, resulted in a low level of loan disbursements; DKK 3.9 billion. Moreover, loans corresponding to DKK 1.6 billion were prepaid. Thus, as a result of fewer disbursements and prepayments, total lending fell measured both in foreign currency and in DKK.

Due to the shipping crisis, lenders will experience shipowners who are unable to meet the covenants of loan agreements. This could be a requirement that a mortgaged vessel must have a certain minimum value relative to its outstanding debt, but it could also be a requirement concerning the borrower's financial ratios. Such covenants entail that the lender can react and require the situation remedied, but this also entails a risk of default on a disproportionately large number of loans. Unremedied breach of a covenant is described as "objective evidence of impairment". Objective evidence of impairment does not by itself indicate that a loan is heading for default, but it does give occasion to discuss at an early stage an exposure that may develop critically. Resources were again applied to resolve such breaches in 2011. All loans for which there is objective evidence of impairment are included in the calculation basis for loan impairment charges.

At the end of 2010, loans with objective evidence of impairment represented 8.2% of total lending, compared with 8.4% at the end of 2011.

In a very few cases, it proved necessary to grant respite with respect to principal payments due. At the end of 2011, respite had been granted on 4.3% of total lending, against 0.9% at the end of 2010. For all loans on which respite has been granted, the entire unsecured amount has been written off. There were no loans at the end of the year on which interest had not been paid. At the end of 2010, 0.2% of total lending was in default of interest payments.

These levels are considered to represent an acceptably low proportion of lending given the current economic situation in the shipping industry, and may be viewed as the result of the defined strategy of focusing on the most creditworthy shipping companies in good as well as in bad times.

Although the shipping industry crisis affects most shipowners, the credit quality in lending is still generally considered to be at an acceptable level.

RATING

In November 2011, Moody's Investor Service Ltd. decided to put the company's A2 rating under review for possible downgrade. The primary reason is that shipping is a cyclical industry and that the company has an unusual concentration on certain customers. These characteristics have applied for decades and do not constitute new information. Danish Ship Finance's key ratios have developed favourably, and Moody's' decision is therefore considered to mirror general concern about trends in the shipping industry. Moody's' action should be seen in the context of the fact that Moody's does not have in-depth knowledge of the credit quality of the individual loans. The company is currently in a dialogue with Moody's, which is not expected to be completed until at the end of the first quarter of 2012.

THE SHIPPING MARKET

2011 was a difficult year for international shipping. The global economy expanded less than previously expected. In January 2012, the IMF forecast growth for 2011 of 3.8%, which is 0.6 of a percentage point lower than in their January 2011 forecast. The combination of large global imbalances and high debt burdens in several OECD economies has triggered greater concerns, dampening economic growth. The economies of the developing countries have not gone unscathed, but they nevertheless continue to generate strong economic growth, creating a foundation for further expansion of global trade.

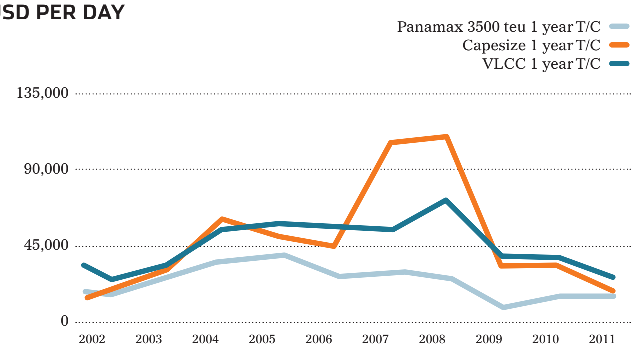
Global trading volumes passed pre-crisis levels in December 2010. During the first five months of 2011, trading volumes rose by about 8% and have subsequently remained fairly stable. Global trade thus increased by 5.5% in 2011.

There was a small decline in the addition of new tonnage in 2011, but in a historical context it remained very high. In a number of vessel segments, the net addition of new capacity exceeded the increase in demand. Freight rates were generally under pressure in 2011. Nevertheless, some vessel segments and sub-segments actually recorded rising freight rates in 2011.

The container market is struggling with excess capacity, falling rates and declining ship prices. Demand for container vessels rose by 6% in 2011. Demand on the two primary routes from the Far East to the USA and from the Far East to Europe rose by 2% and 5% respectively in 2011. In other words, the main increase in demand was recorded on smaller shipping routes, in Asia in particular. The supply of container vessels rose by 8%. The Post-Panamax fleet grew by 18% in 2011, and most of the new vessels were employed on the two primary routes. The outlook remains characterised by an order book of about 30% of the current fleet. The risk of future excess supply of tonnage thus contributes to keeping freight rates and ship prices under pressure.

The tanker segments generally experienced low rates in 2011. The supply of tanker capacity rose by about 6% during 2011, and as demand for tanker vessels rose by just under 6%, there

TIMECHARTER RATE USD PER DAY



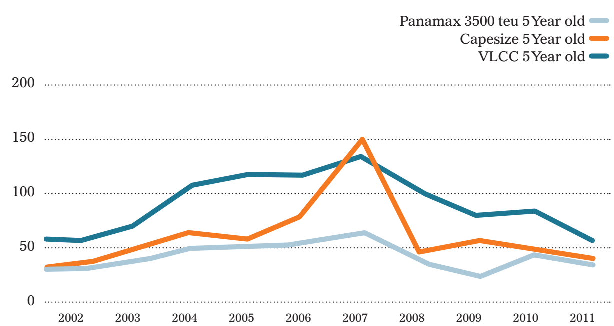
Source: Clarksons, Danish Ship Finance

was a match between growth and demand in the fleet. Demand for oil in the OECD countries declined in 2011, and the increase in oil demand was thus again driven by higher Asian demand, headed by China's oil imports. The outlook is characterised by an order book of about 20% of the current fleet. The risk of future excess supply of tonnage contributes, also for tankers, to keeping freight rates and ship prices under pressure.

The dry bulk market fell back in 2011. The leading dry bulk freight rate index, Baltic Dry Index, fell by 44% in 2011. Demand for dry bulk capacity rose by 14%, whilst demand for dry bulk vessels was up 6%. The growing demand was evenly distributed between the two large commodities iron ore and coal. Demand for iron ore rose by 8%, whilst demand for coal increased by 10%. Recording an increase of 9%, China accounted for a little over 75% of the total growth in demand for iron ore. There was a sharp increase in demand for coal in India and Japan in 2011. Growth in demand from these two countries combined accounted for half of the total increase in demand for coal. In spite of strong growth in demand for dry bulk vessels, the future prospects remain characterised by an order book of about 30% of the current fleet. The risk of future excess supply of tonnage contributes to keeping freight rates and ship prices under pressure in the dry bulk market.

In 2011, the market for platform supply vessels (PSV) and anchor handling tug supply vessels (AHTS) was characterised by

**SHIP PRICES BY SEGMENT
USD MILLION**



Source: Clarksons, Danish Ship Finance

growing demand and fewer deliveries than in 2010. Earnings therefore rose over the course of the year. However, earnings for platform supply vessels fell in the final quarter of the year. Overall, ship prices remained stable in 2011. Expectations for the coming years are relatively optimistic. Demand is expected to absorb the inflow of new vessels. Finally, a large number of smaller older vessels are expected to be phased out in the years ahead.

THE FINANCIAL MARKET

In 2011, economic developments were affected by a range of key events, including the Arab spring, the tsunami in Japan and the sovereign debt crisis in the USA and the euro area. Combined with a spate of negative indicators and rating agencies downgrading banks and mortgage credit institutions, these events pushed down the fixed income markets from their year high in April.

The debt crisis escalated over the summer months rooted in Greece's imminent sovereign default and added pressure on several European core countries, where yield spreads to Germany widened significantly, causing turmoil in the financial markets. This uncertainty was exacerbated when Standard and Poor's downgraded the USA to AA+ with reference to domestic political squabbling over the size of the debt ceiling.

The funding and liquidity markets froze over as a result of the flare-up in the debt crisis, and the situation in the financial markets began to resemble the period immediately after the Lehman Brothers collapse in the autumn of 2008. Confidence in a number of the eurozone countries plummeted to new lows in spite of a joint effort by eurozone heads of state and government. Meanwhile, the Nordic countries were considered a safe haven, benefiting from investors fleeing to less risky markets. Danish government bond prices have thus been relatively stable vis-à-vis German government bonds, and Danish sovereign bond yields were trading at historically low levels at the end of 2011.

The safe-haven status of Danish government bonds prompted credit spreads to widen and long-term government bonds once again yielded a higher return than similar mortgage bonds.

The large fluctuations in the bond markets were also reflected in the equity markets, which ended the year with a series of moderate increases that caused the S&P 500 index to end the last trading day on a par with year-end 2010, while MSCI WORLD shed approximately 6% in 2011.

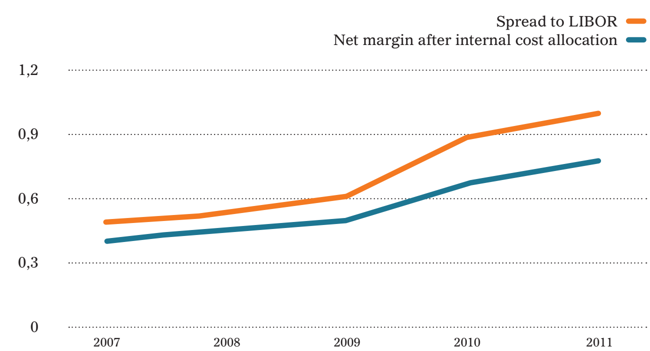
Danish Ship Finance's securities portfolio was invested primarily in Danish mortgage bonds and to a smaller extent in equities. Given the very low level of interest rates, the company opted to maintain a relatively low interest rate exposure through most of the reporting period, and this was also the case at the end of the year. The securities portfolio therefore offered a modest return in 2011 given the large falls in interest rates.

The increased turmoil in the financial markets has impeded access to the funding markets, and especially small banks found it difficult to obtain funding throughout most of the second half of 2011. During the fourth quarter, large banks also faced challenges in terms of accessing liquidity, resulting, among other things, in sharply widened spreads on senior unsecured issues from major Nordic banks.

The company only had a limited need for new funding in 2011 because previous bond issues had secured ample liquidity coverage for all existing loans and loan offers.

MARGIN EARNINGS ON LOANS

%



BOND ISSUANCE

Danish Ship Finance's total bond issuance in 2011 amounted to DKK 1.3 billion with an average maturity of 7.6 years.

INCOME STATEMENT AND BALANCE SHEET

INCOME STATEMENT

The profit for the year amounted to DKK 243.7 million compared with DKK 492.6 million in 2010. The financial performance is considered satisfactory under the prevailing market conditions.

Net earnings from lending operations including fees amounted to DKK 404.4 million, against DKK 418.7 million in 2010. The lower net earnings were the result of a lower level of lending activity and a resulting decline in total lending. Average lending translated into DKK was just under 11% lower in 2011 than in 2010, with the appreciating USD contributing just under 5%. Agreed credit margins on loan offers and disbursed loans continued their rising trend, contributing to maintaining net income from lending operations at the 2010 level, which was substantially higher than in the preceding years.

The lending earnings included an interest expense to honour the hybrid tier 1 capital from the Second Bank Package of DKK 84.3 million, which was the same amount as in 2010. Total costs of funding the lending operations for 2011 were also unchanged from the year before, among other things because of a limited need for raising new funding in 2011.

Interest and dividend earnings from financing operations fell to DKK 481.2 million from DKK 526.7 million in 2010 due to the declining level of market rates in 2011.

Net interest and fee income totalled DKK 885.6 million, down from DKK 945.4 million in 2010.

Market value adjustments of securities and foreign exchange amounted to a loss of DKK 135.1 million compared with a loss of DKK 1.8 million in 2010. The net market value adjustment is primarily due to the expected effect of maturity reduction of the securities portfolio. At the end of 2011, the securities portfolio consisted primarily of Danish mortgage bonds, while a small proportion was invested in Swedish mortgage bonds, Danish government bonds and shares (unit trust certificates). Market value adjustment of the equity portfolio resulted in a loss of DKK 10.0 million in 2011, against an income of DKK 53.9 million in 2010.

Staff costs and administrative expenses were up from DKK 84.1 million in 2010 to DKK 89.9 million. The expenses were affected by higher expenses for payroll tax due to higher tax rates, costs of vessel insurance and a number of non-recurring costs. The average number of employees was 58 in 2011, which was unchanged from the year before.

Loan impairment charges amounted to a net expense of DKK 333.4 million compared with a net expense of DKK 245.3 million in 2010. Total impairment charges rose from DKK 2,058.7 million at 31 December 2010 to DKK 2,327.9 million at the end of 2011, representing 4.6% of total loans, which was 0.7 of a percentage point higher than the year before. The increase was due partly to a higher DKK/USD exchange rate, partly adverse trends in the financial standing of a number of borrowers triggered by the shipping crisis. At DKK 84.9 million, realised losses remained at a low level. Movements in impairment charges in 2011 are specified in note 13 to the financial statements.

Tax for the year represented an expense of DKK 82.5 million compared with an expense of DKK 119.9 million in 2010. For 2011, this translates into an effective tax rate of 25.3%.

BALANCE SHEET AND CAPITAL STRUCTURE

Total assets stood at DKK 78,997.6 million at 31 December 2011 against DKK 84,345.7 million at 31 December 2010.

Lending calculated at amortised cost less impairment charges declined by DKK 2,523.6 million from DKK 49,471.5 million in 2010 to DKK 46,947.9 million in 2011. Over the course of the year, there was a net increase in new loans of DKK 3,877.5 million, against an increase in 2010 of DKK 6,057.1 million. For further details on movements in lending, see note 11 to the financial statements.

Issued bonds declined from DKK 60,848.6 million at 31 December 2010 to DKK 55,538.2 million at year-end 2011. 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. Due to the existing cash resources, there was no major need to make new bond issues in 2011. In 2011, new bond issues only amounted to DKK 1,297.4 million, against DKK 1,310.0 million in 2009. 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 26,943.5 million from DKK 29,215.9 million at 31 December 2010. The decline compared with 2010 was primarily due to a fall in the proportion of loans granted, but still not disbursed, which is invested in short-term bonds until the loans are disbursed. The bond portfolio is specified in notes 14 and 15 to the financial statements.

Including the profit for the year, the company's equity amounted to DKK 9,666.0 million as compared with DKK 9,496.2 million at 31 December 2010. Dividends to the shareholders of DKK 207.1 million have been proposed for the financial year. The proposed dividend is included in equity but is expected to be disbursed after the approval by the shareholders at the annual general meeting in March 2012, 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 rose to 16.3% at the end of 2011 against 15.3% at 31 December 2010. The current solvency ratio is considered more than adequate relative to the company's risk profile. The company's internally calculated individual solvency need was 5.6% at the end of 2011, and the individual solvency need is subsequently fixed at the statutory minimum requirement of 8%. The higher solvency ratio at 31 December 2011 relative to the previous year was especially due to a reduction of the weighted items concerning lending operations and in the weighted items concerning market risk. When calculating the capital adequacy, the weighted items were overall reduced by DKK 4,242.9 million. Note 26 provides a specification of the company's solvency.

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

The exchange rate of the USD vis-à-vis DKK fell in the first half of 2011 from 561.33 at the beginning of the year to 516.07. Since then, the USD/DKK exchange rate has risen to 574.56 at the end of 2011, corresponding to an increase of 2.4% for the year as a whole. Movements in the USD/DKK exchange rate resulted in an average exchange rate for 2011 of 536.22, which was 4.6% lower than in 2010.

In 2011, movements in the USD/DKK exchange rate, other things being equal, had a pre-tax adverse impact on net interest and fee income of DKK 27.0 million and an adverse impact on impairment charges of DKK 48.5 million. Profit after tax and equity were reduced by DKK 56.6 million from the change.

Compared with the exchange rate of USD at the beginning of the year, the changing dollar rate increased total assets by DKK 1.0 billion and reduced the solvency by 0.3% because of an increase in weighted items for loans and loan offers submitted.

UNCERTAINTY IN RECOGNITION AND MEASUREMENT

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

EVENTS AFTER THE BALANCE SHEET DATE

In the period until publication of the annual report, no material events have occurred.

OUTLOOK

MARKET EXPECTATIONS

The crisis in Europe will most likely continue in 2012. Consequently, we are in for another year of uncertainty due to debt problems in many European countries. The economic climate in the USA is better than it is in Europe, but it is unlikely to pull the shipping industry in the right direction. China will remain the principal driver of freight rates in most segments. China has driven the bulk of the growth in global trading and has been the originator of the large increase in new orders over the past decade. However, it also gives rise to some concern that many shipowners appear to largely base their investment decisions on growth in a single market.

If contracting for new vessels declines by a large margin, global economic growth will slowly absorb the large oversupply of new vessels and thus, in the slightly longer term, strike a better balance between supply and demand. However, the structural challenges in the shipping industry were also discernible in 2010; unfortunately, acceptable rates in a segment cannot be sustained for very long before triggering contracting for new tonnage. Given the large shipyard capacity that accumulated in the past decade and which is now facing low capacity utilisation in 2013 and onwards, one might be concerned that too many shipowners will fall for the temptation to order new, relatively cheap and more reliable ships already during 2012.

The challenge facing the sector is heightened by the low number of vessels suitable for scrappage among the largest vessel types in the tanker, container and dry bulk segments.

As such, the overall outlook remains bleak. However, some segments will perform better than others.

Market uncertainty is nothing new; it is a natural part of shipping. Nor is there anything new in the fact that many shipowners make it through these cyclical troughs. Consequently new lending will, as previously, be biased towards shipowners who have demonstrated the ability to weather the cyclicality of the industry. The company will primarily target existing customers, but the loan portfolio will again have room for new reputable shipowners in 2012.

Many competitors have discontinued their ship financing activities and let their loan portfolios be wound up. Consequently, the competitive situation is expected to be relatively favourable in 2012. The company expects competition for the sound customers among the remaining lenders, but new transactions are expected to be entered on terms and conditions reflecting the lower supply of capital.

FINANCIAL GUIDANCE

In 2012, earnings from lending operations before loan impairment charges are expected to exceed the results reported for 2011. Due to generally low interest rates, the return from the securities portfolio is expected to be at a correspondingly lower level in 2012. Overall, a moderately positive trend is expected in net interest income.

The company's securities portfolio includes bonds priced above par. At unchanged interest rates, these will result in a capital loss until maturity due to the bond maturity effect.

Due to the current uncertainties in the economies and the near-term outlook for the shipping industry, 2012 may also be a year of net impairment losses. However, at the present time, there is no reason to expect net impairment charges that exceed the level of 2011 measured in lending currencies.

At the present time, the company has not levied attachment on any vessels, nor is attachment imminent for any vessel. However, experience suggests that this situation can quickly change, so forced sales with a potential loss cannot be ruled out in 2012. Any such losses are expected to have been fully written down in previous financial years, and any losses in 2012 are therefore not expected to affect the company's results or solvency at the end of 2012.

Market value adjustments of the securities portfolio will affect the profit for the year. Given the present low duration of the securities portfolio, the likelihood of major value adjustments is modest.

The company's profit and solvency ratio at the end of 2012 will also depend on movements in the DKK/USD exchange rate during the year and at the end of the year. The sensitivity is described in note 34.

In December 2009, the company raised DKK 900 million of hybrid tier 1 capital under the Second Bank Package. The loan cannot be repaid until December 2012 at the earliest. At the present time, it remains to be decided whether the entire loan or parts thereof will be repaid. If the loan is repaid in full, it would reduce the solvency ratio by approximately 1.5%.

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

CAPITAL MANAGEMENT

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

There must be capital to cover the requirement at the existing and the expected level of activity in order to comply with the statutory rules and in-house company regulations.

CALCULATION METHOD

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

CAPITAL REQUIREMENT, CAPITAL BASE AND SOLVENCY

The solvency requirement is the capital base required to maintain a solvency ratio of 8%, which is the current statutory minimum requirement. The capital base is the sum of tier 1 capital and supplementary capital, and the relationship between capital base and risk-weighted assets is the solvency ratio. The capital base must consistently be higher than both the adequate capital base and the capital requirement. The capital requirement is the solvency requirement or the minimum capital requirement (EUR 5 million), whichever is the higher.

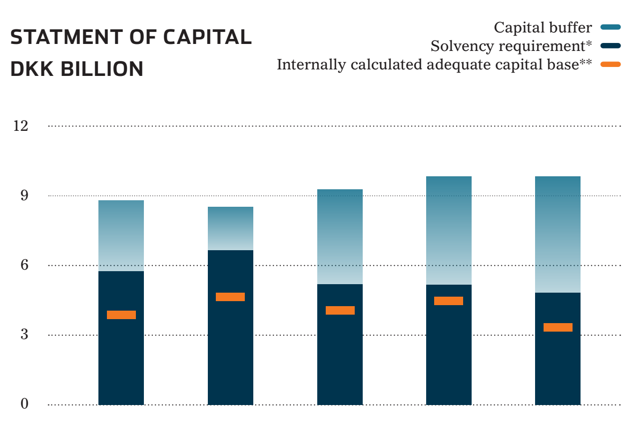
At 31 December 2011, the solvency requirement and the weighted items amounted to DKK 4.8 billion and DKK 59.9 billion, respectively. The capital base less deductions amounted to DKK 9.8 billion at 31 December 2011, resulting in a solvency ratio of 16.3%. This gives the company a capital buffer of DKK 5.0 billion relative to the statutory 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 capital base consists predominantly of core capital (tier 1) in the form of tied-up reserve capital. The capital base less deductions at 31 December 2011 amounted to DKK 9,759.9 million, against DKK 9,817.8 million in 2010. The company's tier 1 capital less deductions and excluding the capital injection under The Second Bank Package was DKK 8,851.2 million at 31 December 2011.

CALCULATION OF SOLVENCY AND TIER 1 CAPITAL RATIOS

DKKm / %	2011	2010
Capital base less deductions	9,759.9	9,817.8
Risk-weighted items	59,899.2	64,142.1
Solvency ratio	**16.3**	**15.3**
Tier 1 capital ratio		
Incl. hybrid tier 1 capital	16.3	15.3
Tier 1 capital ratio		
Excl. hybrid tier 1 capital	14.8	13.9

STATMENT OF CAPITAL
DKK BILLION



* *At 1 January 2009, the solvency requirement was lowered from 10% to 8% of the risk-weighted assets.*
** *The company's internally calculated adequate capital base must not be lower than the solvency requirement, equal to 8% of the risk-weighted items pursuant to the Danish Executive Order on Capital Adequacy, and the individual solvency need has been fixed at 8%.*

INDIVIDUAL SOLVENCY NEED AND ADEQUATE CAPITAL BASE

DKKm /%	2011	2010
Internally calculated individual solvency need, %	5.6 *	7.0*
Internally calculated total adequate capital base	3,354.3	4,501.4
The internally calculated adequate capital base is divided into sub-components:		
Credit risks	2,613.5	3,892.2
Market risks	1,083.5	1,063.3
Operational risks	148.7	132.3
Other	(491.4)	(586.3)

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

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.

Pursuant to the Executive Order on Capital Adequacy, the adequate capital base must be calculated on the basis of the company's risk profile. When calculating the adequate capital base, current and future risk factors and the opportunities for sourcing fresh capital should be taken into consideration. There is some freedom of choice in terms of methodology.

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

METHODOLOGY

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

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

Additional information on the company's capital management is provided in the Risk report on the Danish Ship Finance website www.shipfinance.dk/Investor-Relations/Risk-Report.

CASH MANAGEMENT

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

Through previous bond issues and the existence of a liquid own portfolio of bonds, the company has secured ample liquidity coverage for all existing loans and loan offers until the loans expire. Thus, there was no issuance need in 2011.

Based on the company's substantial own cash portfolio and as a result of the rules of the balance principle, all loans are funded until expiry. The company is therefore not exposed to any refinancing risk. A potential 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 liquidity management is consistent with the framework of the company's liquidity policy.

Moreover, a liquidity stress test is performed to obtain an overview of the liquidity risks. The liquidity stress test consists of the following components:

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

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

The company' risk management and internal controls in relation to the financial reporting process is designed with a view to effectively minimising the risk of errors and omissions in financial reporting.

The company's risk management and internal control systems in relation to the financial reporting process 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, including the Audit Committee, currently assesses 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 the relevant competencies with respect to internal controls and risk management in relation to the financial reporting process.

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 procedures 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 in the data that forms the basis of the financial reporting process.

As part of the financial reporting process, control activities are performed to ensure that the financial statements are presented in accordance with current legislation.

INFORMATION AND COMMUNICATION

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

MONITORING AND REPORTING

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

CREDIT RISK

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

LENDING

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

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.

When considering potential loans, focus will be on vessel characteristics, the financial standing of the borrower, the terms of the loan and on 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.

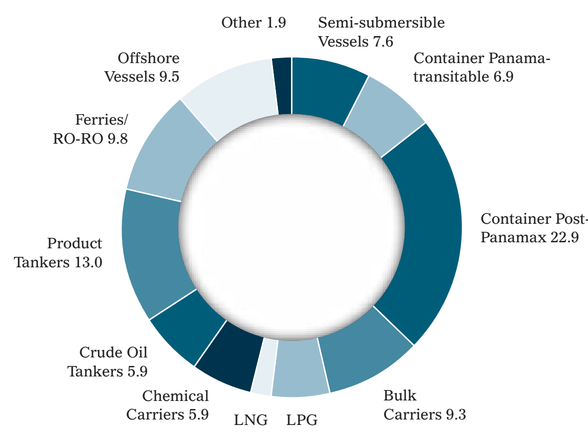
MOVEMENTS IN THE FIVE LARGEST SHIPPING DEBTORS BEFORE IMPAIRMENT CHARGES

DKKm	2011	2010
5 largest shipping debtors	23,893	26,630
Total loans and guarantees	50,177	52,212

The five largest loans to shipowners at 31 December 2011 are secured by mortgages in 123 vessels comprising 12 vessel types. One loan is substantially larger than the rest and typically represents about 40% of total lending.

The risk diversification on borrowers focuses on diversification on vessel types in each loan. The largest loan was thus secured through mortgage on vessels distributed on six different vessel segments (loans for container vessels accounted for about 65%, semi-submersible vessels about 22% and offshore vessels about 7%). The other four loans were secured through mortgages in three different vessel segments.

LENDING BY MORTGAGED VESSEL TYPES (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. The Management Board and the credit manager have no authorities in relation to consideration of emergency loans over and above the predefined limits.

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.

The Board of Directors was the authorising body in the majority of all loans granted in 2011.

ONGOING MONITORING

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

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

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

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

INSURANCE OF SHIP'S MORTGAGES

All vessels mortgaged as collateral for loans must be insured. Insurance is taken out by the borrower. Borrowers' insurances concerning financed vessels are assigned to Danish Ship Finance.
As a general rule, the insurance includes:

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

On the basis of individual assessments, borrowers who must also be covered by Mortgagee Interest Insurance and Mortgagee Additional Perils Pollution Insurance are identified. Vessels owned by most of the borrowers 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.

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 an offer to finance second-hand tonnage. When financing second-hand tonnage, focus is on the age of the vessel and its condition.

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 mortgage and any other collateral.

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

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

The Danish Financial Supervisory Authority's guidelines for the company's impairment charges thus assume:

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

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

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

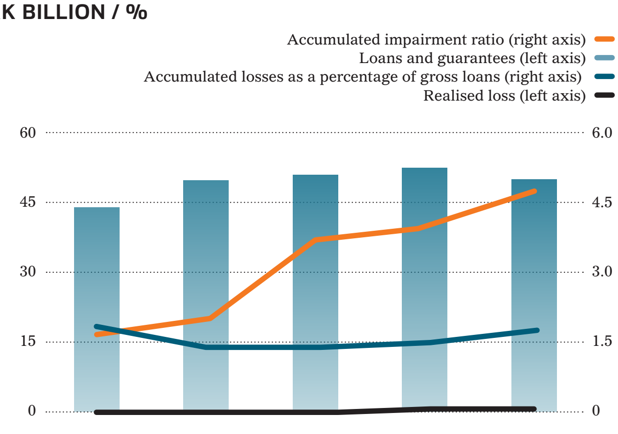
Based on the above guidelines, all loans are reviewed in order to identify any objective evidence of impairment or expectations of objective evidence of impairment within each vessel type.

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

Danish Ship Finance's accumulated impairment charges amounted to DKK 2,327.9 million at 31 December 2011 against DKK 2,058.7 million last year. This represented an increase of DKK 269.2 million. The accumulated impairment charges accounted for 4.6% of the company's total loans and guarantees, which was 0.7 of a percentage point higher than the year before. The increase was due partly to a higher DKK/USD exchange rate, partly adverse trends in the financial standing of a number of borrowers triggered by the shipping crisis. Danish Ship Finance incurred losses of DKK 84.9 million in 2011, against DKK 77.9 million in 2010.

Danish Ship Finance's accumulated losses since Danmarks Skibskreditfond was established in 1961 were DKK 865.7 million at 31 December 2011. This corresponded to 1.8% of total lending at 31 December 2011.

LOANS, IMPAIRMENT CHARGES AND LOSSES
DKK BILLION / %



FINANCIAL COUNTERPARTIES

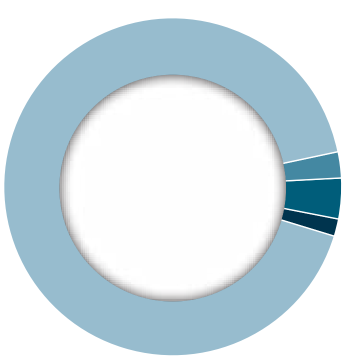
In addition to loans, the company's securities portfolio also represents a significant part of the assets. The securities portfolio comprises government and mortgage bonds, money market transactions, interest-sensitive financial instruments and equities.

Most of the portfolio consists of Danish government and mortgage bonds, which leads to an excess cover relative to the statutory requirement that at least 60% of the capital base must be invested in investment grade assets. At 31 December 2011, the company had invested DKK 11.5 billion in investment grade securities, corresponding to 114% of the capital base.

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

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

DISTRIBUTION OF SECURITIES PORTFOLIO
%



The guidelines for managing financial counterparty risk are laid down in a policy for managing counterparty risk. The purpose of the policy is to quantify and define 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. The Management Board and the credit manager have no authorities in relation to consideration of emergency credits over and above the predefined limits.

Credit grants over and above the predefined limits are decided by the Board of Directors.

CONTRACTUAL BASIS

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

MARKET RISK

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

The company pursues a market risk policy to manage its market risks. The policy lays down clear and measurable limits for interest rate, exchange rate and equity risks and builds on the provisions of the Bond Executive Order, among other things. However, 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, which, in the case of a large increase in interest rates, may result in an overall negative financial performance and a resulting negative impact on the solvency ratio.

Pursuant to the Bond Executive Order, the interest rate risk between funding and lending must not exceed 1% of the capital base. The finance policy accepts interest rate risks between funding and lending solely when caused by timing differences in determining the reference interest rate (such as LIBOR) for variable rate funding and lending. The company seeks to minimise the interest rate risk between funding and lending by applying conservative principles, but a loss or a gain may arise due to changes in interest rates.

The Bond Executive Order also stipulates that the interest rate risk on the company's assets, liabilities and off-balance sheet items must not exceed 8% of the company's capital base. Interest rate risks are adjusted using a minimum and a maximum for the option-adjusted duration. The current maximum adjusted duration on the securities portfolio has been restricted to six years. Danish Ship Finance has calculated the option-adjusted duration at approximately 0.5 years at 31 December 2011.

Using the Danish FSA's guidelines for calculating interest rate risks, the risk was calculated at DKK 67.9 million at 31 December 2011, corresponding to 0.7% of the capital base, against DKK 292.1 million in 2010.

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

EXCHANGE RATE RISK

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

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

EQUITY RISK

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

At 31 December 2011, the company had shares totalling DKK 557.8 million, corresponding to 5.5% of the capital base after deductions.

DERIVATIVES

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

The policy also includes guidelines on structured notes. Structured notes refer to funding with conditions other than standard fixed/floating-rate conditions. Issues may only be structured using interest rate and exchange rate instruments, and they must not represent more than 5% of the total loan amount.

LIQUIDITY RISK

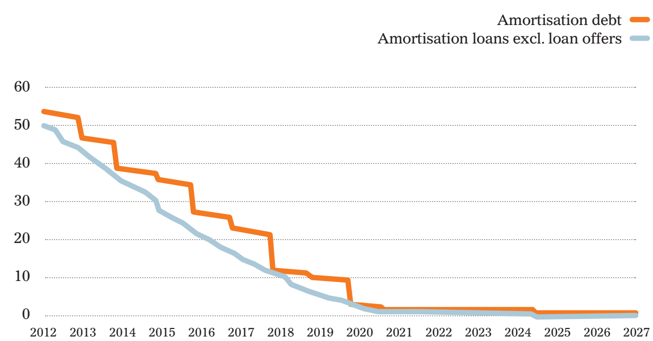
Liquidity risk is the risk that the company is unable to meet its payment obligations as they fall due.

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.

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 BILLION



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

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

OPERATIONAL RISK

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

The Danish Executive Order on governance, risk management, etc. for financial institutions, which entered into force in mid-2011, 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. The company 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.

Bonds in circulation

Issued bonds are primarily bullet loans denominated in DKK. At 31 December 2011, bonds in circulation totalled DKK 54.3 billion, nominal value, of which bonds issued in DKK accounted for 83%. The bonds may be unlisted, but 82% of the bonds are listed and traded on NASDAQ OMX Copenhagen A/S.

RATING

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

Issuer rating	A2
Bond rating	A2
Seniority	Senior unsecured
Outlook	Under review for possible downgrade

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

"Obligations rated A are considered upper-medium grade and are subject to low credit risk."

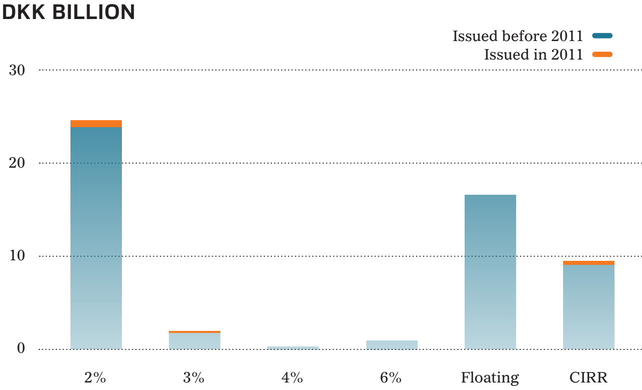
The "senior" or "unsubordinated" designation implicates that these bonds, in case of the liquidation of the company, will be repaid before subordinated creditors ("junior debt").

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

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

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

CIRCULATING BONDS BY BOND TYPE
DKK BILLION



BONDS IN CIRCULATION

Debenture bonds
Bonds issued before 1 January 2008. By definition, the bonds are covered bonds (as defined by the CRD) until maturity, even though there is no requirement for regular compliance with loan values. The risk weight for debenture bonds is 10%.

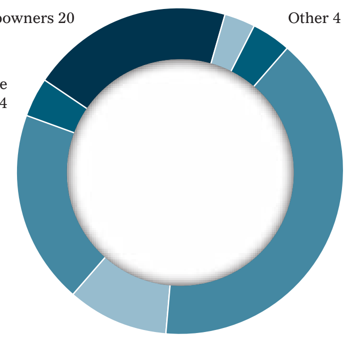
Ship mortgage bonds
Bonds issued after 1 January 2008 which do not qualify for the covered bond designation. The risk weight for ship mortgage bonds is 20%.

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

SHARE CAPITAL

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

%



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 333.3 million, nominal value, and is divided into A shares with a nominal value of DKK 300.0 million and B shares with a nominal value of DKK 33.3 million. 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
Based on the financial statements for 2011, the Board of Directors of Danish Ship Finance recommends that the company pays DKK 170.6 million in dividends to the company's A shareholders and DKK 36.5 million in dividends to the company's B shareholder, Den Danske Maritime Fond.

At the annual general meeting in 2011, the Board of Directors' proposal on dividends based on the financial statements for 2010 was adopted. Because the company is covered by the conditions for the Second Bank Package, the company could only distribute dividends for the fourth quarter of 2010 if such dividend payments could be paid out of the profit for the year. The Board of Directors resolved that no dividend would be paid to A shareholders in respect of the fourth quarter of 2010. The amount was instead transferred to the distributable reserves. Pursuant to the articles of association, dividends of DKK 73.9 million were paid to the B shareholder, Den Danske Maritime Fond. The company is subject to a special rule under the Second Bank Package, under which the Board of Directors could pay dividends for the full year 2010 to the B shareholder.

Since its conversion to a public limited company in 2005, the company has paid total dividends of DKK 287.3 million to the B shareholder, Den Danske Maritime Fond, exclusive of proposed dividends for 2011. The funds are used to develop and promote Danish shipping and the Danish shipbuilding industry.

ORGANISATION, MANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITY

OBJECTIVE AND VISION

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

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

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

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

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

MANAGEMENT STRUCTURE

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

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

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

Annual general meeting

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

The next annual general meeting will be held at the company's address on 29 March 2012.

Board of Directors

Per Skovhus acts as chairman, and Jens Thomsen 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 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 2011, the Board of Directors held nine ordinary meetings with an average participation rate of 80%. 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:

- Macroeconomics
- Shipping experience
- Credit management – including regulatory framework relating to credit granting
- Investment
- Funding
- Financial risk management
- Finance and accounting
- IT

In order to ensure that the Board of Directors has the necessary competencies, it makes an annual self-evaluation. The competencies of each board member are described in "Directorships" below.

Operation chain reaction

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

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

In 2011, female board members represented 22% of all board members of Danish Ship Finance. One of the two female board members were elected by the employees.

Further information about "Operation Chain Reaction" is available on the company's website www.shipfinance.dk/Investor-Relations/Corporate-Social-Responsibility-(CSR).

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

CORPORATE GOVERNANCE

As Danish Ship Finance has no shares listed for trading on NASDAQ OMX Copenhagen A/S, the company is not subject to the corporate governance rules. The company has resolved to follow the 2011 recommendations issued by the Committee on Corporate Governance.

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

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

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

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

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

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

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

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

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

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

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

AUDIT COMMITTEE

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

The audit committee consists of Fatiha Benali, Trond Ø. Westlie and Michael Rasmussen. Fatiha Benali, who is the independent member with competencies in finance and accounting, qualifies by being chief 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. The committee reports to the Board of Directors, and minutes of the committee's meetings are discussed at the first-coming ordinary board meeting.

CORPORATE SOCIAL RESPONSIBILITY

In 2009, Danish Ship Finance implemented a corporate social responsibility policy. As part of the company's endeavours to run a professional, trustworthy and sustainable business, it focuses on corporate social responsibility. The company seeks to the extent possible to incorporate CSR considerations in its day-to-day work.

The CSR initiatives build on the following principles:

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

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

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

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

Further information about corporate social responsibility is available on the company's website www.shipfinance.dk/Investor-Relations/Corporate-Social-Responsibility-(CSR).

HUMAN RESOURCES

At the end of 2011, Danish Ship Finance employed 64 employees, of whom 25 were women and 39 were men.

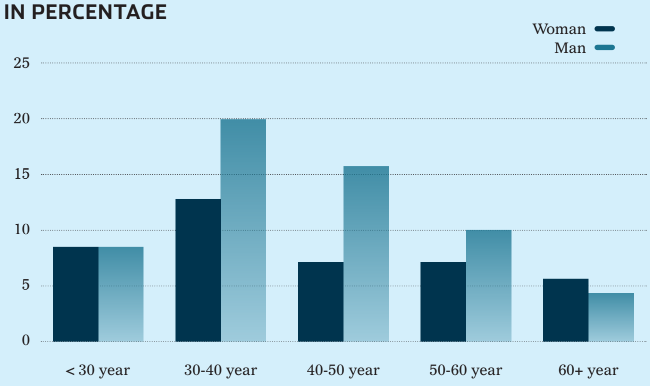
For the company to retain its position as the leading ship financing institute, it is important that the company is able to attract and retain competent employees. In order to create an attractive framework for its employees, Danish Ship Finance offers its staff a number of insurance and healthcare schemes.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

The employees generally have an extensive educational background and are specialists in their fields. In order to develop employee competencies, the company spends resources on training for each employee. In 2011, expenses for training courses and other training amounted to 2.8% 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 improve employee skills and to motivate and challenge the employees.

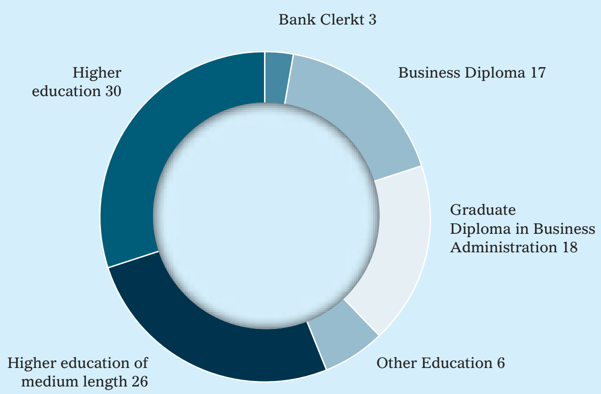
The company generally records a high level of job satisfaction, and the general job satisfaction measured in 2011 was at a satisfactory level. In order to retain this level, in collaboration with external HR partners the company remains focused on employee satisfaction.

Further information about the employee satisfaction survey is available on the company's website www.shipfinance.dk/Investor-Relations/Corporate-Social-Responsibility-(CSR).

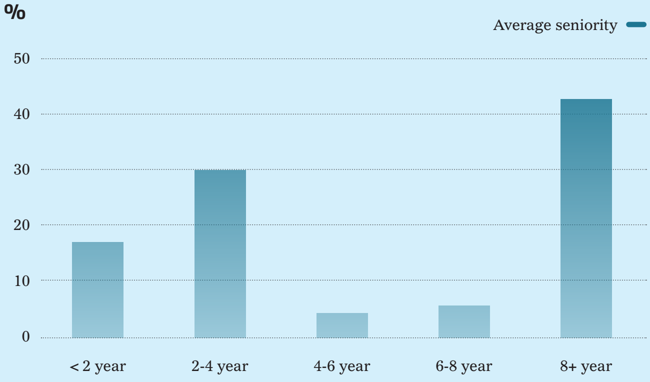
DISTRIBUTION BY AGE AND GENDER IN PERCENTAGE



EDUCATIONAL BACKGROUND
%



AVERAGE SENIORITY AS A PERSENTAGE OF TOTAL EMPLOYEES
%



DIRECTORSHIPS

DIRECTORSHIPS – BOARD OF DIRECTORS

The information set out below describes positions held by board members, other directorships, other senior management positions and fiduciary positions at the date of publication of the annual report of Danish Ship Finance for 2011. The text also describes how long each member has held a seat on the Board of Directors of Danish Ship Finance and the special competencies held by each member.

Member of The Executive Board Per Skovhus, Danske Bank (Chairman)
Elected to the Board of Directors of Danish Ship Finance on 28.04.2003
Member of the board of directors of:
Realkredit Danmark A/S
Northern Bank Limited
Sampo Pankki Oyj
Holdingbolag 25-6-2009 AB (Chairman)
Competencies:
Broad knowledge of banking operations and financial risk management, including risk management focused on credit risks.

Former Governor Jens Thomsen, Danmarks Nationalbank (Deputy Chairman)
Elected to the Board of Directors of Danish Ship Finance on 28.04.2003
Competencies:
Broad knowledge of macro-economics, financial issues, legislation and financial risk management.

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

Former Chief Executive Officer Thorkil H. Christensen, Danske Maritime
Elected to the Board of Directors of Danish Ship Finance on 19.04.1995
Retired from the board of directors of:
Den Danske Maritime Fond
(Deputy Chairman) in October 2011.
Competencies:
Broad knowledge of shipping with particular focus on shipbuilding and the national and international legislative framework for shipbuilding.

Chief Accountant and Head of Staff Administration Erling Garrelts, Danmarks Skibskredit A/S
Elected to the Board of Directors of Danish Ship Finance on 24.04.2008
Competencies:
Broad knowledge of financial management and reporting, taxation and staff matters.

Assistant Relationship Manager Lisbeth N. Pedersen, Danmarks Skibskredit A/S
Elected to the Board of Directors of Danish Ship Finance on 24.04.2008
Competencies:
Broad knowledge of internal audit of financial enterprises, loan processing and implementation of IT systems.

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

Senior Relationship Manager Henrik R. Søgaard, Danmarks Skibskredit A/S
Competencies:
Broad knowledge of credit granting, ship financing and problem handling.

Group CFO Trond Ø. Westlie, A.P. Møller-Mærsk A/S
Elected to the Board of Directors of Danish Ship Finance on 24.03.2011
Member of the board of directors of:
Dansk Supermarked A/S (Deputy Chairman)
F. Salling Holding A/S
F. Salling A/S
Subsea 7 S.A.
Mærsk Olie og Gas A/S
Svitzer A/S
Maersk Supply Service A/S
APM Terminals Management B.V.
Competencies:
Broad knowledge of shipping operations, financial risk management, finance and accounting and general management of international businesses.

DIRECTORSHIPS – MANAGEMENT BOARD

Information on the Management Board of Danish Ship Finance.

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 2011. 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 2011 and of the results of the company's operations for the financial year ended 31 December 2011.

We recommend the annual report for adoption at the annual general meeting in 2012.

Copenhagen, 9 February 2012

MANAGEMENT BOARD:

Erik I. Lassen
Chief Executive Officer

Per Schnack
Executive Vice President

BOARD OF DIRECTORS:

Per Skovhus
Chairman

Jens Thomsen
Deputy Chairman

Fatiha
Benali

Thorkil
H. Christensen

Erling
Garrelts

Lisbeth
N. Pedersen

Michael
Rasmussen

Henrik
R. Søgaard

Trond Ø.
Westlie

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF DANISH SHIP FINANCE A/S

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year ended 31 December 2011, comprising an income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including accounting policies. The financial statements are presented in accordance with the Danish Financial Business Act. Furthermore, the financial statements are presented in accordance with additional Danish disclosure requirements for interim reports of issuers of listed bonds.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Our audit did not result in any qualification.

OPINION

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31 December 2011 and of the results of the company's operations for the financial year ended 31 December 2011 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, 9 February 2012

DELOITTE
Statsautoriseret Revisionspartnerselskab

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

INCOME STATEMENT

NOTE	1 JANUARY - 31 DECEMBER DKK MILLION	2011	2010
2	Interest income	3,028.2	3,217.5
3	Interest expenses	(2,204.1)	(2,337.0)
4	**Net interest income**	**824.1**	**880.5**
	Dividends on shares, etc.	5.4	6.2
5	Fee and commission income	58.4	61.4
	Fees and commissions paid	(2.3)	(2.7)
	Net interest and fee income	**885.6**	**945.4**
6	Market value adjustments	(135.1)	(1.8)
7,8	Staff costs and administrative expenses	(89.9)	(84.1)
17,18	Depreciation and impairment of property, plant and equipment	(1.0)	(1.7)
13	Impairment charges on loans and receivables	(333.4)	(245.3)
	Profit/loss before tax	**326.2**	**612.5**
9	Tax	(82.5)	(119.9)
	Profit/loss for the year	**243.7**	**492.6**
	Other income	-	-
	Total income for the year	**243.7**	**492.6**
	PROPOSED ALLOCATION OF PROFIT		
	Dividend for the financial year	207.1	73.9
	Retained earnings	36.6	418.7
		243.7	**492.6**

BALANCE SHEET

NOTE	AT 31 DECEMBER DKK MILLION	2011	2010
	ASSETS		
10	Due from credit institutions and central banks	596.5	1,222.9
11,12,13	Loans at amortised cost	46,947.9	49,471.5
14,15	Bonds at fair value	26,943.5	29,215.9
16	Shares, etc.	557.8	570.6
17	Land and buildings		
	Domicile property	64.5	64.6
18	Other tangible assets	7.5	7.3
	Current tax assets	-	-
23	Deferred tax assets	437.5	246.9
19	Other assets	3,442.4	3,546.0
	Total assets	**78,997.6**	**84,345.7**
	LIABILITIES AND EQUITY		
	Liabilities		
20	Due to credit institutions and central banks	9,205.1	9,350.0
21	Issued bonds at amortised cost	55,538.2	60,848.6
	Current tax liabilities	162.4	158.4
22	Other liabilities	3,526.8	3,566.3
	Total liabilities	**68,432.5**	**73,923.3**
	Provisions		
	Other provisions	0.0	28.0
	Total provisions	**0.0**	**28.0**
24	**Subordinated debt**		
	Subordinated debt	899.1	898.2
25	**Equity**		
	Share capital	333.3	333.3
	Tied-up reserve capital	8,343.1	8,343.1
	Revaluation reserves	9.6	9.6
	Retained earnings	980.0	810.2
	Total equity	**9,666.0**	**9,496.2**
	of which dividend proposed for the financial year	207.1	73.9
	Total liabilities and equity	**78,997.6**	**84,345.7**
	Off-balance sheet items		
27	Contingent liabilities	805.7	610.6
28	Other binding agreements	7,376.5	4,308.9
	Total off-balance sheet items	**8,182.2**	**4,919.5**

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 2010	**333,3**	**8.343,1**	**327,2**	**39,4**	**9.043,0**
Dividends distributed	-	-	-	(39,4)	(39,4)
Profit/loss for the period	-	-	418,7	73,9	492,6
Equity at 31 December 2010	**333,3**	**8.343,1**	**745,9**	**73,9**	**9.496,2**
Dividends distributed	-	-	-	(73,9)	(73,9)
Profit/loss for the period	-	-	36,6	207,1	243,7
Equity at 31 December 2011	**333,3**	**8.343,1**	**782,5**	**207,1**	**9.666,0**

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NOTES

NOTE 1 ACCOUNTING POLICIES

General
The annual report has been prepared in accordance with the Danish Financial Business Act as the Executive Order on a Ship Finance Institute refers to this act, including the Executive Order on financial reports by credit institutions and investment companies, etc. ("executive order on financial reporting"). Furthermore, the financial statements have been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

The accounting policies are unchanged from the policies applied in the financial statements for 2010.

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

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

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

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

Measurement of financial instruments that are only to a limited extent based on observable market data, are subject to estimates. This applies to unlisted shares and certain bonds for which an active market no longer exists. See "Determination of fair value" below and note 32 for a more detailed description.

Valuation (measurement) and loan impairment charges
The company makes impairment charges to account for impairment of loans that occurs after initial recognition. Impairment charges are made as a combination of individual charges and charges with a collective component and rely on a number of estimates, including identification of the loans or portfolios of loans with objective evidence of impairment. Objective evidence 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 breaches of loan covenants have not been dealt with or in case of default. 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

NOTE 1

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.

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. 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. Whereas the previous method contained a uniform deduction relative to the current market value for all vessels in a segment, the deduction has now been adjusted and broken down on relevant sub-segments, for example according to vessel size. 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.

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

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

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

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

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

Financial instruments – general
Purchases and sales of financial instruments are measured at their fair value as at the settlement date, which is usually the same as the transaction price. 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.

NOTE 1

At the date of recognition, financial assets are divided into the following two categories:
• trading portfolio measured at fair value;
• loans and other financial receivables, measured at amortised cost.

At the date of recognition, financial liabilities are divided into the following two categories:
• trading portfolio measured at fair value;
• other financial liabilities, measured at amortised cost.

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

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

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

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

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

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

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

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

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

NOTE 1

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 subsequently 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.

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

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

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

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.

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

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

NOTES

NOTE 1

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1

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 includes accrued interest, prepayments, derivatives with a negative market value and other provisions such as provisions relating to guarantees. The liability is recognised at the present value of expected payments.

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 current tax rates.

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

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

OFF-BALANCE SHEET ITEMS

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

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

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

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.

NOTE 1

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

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

Fees and commission income and expenses
Fee and commission income and expenses are generated by activities. Commission for services provided over a period of time, such as guarantee commissions and commitment fees, are accrued over the period. Transaction fees, such as agency fees in loan transactions, are recognised in the income statement on completion of the transaction.

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

The profit impact of fair value hedging is also recognised under market value adjustments.

STAFF COSTS AND ADMINISTRATIVE EXPENSES

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

Bonuses and share-based 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 items consists only depreciation and impairment of the domicile property and other tangible assets.

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

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

	DKK MILLION	2011	2010
NOTE 2	**INTEREST INCOME**		
	Interest from credit institutions	14.7	3.7
	Interest on loans	1,370.3	1,533.6
	Interest on bonds	933.7	949.1
	Other interest income	0.0	2.2
	Derivatives		
	Interest rate contracts	715.0	730.5
	Foreign exchange contracts	(5.5)	(1.6)
	Total interest income	**3,028.2**	**3,217.5**
	Of this amount, income from genuine purchase and resale transactions recognised in		
	Due from credit institutions and central banks	-	-
NOTE 3	**INTEREST EXPENSES**		
	Interest to credit institutions	(95.4)	(72.8)
	Interest on issued bonds	(1,912.3)	(2,143.6)
	Interest on subordinated debt	(84.3)	(84.4)
	Other interest expenses	(112.1)	(36.2)
	Total interest expenses	**(2,204.1)**	**(2,337.0)**
	Of this amount, interest expenses on genuine sale and repurchase transactions recognised in		
	Due to credit institutions and central banks	(94.9)	(72.5)

DKK MILLION	2011	2010
NOTE 4 NET INTEREST INCOME		
Net interest income from lending operations		
Interest on loans	1,370.3	1,533.5
Interest on bonds	270.7	362.1
Interest on block issues included in interest due from credit institutions	20.1	5.0
Interest to credit institutions	(4.8)	(17.6)
Interest expenses on issued bonds	(1,912.3)	(2,143.5)
Interest on subordinated debt	(84.3)	(84.4)
Other interest expenses	(20.9)	(23.9)
Derivatives		
Interest rate contracts	715.0	730.5
Foreign exchange contracts	(5.5)	(1.6)
Total net interest income from lending operations	**348.3**	**360.0**
Net interest income from financing operations		
Interest on bonds	663.0	587.0
Interest on loans	0.0	0.1
Interest due from credit institutions excluding interest on block issues	(5.4)	(1.3)
Other interest income	0.0	2.2
Interest to credit institutions	(90.7)	(55.2)
Other interest expenses	(91.2)	(12.3)
Total net interest income from financing operations	**475.8**	**520.5**
Total net interest income	**824.1**	**880.5**

	DKK MILLION	2011	2010
NOTE 5	FEE AND COMMISSION INCOME		
	Guarantee commission	8.4	6.7
	Fee and other commission income	50.0	54.7
	Total fee and commission income	**58.4**	**61.4**
NOTE 6	MARKET VALUE ADJUSTMENTS		
	Market value adjustment of bonds	268.3	11.6
	Market value adjustment of shares	(10.0)	53.9
	Exchange rate adjustments	12.1	15.7
	Market value adjustment of financial instruments	(405.5)	(83.0)
	Total market value adjustments	**(135.1)**	**(1.8)**

NOTE 7	DKK MILLION	2011	2010
	STAFF COSTS AND ADMINISTRATIVE EXPENSES		
	Remuneration of Board of Directors and Management Board		
	Management Board	(5.7)	(5.8)
	Board of Directors	(1.7)	(1.7)
	Total remuneration of Board of Directors and Management Board	**(7.4)**	**(7.5)**
	Staff costs		
	Wages	(42.7)	(40.0)
	Pensions	(4.8)	(4.5)
	Social security costs and financial services employer tax	(10.8)	(9.7)
	Total staff costs	**(58.3)**	**(54.2)**
	Other administrative expenses	(24.2)	(22.4)
	Total staff costs and administrative expenses	**(89.9)**	**(84.1)**
	Number of employees - full-time equivalents	59	57
	Average number of employees - full-time equivalents	58	58

DKK '000

NOTE 7, CONTINUE

REMUNERATION OF THE BOARD OF DIRECTORS

2011		Ordinary fee	Committee fee	Total fees
Per Skovhus, Chairman		300		300
Jens Thomsen, Deputy Chairman		225		225
Fatiha Benali	*)	150	50	200
Thorkil H. Christensen		150		150
Flemming Ipsen (retired at 24 March 2011)	*)	38	13	50
Michael Rasmussen	*)	150	50	200
Trond Ø. Westlie (member as of 24 March 2011)	*)	113	38	150
Erling Garrelts	**)	150		150
Lisbeth Navntoft Pedersen	**)	150		150
Henrik Rohde Søgaard	**)	150		150
Total		**1.575**	**150**	**1.725**

2010		Ordinary fee	Committee fee	Total fees
Per Skovhus, Chairman		300		300
Jens Thomsen, Deputy Chairman		225		225
Fatiha Benali	*)	150	50	200
Thorkil H. Christensen		150		150
Flemming Ipsen	*)	150	50	200
Michael Rasmussen	*)	150	50	200
Erling Garrelts	**)	150		150
Lisbeth Navntoft Pedersen	**)	150		150
Henrik Rohde Søgaard	**)	150		150
I alt		**1.575**	**150**	**1.725**

*) Member of Audit Committee
**) Employee representative

NOTE 7, CONTINUED

DKK '000	2011	2010
REMUNERATION OF MANAGEMENT BOARD		
Erik I. Lassen		
Fixed salary		
Contractual remuneration	2,581	2,292
Pension	319	283
Tax value of car	96	119
Variable pay		
Cash bonus	-	370
Share-based remuneration	-	-
Total	**2,996**	**3,064**
Per Schnack		
Fixed salary		
Contractual remuneration	2,323	1,998
Pension	287	247
Tax value of car	127	127
Variable pay		
Cash bonus	-	323
Share-based remuneration	-	-
Total	**2,737**	**2,694**

The pension scheme is a defined 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.

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

In 2010, deductions totalling DKK 2.9 million were made in the taxable income in respect of remuneration of the Management Board.

For 2011, deductions of DKK 2.9 million are expected to be made in the taxable income in respect of remuneration of the Management Board.

DKK '000

NOTE 7, FORTSAT

INFORMATION ON REMUNERATION POLICY

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

The Board of Directors of Danish Ship Finance A/S has approved the remuneration policy for 2011, which was adopted by the company's annual general meeting on 24 March 2011. The remuneration policy is available on the company's website.

It appears from the remuneration policy that it has been resolved for 2011 that no variable remuneration will be disbursed to members of the Board of Directors, the Management Board and other employees whose activities have a material impact on the company's risk profile.

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

2011	**Fixed remuneration/ fee**	**Variable remuneration**	**Total remuneration/ fee**	**Number of recipients**
Board of Directors	1,725	0	1,725	9
Management Board	5,733	0	5,733	2
Other employees whose activities have an impact on the company's risk profile	3,115	0	3,115	2
Total	**10,573**	**0**	**10,573**	

NOTES

DKK MILLION		2011	2010
NOTE 8	AUDIT FEES		
	Audit fees, statutory audit	(0.6)	(0.7)
	Tax consulting service	0.0	(0.1)
	Non-audit services	0.0	(0.2)
	Total fees	**(0.6)**	**(1.0)**
NOTE 9	TAX		
	Tax on profit/loss for the year		
	Estimated tax on profit/loss for the year	(273.2)	(246.4)
	Changes in deferred tax	190.6	36.1
	Adjustment of prior-year tax charges	0.1	90.4
	Total tax	**(82.5)**	**(119.9)**
	Effective tax rate	**Pct.**	**Pct.**
	Tax rate in Denmark	25.0	25.0
	Non-taxable income and non-deductible expenses	(0.8)	(5.4)
	Adjustment of prior-year tax charges	1.1	0.0
	Effective tax rate	**25.3**	**19.6**
NOTE 10	DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Genuine purchase and resale transactions (repo reverse)	0.0	0,0
	Other receivables	596.5	1,222.9
	Total due from credit institutions and central banks	**596.5**	**1,222.9**
	Broken down by due date:		
	Demand deposits	83.2	127,3
	Up to 3 months	513.3	1,080.3
	From 3 months to 1 year	0.0	15.3
	From 1 to 5 years	0.0	0.0
	Over 5 years	0.0	0.0
	Total due from credit institutions and central banks	**596.5**	**1,222.9**

NOTES

	DKK MILLION	2011	2010
NOTE 11	**LOANS AT AMORTISED COST**		
	At 1 January	49,471.5	48,437.6
	Additions	3,877.5	6,057.1
	Ordinary repayments and redemptions	(5,309.7)	(5,199.5)
	Extraordinary prepayments	(1,560.8)	(3,154.9)
	Net change concerning revolving credit facilities	(119.5)	(265.3)
	Exchange rate adjustment of loans	883.0	3,807.6
	Change in amortised cost for the year	3.0	(7.0)
	Depreciation, amortisation and impairment for the year	(297.1)	(204.1)
	At 31 December	**46,947.9**	**49,471.5**

NOTE 12	**LOANS AT AMORTISED COST**		
	Gross loans at exchange rates at the balance sheet date	49,275.8	51,502.2
	Loan impairment charges	(2,327.9)	(2,030.7)
	Total loans	**46,947.9**	**49,471.5**
	Total loans broken down by due date:		
	Up to 3 months	1,342.8	1.427,9
	From 3 months to 1 year	4,882.5	4,863.4
	From 1 to 5 years	25,516.1	25,614.7
	Over 5 years	15,206.5	17,565.5
	Total loans	**46,947.9**	**49,471.5**
	Total loans		
	Loans at fair value	48,014.5	50,322.6
	Loans at amortised cost	46,947.9	49,471.5

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

Loans and receivables subject to individual impairment charges (breach of covenants)
Value of loans with objective evidence of impairment

	2011	2010
Loans and receivables for which respite has been granted	2.129,3	473,2
Impairment charges	(792,3)	(205,0)
Total loans and receivables for which respite has been granted	**1.337,0**	**268,2**
Loans and receivables involving breach of covenants	2.027,8	3.758,7
Impairment charges	(416,2)	(569,6)
Total loans and receivables involving breach of covenants	**1.611,6**	**3.189,1**
Total loans and receivables subject to individual impairment charges	**2.948,6**	**3.457,3**

DKK MILLION	2011	2010
NOTE 13 IMPAIRMENT CHARGES		
The following impairment charges were made on receivables		
Individual impairment charges	1,208.5	774.6
Impairment charges with a collective component	1,119.4	1,284.1
Total impairment charges	**2,327.9**	**2,058.7**
As a percentage of loans and impairment charges		
Individual impairment charges	2.4	1.5
Impairment charges with a collective component	2.2	2.4
Total impairment charges	**4.6**	**3.9**
Distribution of impairment charges		
Amount set off against loans	2,327.9	2,030.7
Provisions made for other liabilities	-	28,0
Total impairment charges	**2,327.9**	**2,058.7**
Movements in impairment charges		
At 1 January	2,058.7	1,871.7
Additions	1,327.4	960.9
Reversal of impairment charges from previous years	(973.3)	(696.1)
Losses covered by impairment charges from previous years	(84.9)	(77.8)
Total impairment charges	**2,327.9**	**2,058.7**
Losses on and impairment charges on receivables		
New impairment charges	(1,327.4)	(960.9)
Reversed impairment charges	973.3	696.1
Reclassification of interest	19.7	19.6
Losses not covered by impairment charges from previous years	-	(0.1)
Received on claims previously written off	1.0	0.0
Total losses on and impairment charges on receivables	**(333.4)**	**(245.3)**

DKK MILLION		2011	2010
NOTE 14	**BONDS AT FAIR VALUE**		
	Bond portfolio		
	Non-callable bonds	18,884.4	20,384.3
	Callable bonds	8,059.1	8,831.6
	Total bond portfolio	**26,943.5**	**29,215.9**
	Bond portfolio		
	Government bonds and bonds issued by KommuneKredit	751.9	755.6
	Mortgage bonds	26,191.6	28,460.3
	Total bond portfolio	**26,943.5**	**29,215.9**
NOTE 15	**BOND HOLDINGS BY TIME TO MATURITY**		
	Bond portfolio		
	Bonds with a maturity of up to and including 1 year	4,624.8	2,811.2
	Bonds with a maturity of over 1 year and up to and including 5 years	13,593.5	19,499.2
	Bonds with a maturity of over 5 years and up to and including 10 years	1,855.8	1,719.0
	Bonds with a maturity of over 10 years	6,869.4	5,186.5
	Total bond holdings specified by time to maturity	**26,943.5**	**29,215.9**

DKK MILLION	2011	2010

NOTE 16

SHARES, ETC.

	2011	2010
Unit trust certificates (shares) listed on NASDAQ OMX Copenhagen A/S	324.5	353.5
Unlisted shares/unit trust certificates recognised at fair value	233.3	217.1
Total shares, etc.	**557.8**	**570.6**

NOTE 17

LAND AND BUILDINGS

	2011	2010
Domicile property		
Revaluation, 1 January	65.0	65.0
Property improvements during the year	0.0	0.0
Revaluation incl. improvements, 31 December	**65.0**	**65.0**
Accumulated depreciation, 1 January	0.4	0.3
Depreciation for the year	0.1	0.1
Accumulated depreciation, 31 December	**0.5**	**0.4**
Total revaluation, 31 December	**64.5**	**64.6**

The domicile property comprises the office property at Sankt Annæ Plads 1-3, Copenhagen, the public valuation of which was assessed at DKK 79.0 million at 1 October 2010.

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

	DKK MILLION	2011	2010
NOTE 18	**OTHER TANGIBLE ASSETS**		
	Cost, 1 January	21.8	21.0
	Additions during the year	1.3	0.8
	Disposals during the year	(0.4)	0.0
	Cost, 31 December	**22.7**	**21.8**
	Accumulated depreciation, 1 January	14,5	13.0
	Disposals during the year	(0.2)	0.0
	Depreciation during the year	0.9	1.5
	Accumulated depreciation, 31 December	**15.2**	**14.5**
	Total other tangible assets	**7.5**	**7.3**
NOTE 19	**OTHER ASSETS**		
	Interest receivable	653.0	785.3
	Prepayments to swap counterparties	14.4	14.1
	Receivables concerning CIRR financing	61.8	82.8
	Fair value of derivatives	2,705.5	2,657.8
	Miscellaneous receivables	7.7	6.0
	Total other assets	**3,442.4**	**3,546.0**
NOTE 20	**DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS**		
	Repo transactions	9,205.1	9,284.4
	Other amounts due	0.0	65.6
	Total due to credit institutions and central banks	**9,205.1**	**9,350.0**
	Broken down by due date:		
	On demand	0.0	65.6
	Up to 3 months	9,205.1	9,284.4
	From 3 months to 1 year	0.0	0.0
	From 1 to 5 years	0.0	0.0
	Over 5 years	0.0	0.0
	Total due to credit institutions and central banks	**9,205.1**	**9,350.0**

DKK MILLION	2011	2010
NOTE 21 ISSUED BONDS AT AMORTISED COST		
At 1 January	60,848.6	63,056.9
Additions in conjunction with block issues	1,297.4	1,310.0
Amortisation of cost	503.3	393.2
Adjustment for hedge accounting	1,019.8	1,254.7
Exchange rate adjustment	151.9	823.6
Ordinary and ekstraordinary redemptions	(8,282.8)	(5,989.8)
At 31 December	**55,538.2**	**60,848.6**
Specification of issued bonds		
Bonds issued in DKK		
Bullet bonds	45,854.2	49,782.3
Amortising CIRR bonds	615.8	307:9
Total Danish bonds	**46,470.0**	**50,090.2**
Bonds issued in foreign currency		
Amortising CIRR bonds, at year-end exchange rates	8,956.7	9,901.1
Bullet bonds, at year-end exchange rates	111.5	857.3
Total bonds issued in foreign currency	**9,068.2**	**10,758.4**
Total issued bonds	**55,538.2**	**60,848.6**
Broken down by term to maturity:		
Up to 3 months	0.0	0.0
From 3 months to 1 year	1,225.3	3,247.6
From 1 to 5 years	23,687.4	26,033.2
Over 5 years	30,625.5	31,567.8
Total issued bonds	**55,538.2**	**60,848.6**

DKK MILLION		2011	2010
NOTE 22	OTHER LIABILITIES		
	Interest payable	500.5	500.1
	Fair value of derivatives	3,007.0	3,043.5
	Other liabilities	19.3	22.7
	Total other liabilities	**3,526.8**	**3,566.3**
NOTE 23	DEFERRED TAX		
	Deferred tax, 1 January	(246.9)	(210.8)
	Estimated deferred tax on the profit for the year	(194.0)	(126.4)
	Adjustment of deferred tax relating to prior years	3.4	90.3
	Total deferred tax	**(437.5)**	**(246.9)**

	2011	2011	2011	2010
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax net**	**Deferred tax net**
Property, plant and equipment	(0.3)	4.3	4.0	3.9
Loans	(25.3)	15.5	(9.8)	(5.3)
Issued bonds	(419.2)	-	(419.2)	(225.1)
Employee obligations	(0.5)	-	(0.5)	(0.7)
Net loss - portfolio shares	(12.0)	-	(12.0)	(19.7)
Total deferred tax	**(457.3)**	**19.8**	**(437.5)**	**(246.9)**

	DKK MILLION	2011	2010

NOTE 24

SUBORDINATED DEBT

	2011	2010
Principal	900.0	900.0
Origination fees for amortisation	(0.9)	(1.8)
Subordinated debt	**899.1**	**898.2**

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

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

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

CURRENCY	BORROWER	PRINCIPAL	INTEREST RATE	RECEIVED	DUE	REPAYMENT PRICE
DKK	Danish Ship Finance	900,0	9.49%	2009	No due date	100,0 at repayment before 2015 105,0 at repayment before 2016 110,0 at repayment in 2016 and later years

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

NOTE 25

EQUITY

	2011	2010
Share capital		
A shares	300.0	300.0
B shares	33.3	33.3
Total share capital	333.3	333.3
Tied-up reserve capital	8,343.1	8,343.1
Revaluation reserves	9.6	9.6
Retained earnings	980.0	810.2
Total equity	**9,666.0**	**9,496.2**
of which proposed dividend, cf. allocation of profit	*207.1*	*73.9*

The share capital is divided into the following denominations:
A shares 300,000,000 shares of DKK 1.00 each
B shares 33,333,334 shares of DKK 1.00 each
Each A share of DKK 1.00 entitles the holder to 10 votes. Each B share of DKK 1.00 entitles the holder to 1 vote.

NOTE 26 SOLVENCY

DKK MILLION	2011	2010
Tier 1 capital		
Share capital	333.3	333.3
Tied-up reserve capital	8,343.1	8,343.1
Retained earnings	980.0	810.2
Total tier 1 capital	**9,656.4**	**9,486.6**
Deductions in Tier 1 capital		
Proposed dividend	207.1	73.9
Deferred tax assets	275.1	88.5
Additional straining relative to the Executive Order on a Ship Finance Institute	323.0	414.2
Total deductions in tier 1 capital	**805.2**	**576.6**
Tier 1 capital less deductions	**8,851.2**	**8,910.0**
Subordinated debt		
Subordinated debt	899.1	898.2
Total tier 1 capital	**9,750.3**	**9,808.2**
Supplementary capital		
Revaluation reserves	9.6	9.6
Supplementary capital less deductions	**9.6**	**9.6**
Capital base less deductions	**9,759.9**	**9,817.8**
Weighted items not included in the trading portfolio	49,028.0	52,761.0
Weighted off-balance sheet items	4,489.9	2,761.2
Weighted items involving counterparty risk outside the trading portfolio	696.0	708.1
Weighted items involving market risk, etc.	3,826.7	6.258.2
Weighted items involving operational risk	1,858.6	1,653.6
Total weighted items	**59,899.2**	**64,142.1**
Tier 1 capital less deductions as a percentage of total risk-weighted items	**16.3**	**15.3**
Solvency ratio pursuant to the Executive Order on a Ship Finance Institute	**16.3**	**15.3**
Minimum requirement fixed at 8%		
Weighted items with market risk, etc. consist of		
Items with position risk: Debt instruments	3,146.0	5.006.1
Items with position risk: Shares	5.9	5.9
Total currency position	674.8	1,246.2
Total weighted items with market risk, etc.	**3,826.7**	**6,258.2**

	DKK MILLION	2011	2010
NOTE 27	**CONTINGENT LIABILITIES**		
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken guarantee commitments of	800.0	605.2
	Payment guarantee provided to the Danish Securities Centre	3.9	3.7
	Guarantees provided to the Danish Securities Centre	1.8	1.7
	Total contingent liabilities	**805.7**	**610.6**
NOTE 28	**OTHER BINDING AGREEMENTS**		
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken commitments in relation to unutilised drawing rights on loans with revolving credit facilities in the amount of	208.1	1,115.1
	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	132.7	77.7
	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	7,035.7	3,116.1
	Total other binding agreements	**7,376.5**	**4,308.9**

NOTE 29 RELATED PARTIES

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

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

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

The company has no related parties with a controlling influence.

DKK MILLION

NOTE 30

HEDGE ACCOUNTING

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

2011	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	28,127.4	29,420.2	28,392.2
Total commitments	**28,127.4**	**29,420.2**	**28,392.2**
Derivatives			
Interest rate swaps	(28,127.4)	(2,750.0)	(2,750.0)
Total derivatives	**(28,127.4)**	**(2,750.0)**	**(2,750.0)**
Net	**0.0**	**26,670.2**	**25,642.2**

2010	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	32,156.6	31,939.7	31,594.4
Total commitments	**32,156.6**	**31,939.7**	**31,594.4**
Derivatives			
Interest rate swaps	(32,156.6)	(1,730.1)	(1,730.1)
Total derivatives	**(32,156.6)**	**(1,730.1)**	**(1,730.1)**
Net	**0.0**	**30,209.6**	**29,864.3**

DKK MILLION	2011	2010
NOTE 31 NOTIONAL PRINCIPALS OF OUTSTANDING DERIVATIVES		
Swap agreements:		
Swap agreements have been made with the following parties to hedge the exchange rate exposure on loans and issued bonds:		
Danmarks Nationalbank	17.5	124.5
Banks	46,706.1	52,623.0
Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:		
Receivables	583.2	491.2
Banks	64,304.8	61,323.0
Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:		
Banks	11,722.9	5,495.5
Forward interest rate and currency agreements:		
Forward interest rate and currency agreements have been made with the following parties to hedge interest rate and exchange rate risk		
Banks	2,518.0	3,253.5
Forward securities transactions		
Buying	759.1	389.7
Selling	-	-

	DKK MILLION	2011 POSITIVE	2011 NEGATIVE	2010 POSITIVE	2010 NEGATIVE
NOTE 32	FAIR VALUES OF OUTSTANDING DERIVATIVES				
	Swap agreements:				
	Swap agreements have been made with the following parties				
	to hedge the exchange rate exposure on loans and issued bonds:				
	Danmarks Nationalbank	2.0	-	17.9	-
	Banks	1,194.4	1.671.7	1,890.1	1,591.1
	Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:				
	Receivables	0.9	114.0	-	90.8
	Banks	1,523.5	828.9	763.9	1,367.1
	Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:				
	Banks	53.2	665.1	40.5	156.9
	Forward interest rate and currency agreements				
	Forward interest rate and currency agreements have been made with the following parties to hedge interest rate and exchange rate risk				
	Banks	1.4	29.4	0.1	9.1
	Forward securities transactions				
	Buying	3.9	-	0.6	-
	Selling	-	-	-	-
	Netting of exposure value				
	The positive gross fair value of financial contracts after netting, pursuant to appendix 17 to the Danish Executive Order on Capital Adequacy				
	Counterparty with risk weight of 0%	2.0		17.9	
	Counterparty with risk weight of 20%	1,256.6		1,274.6	
	Counterparty with risk weight of 100%	0.0		0.0	
	Value of total counterparty risk calculated according to the market valuation method for counterparty risk				
	Counterparty with risk weight of 0%	2.0		17.9	
	Counterparty with risk weight of 20%	2,773.4		2,694.6	
	Counterparty with risk weight of 100%	0.0		0.0	

DKK MILLION

NOTE 33

EXCHANGE RATE RISK AND USE OF DERIVATIVES AT 31 DECEMBER 2011

The total unhedged foreign currency position at 31 December 2011, translated at year-end exchange rates into DKK amounts to DKK 336,8 million (DKK 882,2 million at 31 December 2010).

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	43,602.3	4,711.7	48,314.0	961.8	49,275.8
Loan impairment charges				(2,327.9)	(2,327.9)
Loans as per the balance sheet					**46,947.9**
Due from credit institutions and central banks	50.4	29.7	80.0	516.5	596.5
Bond portfolio	0.0	2,714.5	2,714.5	24,229.0	26,943.5
Interest receivable, etc.	243.0	70.2	313.2	339.7	653.0
Other assets			0.0	3,856.8	3,856.8
Total assets as per the balance sheet	**43,895.7**	**7,526.2**	**51,421.7**	**27,575.9**	**78,977.6**
Issued bonds at year-end exchange rates	(8,956.8)	(111.5)	(9,068.3)	(46,469.9)	(55,538.2)
Issued bonds as per the balance sheet					**(55,538.2)**
Due to banks	0.0	(2,232.9)	(2,232.9)	(6,972.2)	(9,205.1)
Interest payable	(159.8)	(36.1)	(195.9)	(304.6)	(500.5)
Other payables				(4,087.8)	(4,087.8)
Total equity				(9,666.0)	(9,666.0)
Total liabilities as per the balance sheet	**(9,116.6)**	**(2,380.5)**	**(11,497.1)**	**(67,500.5)**	**(78,997.6)**
Derivatives					
- receivables	2,983.8	5,787.5	8,771.3		
Derivatives					
- payables	(37,600.0)	(10,759.3)	(48,359.3)		
Total net position	**162.9**	**173.9**	**336.8**		
(translated into DKK)					

	DKK MILLION	2011	2010

NOTE 34 MARKET RISK SENSITIVITY

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

	2011	2010
Interest rate risk		
An interest rate increase of 1 percentage point		
Change in results	(42.0)	(219.1)
Change in equity	(42.0)	(219.1)
An interest rate fall of 1 percentage point		
Change in results	42.0	219.1
Change in equity	42.0	219.1
Equity risk		
An increase in the value of the shares of 10 percentage points		
Change in results	41.8	42.8
Change in equity	41.8	42.8
A decline in the value of the shares of 10 percentage points		
Change in results	(41.8)	(42.8)
Change in equity	(41.8)	(42.8)
Exchange rate risk		
An appreciation of the USD exchange rate vis-à-vis DKK		
Change in results	(239.5)	(212.4)
Change in equity	(239.5)	(212.4)
Percentage change in solvency	(1.9%)	(1.8%)
A depreciation of the USD exchange rate vis-à-vis DKK		
Change in results	239.5	212.4
Change in equity	239.5	212.4
Percentage change in solvency	1.9%	1.8%

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.

	DKK MILLION	2011	2010

NOTE 35

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	2011	2010
Loans		
Measured at amortised cost	46,947.9	49,471.5
Measured at fair value	48,014.5	50,322.6

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	2011	2010
Issued bonds		
Measured at amortised cost, incl. hedging	55,538.1	60,848.6
Measured at fair value	56,156.4	60,504.9

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 36	DKK MILLION	2011	2010
	CREDIT RISK		
	Total credit exposure distributed on balance sheet and off-balance sheet items		
	Due from credit institutions and central banks	596.5	1,222.9
	Loans at amortised cost	46,947.9	49,471.5
	Bonds at fair value	26,943.5	29,215.9
	Shares, etc.	557.8	570.6
	Derivatives	2,705.5	2,657.8
	Total balance sheet items	**77,751.2**	**83,138.7**
	Off-balance sheet items		
	Contingent liabilities	805.7	610.6
	Other binding agreements	7,376.5	4,308.9
	Total off-balance sheet items	**8,182.2**	**4,919.5**

NOTE 36, CONTINUED

CREDIT RISK IN THE LOAN PORTFOLIO

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

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

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

LOAN-TO-VALUE RANGE	SHARE OF LOANS 2011	SHARE OF LOANS 2010
0 - 20 %	33%	32%
20 - 40 %	31%	30%
40 - 60 %	26%	26%
60 - 80 %	8%	10%
80 - 100 %	1%	1%
Over 100 %	1%	1%

Loans for shipbuilding financing is included in the "over 100%" category in the table above. No mortgage is registered on vessels during the building period, but the company receives a guarantee from the borrower, and is secured through assignment and subrogation in the building contract and subrogation in the refundment guarantee provided by the shipyard's bank. Loans for shipbuilding accounted for 1.6% of the loan portfolio at 31 December 2011 (1.5% in 2010).

It appears from the table above that 90% of the loan amounts is secured through mortgages within 60% of the most recently calculated market value of the mortgage, and 98% of the loans are within 80% of the most recently calculated market value of the mortgage.

The market value of ships in the loan portfolio has generally declined by 11% since the end of December 2010 meassured in DKK compared with 14% 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 37

REFERENCE NOTE

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

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

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