ANNUAL REPORT 2010

DANISH
SHIP FINANCE

CVR NR. 27 49 26 49

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DANISH SHIP FINANCE A/S AT A GLANCE

BUSINESS AREA

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

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

Danish Ship Finance must comply with the balance principle, which ensures that adequate funding is in place to finance the existing portfolio of loans and loan offers. Additional lending activities may result in new bond issues.

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

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

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

FINANCIAL PERFORMANCE AND EVENTS DURING THE YEAR

At 31 December 2010, Danish Ship Finance had loans of DKK 49.5 billion, total assets of DKK 84.3 billion and equity of DKK 9.5 billion. The company has first mortgages in approximately 530 vessels.

The company's loans were more or less equally divided between Danish and international shipowners. Loans to foreign shipowners were distributed on 49 shipowners and 21 countries.

The profit after tax for the year was DKK 492.6 million. The profit is considered satisfactory in light of the challenges facing the shipping market and the financial markets.

Accumulated loan impairment charges in Danish Ship finance amounted to DKK 2.1 billion at 31 December 2010. The charges are considered adequate to cover any losses that may arise under the present economic conditions.

Danish Ship Finance had a solvency ratio of 15.3% at 31 December 2010 after proposed dividends. The company's tier 1 capital ratio was also 15.3%.

KEY FIGURES AND RATIOS FOR DANISH SHIP FINANCE A/S

KEY FIGURES DKK MILLION	2010	2009	2008	2008 *)	2007 **)	2006 **)
Net interest income from lending operations	360	234	275	256	174	174
Net interest income from financing operations	521	489	471	470	443	411
Total net interest income	881	723	745	726	617	585
Net interest and fee income	945	772	787	796	659	630
Market value adjustments	(2)	508	(406)	(378)	(160)	(123)
Staff costs and administrative expenses	(84)	(82)	(87)	(92)	(86)	(80)
Impairment charges on loans and receivables, etc.	(245)	(874)	(702)	(200)	104	176
Profit/loss before tax	613	323	(410)	128	519	606
Profit/loss for the year	493	263	(367)	37	394	443
Loan	49,472	48,438	48,118	51,044	42,690	37,746
Bonds	29,216	30,616	26,521	26,851	21,394	16,893
Subordinated debt	898	897	-	-	-	-
Equity	9,496	9,043	8,786	8,879	9,177	9,158
Total assets	84,346	84,947	81,724	81,632	76,660	62,542

RATIOS	2010	2009	2008	2008 *)	2007 **)	2006 **)
Solvency ratio	15.3	14.3	12.8	13.0	15.3	17.9
Tier 1 capital ratio	15.3	14.3	12.8	13.0	15.3	17.9
Return on equity before tax (%)	6.6	3.6	(4.5)	1.4	5.7	6.8
Return on equity after tax (%)	5.3	2.9	(4.0)	0.4	4.3	5.0
Cost/income ratio (DKK) ***)	2.9	1.3	0.5	1.4	(25.1)	(5.2)
Cost/income ratio (ex. impairment charges)	11.0	15.3	4.3	4.5	5.9	6.5
Foreign exchange position (%)	12.7	13.3	10.9	10.7	1.7	2.2
Gearing of loans	5.2	5.4	5.5	5.7	4.7	4.1
Annual growth in lending (%)	2.1	0.7	24.1	19.6	13.1	1.5
Impairment ratio for the year	0.5	1.7	1.4	0.4	(0.2)	(0.5)
Accumulated impairment ratio	3.9	3.7	2.0	1.8	1.7	2.1

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

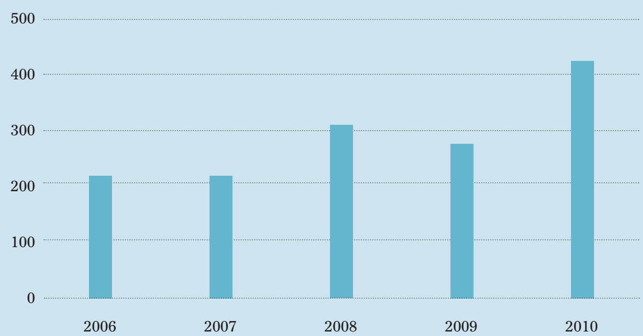
*) *This 2008 column shows key figures calculated according to the previous accounting policies.*

**) *For 2006 to 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.*

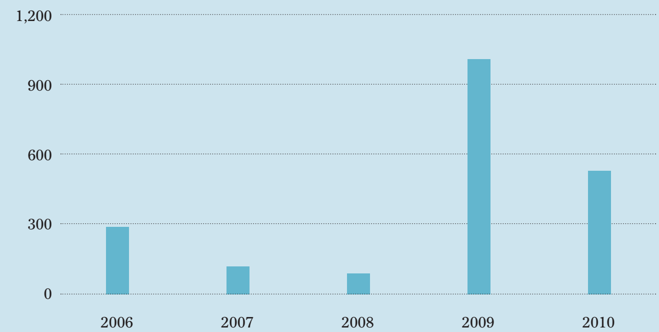
NET INTEREST INCOME/COST FROM LENDING OPERATION
DKK MILLION

Net interest income from lending operations incl.
fee and commision income



NET INCOME FROM FINANCING OPERATION
DKK MILLION

Net interest income from financing operations incl.
market value adjustment and dividend on shares

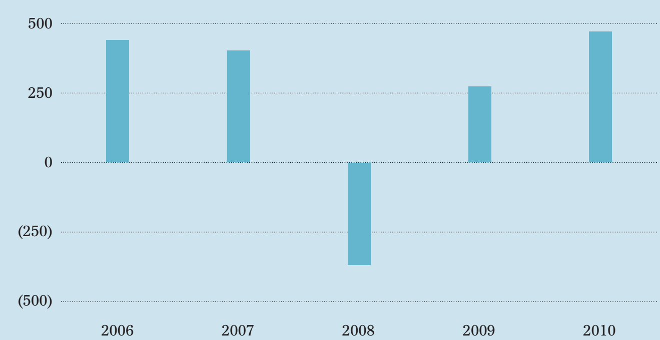


STAFF COSTS AND ADMINISTRATIVE EXPENSES
DKK MILLION

Staff costs and administrative expenses

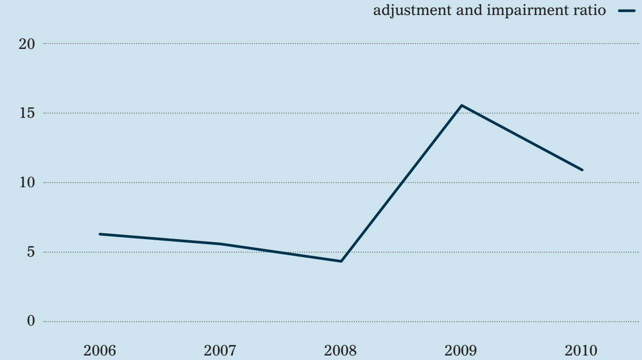
PROFIT/LOSS FOR THE YEAR
DKK MILLION

Profit/loss for the year



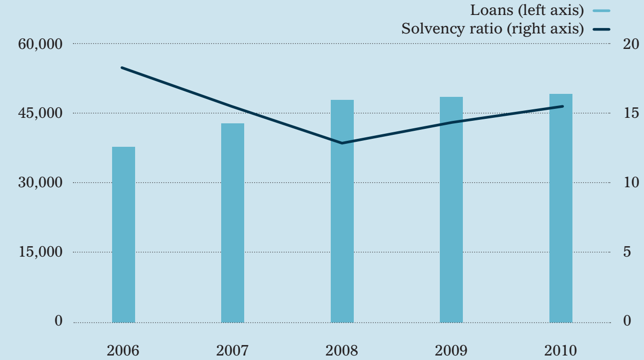
INCOME/COST RATIO

Income/cost ratio excl. market value
adjustment and impairment ratio



LOANS/SOLVENCY RATIO
DKK MILLION / %

Loans (left axis)
Solvency ratio (right axis)



2010

Market conditions in 2010 developed very differently in the various segments in which Danish Ship Finance operates. Given the circumstances, the company generally had a satisfactory year in 2010. The company recorded a decent increase in earnings on lending operations, and losses and impairment charges were kept at an acceptable level.

The impact of the crisis that especially hit the western economies in 2008 was still being felt in 2010. The many steps taken to stabilise the financial system have apparently worked, and in most respects the financial markets are functioning normally. However, the various measures have taken their toll, and combined with high government debts in a number of countries in Europe and in the USA, the crisis is not over. China and the Asian economies were less impacted by the crisis and recorded decent growth rates in 2010.

Overall, sea transport and global trade recovered at renewed strength, reaching the levels recorded in 2008. This benefitted especially the container market, in which line operators achieved strong growth. Other segments, including in particular the dry bulk market, also outperformed expectations. The tanker market had a difficult year, struggling with low rates. Although global trade returning to 2008 levels is a positive factor, the market is characterised by the fact that the intervening period has witnessed a substantial increase of the global fleet.

After the financial crisis, some of the large international lenders have comprehensively scaled down their lending operations, reducing the supply of loan capital in the ship financing market compared with pre-crisis levels. These developments had a special impact on less creditworthy shipowners, as lenders generally preferred contracting with shipowners with a sound financial standing. Vessel-manufacturing countries have expanded their offers of government subsidies for the financing of vessels built in these countries, and this partly replaced some of the lost capacity among commercial banks. Overall demand for ship financing is at a much lower level than before the crisis.

Credit margins widened dramatically at the end of 2008 but have narrowed somewhat since then. Credit margins remain much wider than before the crisis, partly because of a corresponding increase in lenders' funding costs.

PERFORMANCE RELATIVE TO EXPECTATIONS

The profit for the year was largely in line with the expectations expressed in the annual report for 2009. As such, it came as no surprise that 2010 would bring additional impairment charges and losses due to the impact of the crisis on the shipping market and, by extension the company's customers. The raising of hybrid tier 1 capital caused higher interest expenses, whilst the improvement in earnings from lending operations, as expected, was sufficient to ensure a net improvement in earnings from lending operations.

As the company's loans are primarily in USD, the profit and the solvency ratio are sensitive to fluctuations in the DKK/USD exchange rate. The company had not expressed specific expectations for developments in the DKK/USD exchange rate. The USD appreciation of 8.1% in 2010 had an overall adverse impact on the company's profit. Also, the company had not expressed expectations for developments in the return on its securities portfolio, which was only marginally affected by market value adjustments.

ACTIVITIES DURING THE YEAR

The company experienced weaker demand for loans than in the preceding years. In 2010, many of the company's customers stood on the sideline and did not venture into large new ship investments. This resulted in a total of DKK 2.3 billion of loan offers accepted, which is well below the levels witnessed in previous years.

Disbursed loans amounted to DKK 6.1 billion, relating to loans offered during the year as well as loans offered in previous years. At the beginning of 2011, the portfolio of accepted loan offers amounted to DKK 4.3 billion, which is also lower than previously.

All loans include requirements to the customers by way of covenants. This could be a requirement that a mortgaged vessel must have a certain minimum value relative to its outstanding debt. When the shipping segment is at the trough of the economic cycle, it is not unusual for example that covenants in certain loans are not fulfilled. Such an event is described as "objective evidence of impairment". Lack of fulfilment – or objective evidence of impairment – does not necessarily by itself indicate that a loan is heading for default. However, it does give rise to a discussion between the lender and the relevant customer about the company's situation and future prospects, and in a number of cases it will lead to adjustments to the loan commitment. In 2010, the company again spent quite a few resources in this area, although there were fewer discussions than in 2009. Loans with objective evidence of impairment represented 17% of total lending at the end of 2009, declining to 8% at the end of 2010. Loans in actual default, which also indicate objective evidence of impairment, amounted to 0.2% of total lending at the end of 2010, remaining at a low level. All loans for which there is objective evidence of impairment are included in the calculation basis for loan impairment charges.

Loan impairment charges amounted to DKK 245.3 million in 2010 and were primarily due to the higher DKK/USD exchange rate than at the end of 2009. More than 85% of the company's loans are denominated in USD, and the appreciation of the USD thus affects impairment charges expressed in Danish kroner. The combined provisions for bad debts subsequently amount to DKK 2.1 billion, corresponding to 3.9% of lending.

The company reported a gross loss of DKK 77.9 million, whilst the corresponding figure in 2009 was DKK 3.5 million. The losses recorded to date in the worst crisis for decades are thus limited in view of the company's loan portfolio, core earnings and equity.

Credit quality in lending remained at a comfortable level.

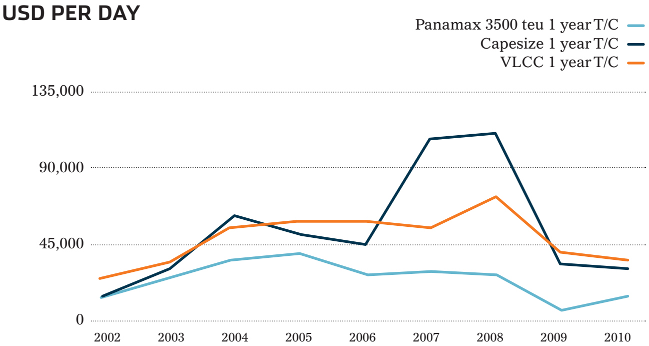
The company's shares

When Danish Ship Finance was converted from a foundation into a limited liability company in 2005, an agreement was concluded between the shareholders concerning a five-year lock-up period during which the shares could not be sold. The lock-up period expired in July 2010, and the shares, which are unlisted, are now freely transferable. Since July 2010, no noteworthy changes have been recorded in the composition of shareholders, and there have been no changes among the shareholders holding more than 5% of the shares.

THE SHIPPING MARKET

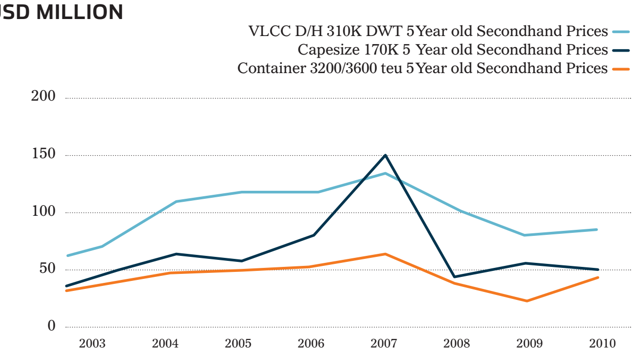
In 2010, the global economy expanded faster than previously expected. Owing to government stimulus packages and the resulting economic growth, global trade has returned to pre-crisis levels. In terms of volumes, global trade climbed 15% in 2010, returning largely to 2008 levels.

TIMECHARTER RATE
USD PER DAY



Source: Clarksons, Dansih Ship Finance

SHIP VALUES BY TYPE AND AGE
USD MILLION



Source: Clarksons, Danish Ship Finance

Demand for international sea transport has gone up concurrently with the expansion of global trade. In a number of vessel segments, however, the increase in demand was insufficient to employ the large inflow of new tonnage in 2009 and 2010. Across all vessel types, rates were higher in 2010 than in 2009 but, overall, they have not returned to pre-crisis levels.

The container market was particularly challenged in 2010. At the beginning of the year, the industry struggled a large excess supply of tonnage. In the course of the year, 1.2 million teu was delivered. The supply of vessels rose by 9%, and demand for container vessels also increased by 9%, so the increase in demand was not sufficient to restore the balance between supply and demand. Nevertheless, rates increased in 2010, and the reason is that line operators in 2010 opted to reduce the speed at which the vessels are sailing. As a result, ship prices went up in 2010. However, a latent excess supply of tonnage persists. The outlook is therefore marked by the frailty of rates being supported by vessels sailing more slowly than in 2008 and 2009.

In spite of an increase in global oil consumption, the tanker segments had a difficult year. Demand for tankers rose by about 8-10% in 2010, returning to pre-crisis levels. Demand for tankers was lifted back to 2008 levels by a combination of higher oil consumption in Asia, the building of oil inventories in and outside the OECD and longer trade distances. The supply of tankers rose steadily in both 2009 and 2010. Earnings in the tanker segments are suffering due to a general excess supply of tonnage. More specialised vessels such as gas and chemical tankers experienced worse rate developments than product and crude oil tankers. This triggered a decline in the market value of gas and chemical tankers in 2010. Market expectations of an imminent phasing-out of single-hulled tankers contributed to stabilising the market value of product and crude oil tankers in 2010. The outlook for the tanker segment largely depends on whether a sufficient number of vessels are phased out, helping to restore the balance between supply and demand.

Demand for dry bulk carriers once again exceeded expectations in 2010. Unlike demand for container vessels and tankers, demand for dry bulk carriers did not decline during the financial crisis. On the contrary, there was an increase in demand in both 2009 and 2010. In terms of volume, demand increased by 12% in 2010. The combination of European and Japanese imports returning to pre-crisis levels in 2010 and continuing strong demand in Asia lifted overall demand for dry bulk vessels to an unprecedented level. At the same time, there was a surge in the supply of vessels, with more than 60 million dwt being delivered in 2010. This equals a fleet expansion of 14%. Against this backdrop, it is quite impressive for the leading Baltic Dry Index to gain 8% in 2010. Ship prices edged up in 2010. The outlook is marked by order books that remain strong, and that means that demand must remain strong for the current rates and ship prices to be retained.

The offshore markets for platform supply vessels (PSV) and anchor handling tug supply vessels (AHTS) were characterised by a continuing excess supply of vessels. Earnings for vessels sailing at spot rates therefore declined over the course of the year, and in certain periods earnings were insufficient to cover operating expenses (OPEX). Outside the North Sea, there was an increase in the level of activity, supporting an increase in earnings for vessels on long-term charters. The increase in activity primarily affected large, young vessels, whilst it was more difficult to employ small and more mature vessels. Overall, ship prices remained stable in 2010. Expectations for the years ahead are for an increase in demand for large vessels, whereas many small vessels will be phased out.

THE FINANCIAL MARKET

The first half of 2010 was marked by the credit squeeze in Europe. Despite comprehensive EU intervention in the form of buy-back programmes in a number of European government bonds, the credit crisis in Europe became the dominant topic in the fixed income markets throughout 2010. Credit spreads on several European government bonds widened significantly, most notably in Greece and Ireland, and this made investors seek a safe haven by turning to German government bonds, among other papers. Coupled with government issues from core eurozone countries such as Germany, the Netherlands, Austria, Finland and France, Danish government bonds were considered premium quality papers. Investor preference for safety, combined with hedging of long-term interest exposure by pension funds and other financial institutions pushed EUR-denominated swap rates and government yields in the afore-mentioned creditworthy countries to historically lows in the third quarter.

The fixed-income markets turned in the fourth quarter, as central banks outside the USA sold US treasuries, and this caused an upward pressure on European government yields and EUR swap rates.

The yield spread between Danish government and mortgage bonds on the one hand and interest rate swaps on the other benefited from Denmark's status as a safe haven during the European credit squeeze, and the yield spread narrowed particularly in the second half of 2010. Long-term government bonds offered a greater return than mortgage bonds with a similar duration.

The large fluctuations in the bond markets were also reflected in the equity markets, which ended the year on a positive note with a sharp increase in share prices. The S&P 500 index ended on a level with the last trading day before the Lehman collapse, and the MSCI WORLD gained approximately 11% during 2010.

Danish Ship Finance's securities portfolio was invested primarily in Danish mortgage bonds and to a smaller extent in equities, making 2010 a satisfactory year in terms of financial performance.

BOND ISSUANCE

The discontinuation of the market for minimum coupon bonds in January 2010 triggered a decline in private investor demand for new bond issues from Danish Ship Finance.

At the same time, the company only had a limited need for new issues because previous bond issues had secured ample liquidity coverage for all existing loans and loan offers. Thus, there was only a limited issuance requirement in 2010, and Danish Ship Finance's total bond issuance in 2010 amounted to DKK 1.3 billion with an average maturity of 5.0 years.

Funding raised to finance loan offers in 2011 and onwards subsequently amounts to DKK 9.6 billion.

INCOME STATEMENT AND BALANCE SHEET

INCOME STATEMENT

The profit for the year after tax amounted to DKK 492.6 million compared with DKK 262.6 million in 2009.

Net earnings from lending operations including fees rose to DKK 418.7 million from DKK 272.7 million in 2009. The higher net earnings are attributable to an increase in agreed credit margins and fee income on loans offered since 2008. At the same time, the appreciation of the USD caused an increase in earnings on lending. Furthermore, funding costs were lower than in 2009 because the turmoil on the financial markets has abated. The lending earnings for 2001 included an interest expense to honour the hybrid Tier 1 capital from the Second Bank Package of DKK 84.4 million, against DKK 3.5 million in 2009.

Interest and dividend earnings from financing operations rose to DKK 526.7 million from DKK 499.1 million in 2009.

Net interest and fee income totalled DKK 945.4 million, up from DKK 771.8 million in 2009.

Market value adjustments of securities and foreign exchange amounted to a loss of DKK 1.8 million compared with an income of DKK 507.8 million in 2009. The securities portfolio consists primarily of Danish government bonds and mortgage bonds or bonds with similar security, while a small proportion has been invested in shares (unit trust certificates). The return on the share portfolio amounted to an income of DKK 53.9 million in 2010, against an income of DKK 94.8 million in 2009.

Staff costs and administrative expenses rose from DKK 81.8 million in 2009 to DKK 84.1 million in 2010, an increase of 2.8%. In 2010, the average number of employees was 58, against 59 employees the year before.

Loan impairment charges amounted to a net expense of DKK 245.3 million compared with a net expense of DKK 873.5 million in 2009. Accumulated impairment charges rose from DKK 1,871.7 million at 31 December 2009 to DKK 2,058.7 million at the end of 2010, representing 3.9% of total loans and guarantees at 31 December 2010, which was 0.2 of a percentage point higher than the year before. Movements in impairment charges in 2010 and impairment broken down by countries are specified in note 13 to the financial statements.

Tax for the year represented an expense of DKK 119.9 million compared with an expense of DKK 59.9 million in 2009. For 2010, this translates into an effective tax rate of 19.6%. The difference relative to the corporate tax rate of 25% was due primarily to the change in capital gains taxation for portfolio shares from 2010.

BALANCE SHEET AND CAPITAL STRUCTURE

Total assets stood at DKK 84,345.7 million at 31 December 2010 against DKK 84,946.8 million at 31 December 2009.

Lending calculated at amortised cost before impairment charges rose by DKK 1,033.9 million from DKK 48,437.6 million in 2009 to DKK 49,471.5 million in 2010. Over the course of the year, there was a net increase in new loans of DKK 6,057.1 million, against an increase in 2009 of DKK 9,003.9 million. For further details on movements in lending, see note 11 to the financial statements.

Issued bonds declined from DKK 63,056.9 million at 31 December 2009 to DKK 60,848.6 million at year-end 2010. As part of its efforts to maintain strong liquidity resources, Danish Ship Finance issues bonds well in advance of the loan disbursements, which makes the company less sensitive to short-term fluctuations in the capital market. Due to the existing cash resources, there was no major need to make new bond issues in 2010. In 2010, new bond issues only amounted to DKK 1,310.0 million, against DKK 9,363.4 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 29,215.9 million from DKK 30,616.1 million at 31 December 2009. The decline compared with 2009 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 9,496.2 million as compared with DKK 9,042.9 million at 31 December 2009. Danish Ship Finance is subject to a special rule, under which the company can pay dividends to the B shareholder, even though the company is subject to the rules of the Second Bank Package. Dividends to the B shareholder of DKK 73.9 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 2010, and the amount has therefore been deducted in the capital base in the solvency calculation below.

Danish Ship Finance is subject to the capital adequacy rules of section 143 of the Danish Financial Business Act. The solvency ratio rose to 15.3% at the end of 2010, against 14.3% at 31 December 2009. The minimum requirement has been fixed at 8%. The higher solvency ratio at the end of 2010 was due especially to consolidation of the profit for the year after allocation of dividends and a reduction in deferred tax assets, which affect the solvency calculation, while the weighted items for calculating the capital adequacy were overall reduced by DKK 737.9 million. Note 26 provides a specification of the company's solvency.

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

UNCERTAIN IN RECOGNITION AND MEASUREMENT

The most significant uncertainty involved in recognition and measurement concerns impairment of loans and valuation of certain 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. Reference is made to the description in note 1 to the financial statements.

ACCOUNTING POLICIES

Danish Ship Finance presents its financial statements in accordance with the Danish Financial Business Act as the Executive Order on a Ship Finance Institute refers to this act, and in accordance with the rules in the Danish FSA's executive order on financial reports by credit institutions and investment companies, etc. ("executive order on financial reporting").

The accounting policies are unchanged from the policies applied for the year ended 31 December 2009.

OUTLOOK

MARKET EXPECTATIONS

2011 will be marked by the global economy continuing to feel the impact of the recession in the western economies. Growth is expected only gradually to recover in major consumer nations in Europe and North America. However, expectations are also for continuing growth in the so-called growth economies (BRIC countries). In this respect, China should be mentioned as a country which is expected to drive economic growth in the coming decade.

As wealth continues to rise in the growth markets, consumption patterns are expected to change, and the underlying need for energy and raw materials is expected to grow. As a result, global demand for sea transport is expected to grow by a fair margin in 2011 and onwards. Owing to changed trading patterns and transport routes, growth in demand for sea transport might even outperform global growth in GDP.

However, the growth expectations cannot be translated into expectations that international shipping is facing a calm future. First of all, the growth prospects are highly uncertain. Secondly, earnings and developments in ship prices do not depend on demand but exclusively on the relationship between demand and supply in each segment. The situation at the beginning of 2011 is that, following extensive contracting of new vessels during 2010, many segments have a very large order book. In some segments, the order book is so large that securing a fairly decent balance would require quite strong growth. Some segments will perform quite well.

Generally speaking, expectations are that 2011 will once again bring challenges for the shipping industry, and consequently new lending will, as previously, be biased towards reputable shipowners who have demonstrated the ability to cope with the cyclicality of the industry. Obviously, this covers existing customers, but capacity is also expected to be adequate to add new and reputable shipowners to the customer portfolio.

FINANCIAL GUIDANCE

Earnings from lending operations before loan impairment charges are expected to develop favourably in 2011. The improvement is forecast to be lower than from 2009 to 2010 and is subject to uncertainty because the amount of known loan disbursements at the beginning of the year is lower than in previous years. This means that a higher share of earnings growth must be sourced from loan offers not yet submitted or accepted.

Due to generally lower interest rates, earnings from the securities portfolio (before market value adjustments) are expected to drop slightly in 2011.

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. The company's profit after expenses (and recognition of losses due to the effect of maturity reduction) but before impairment charges, other market value adjustments and tax is estimated to be in the region of DKK 635-685 million.

2011 could potentially bring new net impairment charges due to the uncertain market outlook. However, even with the indicated reservations about future developments, new net impairment charges in local currency, primarily USD are not expected to exceed the level for 2010. Expected realised losses in 2011 are presently expected to be lower than DKK 100 million. The amount has been written off.

Market value adjustments of the securities portfolio will affect the profit for the year, positively as well as negatively.

Finally, the company's profit and solvency ratio at the end of the year will depend on movements in the DKK/USD exchange rate during 2011 and the same exchange rate at the end of the year. The sensitivity is described in note 34.

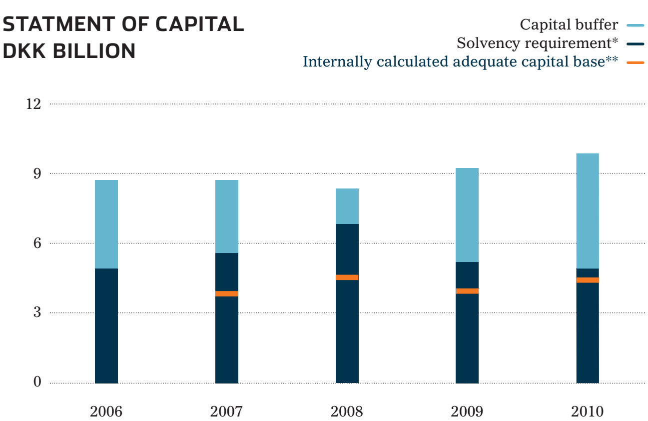
Due to the continuing major uncertainties and their impact on Danish Ship Finance, it is not possible to express specific financial guidance.

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.

STATMENT OF CAPITAL
DKK BILLION



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

*** 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%. The first calculation of the adequate capital base was made at the beginning of 2007.*

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.

SOLVENCY 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. Under the Danish Financial Business Act, the capital requirement is defined as the solvency requirement or the minimum capital requirement (EUR 5 million), whichever is the higher.

Danish Ship Finance's solvency requirement and weighted items amounted to DKK 5.1 billion and DKK 64.1 billion, respectively, at 31 December 2010. The company's capital base less deductions amounted to DKK 9.8 billion at 31. December 2010, resulting in a solvency ratio of 15.3%. This gives the company a capital buffer of DKK 4.7 billion. The company finds that the capital buffer is sufficient for the company to continue its lending activities during a period of difficult business conditions.

Danish Ship Finance's capital base consists predominantly of core capital (tier 1) in the form of tied-up reserve capital. Danish Ship Finance's capital base at 31 December 2010 amounted to DKK 9,817.8 million, against DKK 9,257.1 million in 2009. The company's tier 1 capital less deductions and excluding the capital injection under The Second Bank Package was DKK 8,919.6 million at 31 December 2010.

CALCULATION OF SOLVENCY AND TIER 1 CAPITAL RATIOS

DKK m / %	2010	2009
Capital base less deductions	9,817.8	9,257.1
Risk-weighted items	64,140.7	64,878.6
Solvency ratio	**15.3**	**14.3**
Tier 1 capital ratio		
Incl. hybrid tier 1 capital	15.3	14.3
Tier 1 capital ratio		
Excl. hybrid tier 1 capital	13.9	12.9

ADEQUATE CAPITAL BASE AND INDIVIDUAL SOLVENCY NEED

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 Danish Executive Order on Capital Adequacy, the adequate capital base must be calculated on the basis of the company's risk profile.

Based on the adequate capital base determined, the Board of Directors must define the so-called individual solvency need. The individual solvency need is calculated by dividing the adequate capital base with the risk-weighted assets.

There are no requirements on the use of a specific method to calculate the individual solvency need. However, the method for calculating the individual solvency need must, as a minimum, include an assessment of the institute's business profile, concentration of risks and control environment and the resulting adequate capital base. The method is approved by the Management Board and the Board of Directors once a year, whilst the calculations are made each quarter.

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 the company's 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).

Danish Ship Finance's internally calculated adequate capital base amounted to DKK 4.5 billion at 31 December 2010, corresponding to an internally calculated individual solvency need of 7.0%. 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%.

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.

INDIVIDUAL SOLVENCY NEED AND ADEQUATE CAPITAL BASE

DKK m	2010	2009
Internally calculated individual solvency need	7.0%*	6.3%*
Internally calculated total adequate capital base	4,501.4	4,073.6
The internally calculated adequate capital base is divided into sub-components:		
Credit risks	3,892.2	3,225.2
Market risks	1,063.3	1,338.3
Operational risks	132.3	110.2
Other	(586.3)	(600.0)

* *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%*

RISK MANAGEMENT

Risk management is given top priority at Danish Ship Finance, because the various risks may have an adverse impact on financial performance and solvency and, by extension, materially weaken future business opportunities. Credit risk represents the bulk of the company's overall risk exposure. Market risk and operational risk represent the other risks, whilst the company has limited liquidity exposure due to the rules of the executive order on bond issuance, the balance principle and risk management (the "Bond Executive Order").

ALLOCATION OF RESPONSIBILITIES

The Board of Directors has the overall and final responsibility for ensuring appropriate risk management procedures. The risk policies established by the Board of Directors, including written guidelines for the Management Board, and the legislative framework govern the company's risk management.

The Management Board has the overall practical responsibility for managing the company's risks and for reporting such risks to the Board of Directors. Risk management forms an integral part of the day-to-day operations and is pursued through policies and control measures defined to ensure an effective control environment. Based on regular reports about developments in the company's risks, the Management Board continuously assesses the company's exposures and resolve on any steps to mitigate identified risks.

The Management Board has appointed a member of the Management Board as the company's Chief Risk Officer. The background is an assessment of the company's size and complexity, and the Management Board has found that it was unnecessary and inappropriate to appoint an employee with no other responsibilities than risk management.

In addition, the company has appointed a compliance manager, whose duties involve ensuring compliance with applicable legislation, market standards and internal rules and also ensuring that the company applies effective methods and procedures suitable for identifying and mitigating the risk of non-compliance.

The company is governed by its own regulation in the form of the Act on a Ship Finance Institute (the Act) and the Executive Order on a Ship Finance Institute (the Executive Order). Pursuant to the Executive Order, the company is governed by parts of the Danish Financial Business Act. The company is also governed by the Bond Executive Order, the Executive Order on Capital Adequacy (the Executive Order on Capital Adequacy), and, like other financial enterprises, it is supervised by the Danish Financial Supervisory Authority.

Pursuant to the Bond Executive Order, the company must pursue a balance principle and 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. Under these rules, the company is prevented from assuming any noteworthy interest rate risk, foreign exchange risk or liquidity risk in connection with its lending operations.

In accordance with applicable legislation, the Board of Directors regularly assesses the need for an internal audit function. The Board of Directors has found that the combination of an internal control function, which regularly monitors compliance with the company's in-house business procedures and control procedures in all significant areas and sharp attention by the company's external auditors helps to provide a satisfactory audit and control level at Danish Ship Finance.

LOANS

Danish Ship Finance provides ship financing against a first mortgage in vessels and, on a limited scale, also financing of the shipowner's payment of instalments to a shipyard. The company is the leading ship financing institute in Denmark, and it focuses primarily on both large and small shipowners in Denmark. Outside Denmark, Danish Ship Finance is focused on large, recognised operators.

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

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

MOVEMENTS IN THE FIVE LARGEST SHIPPING DEBTORS BEFORE IMPAIRMENT CHARGES

DKK m	2010	2009
5 largest shipping debtors	26,630	27,427
Total loans and guarantees	52,212	50,748

The five largest loans to shipowners at 31 December 10 were secured by mortgages in 138 vessels comprising 16 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 10 different vessel segments (loans for container vessels accounted for about 62%, semi-submersible vessels about 11% and LPG vessels about 10%). The other four loans were secured through mortgages in 10 different vessel segments.

CREDIT RISK

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

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

CREDIT RISK ON SHIPOWNERS

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

Granting of loans

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

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

Ongoing monitoring

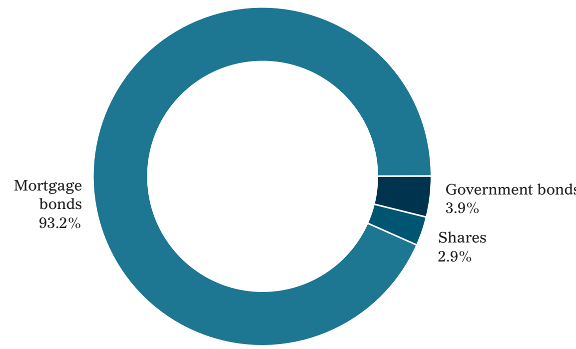
As part of the risk management process, all loans are assessed at least twice a year. All loans are assessed, and the current credit risk is assessed on the basis of current market valuations of the financed vessels and the most recent accounting data from the borrower.

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

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

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

DISTRIBUTION OF SECURITIES PORTFOLIO



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 in connection with the half-yearly impairment charges on loans, advances and receivables.

Insurance of ship's mortgages

All vessels mortgaged as collateral for loans must be insured. Insurance is taken out by the borrower. 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 an individual assessment, Danish Ship Finance determines which borrowers must also be covered by Mortgagee Interest Insurance and Mortgagee Additional Perils Pollution Insurance. 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 borrower's primary insurance policies do not cover.

SECURITIES

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

Most of the securities portfolio consists of government and mortgage bonds, 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 2010, the company had invested DKK 11.8 billion in investment grade securities, corresponding to 115.1% of the capital base.

CREDIT RISK ON FINANCIAL COUNTERPARTIES

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

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

The guidelines for managing financial counterparty risk are laid down in a 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.

Danish Ship Finance puts emphasis on its financial counterparties having high credit ratings, as a substantial proportion of business transactions with the counterparties involves long-term contracts with a potentially large increase in market value.

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

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 ordinary board meeting.

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

Ongoing monitoring

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

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 vessel mortgage and any other collateral. The calculation is based on the loss Danish Ship Finance would be expected to suffer.

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.

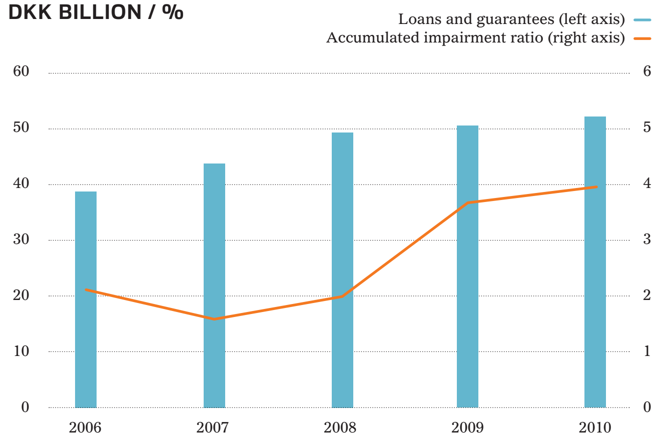
The Danish Financial Supervisory Authority's guidelines for the company's impairment charges thus assume:

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.

LOANS AND IMPAIRMENT CHARGES
DKK BILLION / %



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 total impairment charges amounted to DKK 2,058.7 million at 31 December 2010 against DKK 1,871.7 million last year. This DKK 187.0 million increase was due to the appreciation of the USD during the period. The company's total impairment charges accounted for 3.9% of the company's total loans and guarantees. Danish Ship Finance incurred losses of DKK 77.9 million at 31 December 2010, against DKK 3.5 million in 2009.

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 most significant market risks are associated with the securities portfolio, as the company is governed by the limits of the Bond Executive Order, which includes restrictions on interest rate, exchange rate and liquidity risk.

The company pursues a 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 risk

Interest rate risk is the risk that Danish Ship Finance will incur a loss as a result of a change in interest rates. Rising interest rates have an adverse impact on the market value of the securities portfolio, which, 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 company's finance policy accepts interest rate risks between funding and lending solely when caused by timing differences in determining the reference interest rate (such as LIBOR) for variable rate funding and lending. The company seeks to minimise the interest rate risk between funding and lending by applying conservative principles, but a loss or a gain may arise due to changes in interest rates.

The Bond Executive Order also stipulates that the interest rate risk on the company's assets, liabilities and off-balance sheet items must not exceed 8% of the company's capital base. Interest rate risks are adjusted using a minimum and a maximum for the option-adjusted duration. The current maximum adjusted duration on the securities portfolio has been restricted to six years. Danish Ship Finance has calculated the option-adjusted duration at approximately 2.1 years at 31 December 2010.

Using the Danish FSA's guidelines for calculating interest rate risks, the risk was calculated at DKK 292 million at 31 December 2010, corresponding to 3.0% of the capital base, against DKK 269 million in 2009.

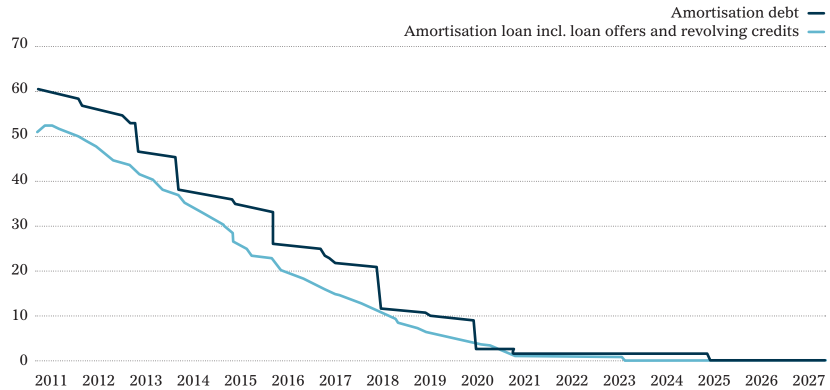
As Danish Ship Finance is governed by the rules of the Bond Executive Order, the company only has limited exposure to interest rate risk outside the trading portfolio.

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

THE RATION OF ISSUED BONDS AND LOANS PROVIDED DKK BILLION



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 borrowers' 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 2010, the company had shares totalling DKK 570.6 million, corresponding to 5.8% 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. The proportion of derivatives can only be increased upon approval by the Board of Directors.

LIQUIDITY RISK

The specific balance principle permits a cash deficit between issued bonds and loans provided. Such a cash deficit – resulting from the future payments related to bonds issued by Danish Ship Finance, other funding and financial instruments which exceed the future incoming payments on loans, financial instruments and investments – may not exceed 100% of the capital base.

Pursuant to the company's 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.

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

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

The key operational risks relate to credit and finance functions 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 area of information technology, the risk relates to the derived consequences of a system breakdown or serious system errors.

STRESS TESTS

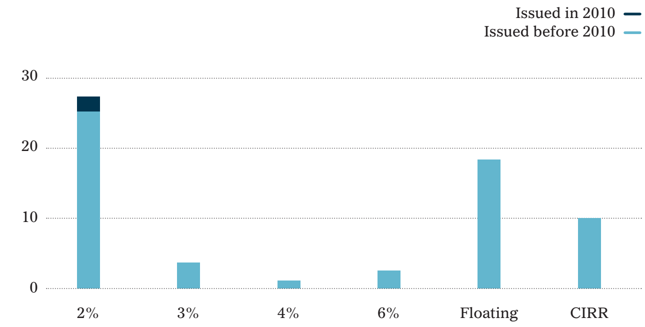
Developments in the financial market, including specifically developments in market interest rates, equity prices and the DKK/USD exchange rate affect the company's capital base and liquidity. Changes in the credit quality in the portfolio of loans also affect the capital base and liquidity. With the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

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

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

BOND ISSUANCE

CIRCULATING BONDS BY BOND TYPE
DKK BILLION



FUNDING

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

Covered bonds as defined by the CRD

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

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

Ship mortgage bonds

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

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

Bonds in circulation

Issued bonds are primarily bullet loans denominated in DKK. At 31 December 2010, bonds in circulation totalled DKK 61.1 billion, nominal value, of which bonds issued in DKK accounted for 84%. The bonds may be unlisted, but the bulk of the bonds are listed and traded on NASDAQ OMX Copenhagen A/S.

RATING

Bonds issued by Danish Ship Finance carry an A2 rating by Moody's Investors Service, and the company's Issuer Rating is also A2. The company's rating has a so-called "negative outlook".

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").

ORGANISATION AND MANAGEMENT

OBJECTIVE AND VISION

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

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

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

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

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

SHAREHOLDERS OF DANISH SHIP FINANCE

The company's ambition is to generate a risk-weighted return that is satisfactory to its shareholders. The Board of Directors continually assesses whether the company's share and capital structure 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.

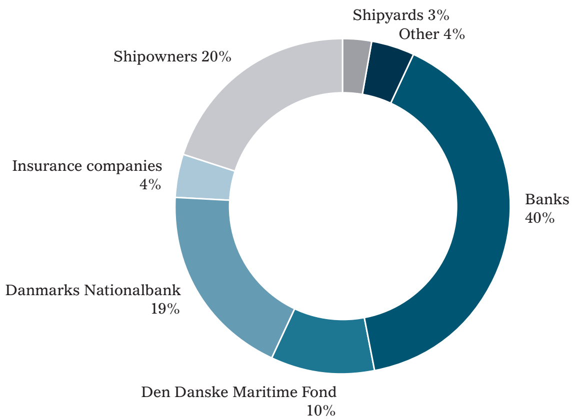
Dividends

Because Danish Ship Finance is covered by the conditions for the Second Bank Package, the company can only distribute dividends for the fourth quarter of 2010 if such dividend payments can be paid out of the profit for the year. However, the Board of Directors has resolved that no dividend will be paid in respect of the fourth quarter of 2010. The amount will instead be transferred to the distributable reserves.

Danish Ship Finance is subject to a special rule, under which the Board of Directors proposes the payment of DKK 73.9 million in dividends for the year to the company's B shareholder, Den Danske Maritime Fond.

At the Annual General Meeting in 2010, the Board of Directors' proposal on dividends was adopted. No dividend was distributed to A shareholders. Pursuant to the articles of association, dividends of DKK 39.4 million were paid to the B shareholder. Since its conversion to a public limited company in 2005, the company has paid total dividends of DKK 213.3 million to the B shareholder, Den Danske Maritime Fond, including proposed dividends for 2010. The funds are used to develop and promote Danish shipping and the Danish shipbuilding industry.

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



CORPORATE GOVERNANCE AND STATUTORY INFORMATION THEREON

Corporate governance

As Danish Ship Finance has no shares listed for trading on NASDAQ OMX Copenhagen, the company is not subject to the corporate governance rules. The company has resolved to follow the 2010 recommendations issued by the Committee on Corporate Governance. The combined report is available on the company's website www.shipfinance.dk/Investor-Relations/Corporate-Governance i Danmarks Skibskredit and reflects the events experienced in the 2010 financial year.

Reports are made in accordance with the Danish rules in force from time to time. Accordingly, the company files an annual report and a half-year report and regularly issues stock exchange announcements. The company has found that more frequent reporting would not affect the pricing of the bonds issued. The company prepares reports both in Danish and in English, which are available on the company's website. The company reports on its solvency need on a quarterly basis.

Financial reporting process

The overall responsibility for the company's control and risk management in relation to the financial reporting process rests with the Board of Directors and Management Board of Danish Ship Finance, including compliance with applicable legislation and other regulations. The Management Board regularly ensures that the company complies with relevant legislation in connection with financial reporting and reports hereon to the Board of Directors.

The Board of Directors and the Management Board seek to ensure that the company's organisational structure and control systems are adequate and work satisfactorily in order to avoid any misappropriation of assets, losses or errors in connection with financial reporting. At least once a year, an assessment is made to determine whether the control procedures work as intended.

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 24 March 2011.

The Board of Directors

There were no changes to the composition of the Board of Directors in 2010. Per Skovhus continued as chairman, and Jens Thomsen continued as deputy chairman.

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

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

In 2010, the Board of Directors held eight ordinary meetings with an average participation rate of 88%. In addition, the Board of Directors held a number of electronic board meetings in connection with the processing of credit recommendations.

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.

The Management Board

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

Remuneration

Danish Ship Finance has defined a remuneration policy the purpose of which is to determine the guidelines for Danish Ship Finance's 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 realigned 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 of Danish Ship Finance has not set up a remuneration committee.

For 2011 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.

Until the end of 2010, the members of the Management Board have had the option of receiving a variable pay corresponding of up to 3 months' salary. The contracts have been amended from 2011 so that there is no agreement on partly variable pay going forward. Instead, the basic salary for 2011 has been raised extraordinarily.

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

The audit committee consists of Fatiha Benali, Flemming Ipsen 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 of Danish Ship Finance. 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 (CSR) policy. As part of Danish Ship Finance's endeavours to run a professional, trustworthy and sustainable business, it focuses on corporate social responsibility. The company seeks to the extent possible to incorporate CSR considerations in its day-to-day work.

The CSR initiatives build on the following principles:

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

The company has set up a committee 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.

Danish Ship Finance's CSR report is available on the company's website at www.shipfinance.dk/Investor-Relations/Corporate-Social-Responsibility-(CSR).

HUMAN RESOURCES

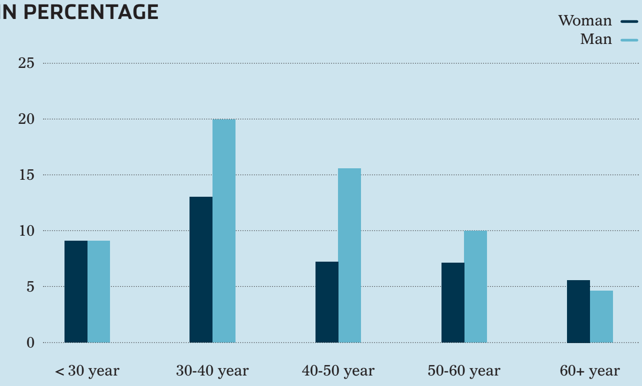
At the end of 2010, Danish Ship Finance employed 61 employees, of whom 24 were women and 37 were men.

For Danish Ship Finance to retain its position as the leading provider of ship financing, 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 wellbeing and the balance between working life and sparetime. A committee set up by the company is dedicated to promoting attention to this balance, and in 2010 it pursued a scheme for handling and preventing stress. The company also has a social staff association that arranges various events for the employees.

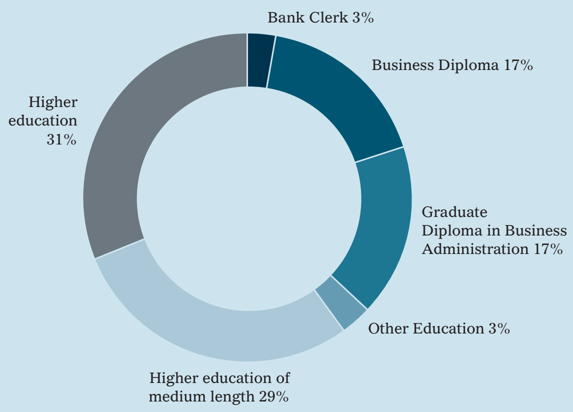
The employees of Danish Ship Finance generally have an extensive educational background and are specialists in their fields. In order to develop employee competencies, the company spends resources on training for each employee. In 2010, expenses for training courses and other training amounted to 1.8% 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.

Danish Ship Finance generally records a high level of job satisfaction, and the general job satisfaction measured in 2010 was at a satisfactory level. In order to retain this level, in collaboration with external HR partners the company remains focused on employee satisfaction.

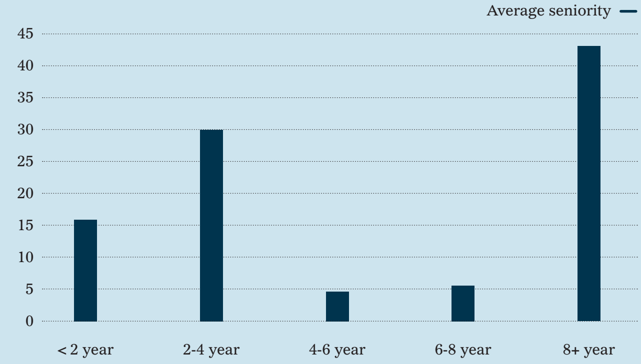
DISTRIBUTION BY AGE AND GENDER IN PERCENTAGE



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 A/S for 2010. 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
Competencies:
Broad knowledge of banking operations and financial risk management, including risk management focused on credit risks.

Fomer 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.

Chief Executive Officer Thorkil H. Christensen, Danske Maritime
Elected to the Board of Directors of Danish Ship Finance on 19.04.1995
Member of the board of directors of:
Den Danske Maritime Fond (Deputy Chairman)
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, Danmark 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.

Former Executive Vice President Flemming Ipsen, A.P. Møller-Mærsk A/S
Elected to the Board of Directors of Danish Ship Finance on 28.08.2006
Member of the board of directors of:
10 subsidiaries of A.P.Møller – Mærsk A/S Group in Denmark and abroad
The Britannia Steam Ship Insurance Association Limited
The Danish Institute of Arbitration (Deputy Chairman)
J. Poulsen Shipping A/S
Competencies:
Broad shipping experience from Denmark and abroad and general management skills.

Assistant Relationship Manager Lisbeth N. Pedersen, Danmark 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:
Industrialiseringsfondene for Udviklings-, Øst- og Vækstlande (IFU) (Chairman)
LR Realkredit A/S
Multidata A/S
Nordea Finans A/S (Chairman)
Nordea Kredit A/S (Chairman)
Competencies:
Broad knowledge of banking operations and financial risk management, including credit risks and IT.

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

DIRECTORSHIPS – MANAGEMENT BOARD

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

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

STATEMENT BY THE MANAGEMENT BOARD AND THE BOARD OF DIRECTORS

The Board of Directors and the Management Board have today considered and adopted the annual report of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year ended 31 December 2010. The annual report is presented 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 2010 and of the results of the company's operations for the financial year ended 31 December 2010.

We recommend the annual report for adoption at the annual general meeting in 2011.

Copenhagen, 11 February 2011

MANAGEMENT BOARD

Erik I. Lassen
Chief Executive

Per Schnack
Executive Vice President

BOARD OF DIRECTORS

Per Skovhus
Chairman

Jens Thomsen
Deputy Chairman

Fatiha
Benali

Thorkil
H. Christensen

Erling
Garrelts

Flemming
Ipsen

Lisbeth
N. Pedersen

Michael
Rasmussen

Henrik
R. Søgaard

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF DANISH SHIP FINANCE A/S

We have audited the financial statements and the management's report of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year ended 31 December 2010, comprising an income statement, balance sheet, statement of changes in equity and notes to the financial statements, including accounting policies and the management's review. The financial statements and the management's review 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 AND THE MANAGEMENT'S REVIEW

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

AUDITOR'S RESPONSIBILITY AND BASIS OF OPINION

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

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

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

Our audit 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 2010 and of the results of the company's operations for the financial year ended 31 December 2010 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds and the management's review includes a fair review in accordance with the Danish Financial Business Act.

Copenhagen, 11 February 2011

DELOITTE
Statsautoriseret Revisionsaktieselskab

Henrik Priskorn	Per Rolf Larssen
State Authorised Public Accountant	State Authorised Public Accountant

INCOME STATEMENT

NOTE	1 JANUARY - 31 DECEMBER DKK MILLION	2010	2009
2	Interest income	3,217.5	3,588.4
3	Interest expenses	(2,337.0)	(2,865.6)
4	**Net interest income**	**880.5**	**722.8**
	Dividends on shares, etc.	6.2	10.2
5	Fee and commission income	61.4	39.3
	Fees and commissions paid	(2.7)	(0.5)
	Net interest and fee income	**945.4**	**771.8**
6	Market value adjustments	(1.8)	507.8
7,8	Staff costs and administrative expenses	(84.1)	(81.8)
17,18	Depreciation and impairment of property, plant and equipment	(1.7)	(1.8)
13	Impairment charges on loans and receivables	(245.3)	(873.5)
	Profit/loss before tax	**612.5**	**322.5**
9	Tax	(119.9)	(59.9)
	Profit/loss for the year	**492.6**	**262.6**
	PROPOSED ALLOCATION OF PROFIT		
	Dividend for the financial year	73.9	39.4
	Retained earnings	418.7	223.2
		492.6	**262.6**

BALANCE SHEET

NOTE	AT 31 DECEMBER DKK MILLION	2010	2009
	ASSETS		
10	Due from credit institutions and central banks	1,222.9	759.4
11,12,13	Loans at amortised cost	49,471.5	48,437.6
14,15	Bonds at fair value	29,215.9	30,616.1
16	Shares, etc.	570.6	519.7
17	Land and buildings		
	Domicile property	64.6	64.7
18	Other tangible assets	7.3	8.0
	Current tax assets	-	2.4
23	Deferred tax assets	246.9	210.8
19	Other assets	3,546.0	4,328.1
	Total assets	**84,345.7**	**84,946.8**
	LIABILITIES AND EQUITY		
	Liabilities		
20	Due to credit institutions and central banks	9,350.0	8,303.4
21	Issued bonds at amortised cost	60,848.6	63,056.9
	Current tax liabilities	158.4	-
22	Other liabilities	3,566.3	3,601.3
	Total liabilities	**73,923.3**	**74,961.6**
	Provisions		
	Other provisions	28.0	45.0
	Total provisions	**28.0**	**45.0**
24	**Subordinated debt**		
	Subordinated debt	898.2	897.3
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	810.2	356.9
	Total equity	**9,496.2**	**9,042.9**
	of which dividend proposed for the financial year	*73.9*	*39.4*
	Total liabilities and equity	**84,345.7**	**84,946.8**
	Off-balance sheet items		
27	Contingent liabilities	610.6	467.1
28	Other binding agreements	4,308.9	8,767.7
	Total off-balance sheet items	**4,919.5**	**9,234.8**

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 2009	**333.3**	**8,343.1**	**103.9**	**5.6**	**8,785.9**
Dividends distributed	-	-	-	(5.6)	(5.6)
Profit/loss for the period	-	-	223.2	39.4	262.6
Equity at 31 December 2009	**333.3**	**8,343.1**	**327.2**	**39.4**	**9,042.9**
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**	**73.8**	**9,496.2**

LIST OF NOTES

NOTES

NOTE 1 ACCOUNTING POLICIES

General
The financial statements have been prepared in accordance with the Danish Financial Business Act as the Executive Order on a Ship Finance Institute refers to this act, and in accordance with the Danish FSA's executive order on financial reports by credit institutions and investment companies, etc. ("executive order on financial reporting").

The accounting policies are unchanged from the policies applied for the year ended 31 December 2009.

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 judgments are based on assumptions that the 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.

Measurements 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, expected future cash flows and expected value of collateral. See the section on risk management in the management's review and the risk report for a more detailed description of loan impairment charges.

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.

NOTE 1

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.

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.

NOTE 1

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 an active market does not exist, the fair value of standard and simple financial instruments, such as interest rate and currency swaps and unlisted bonds, is measured according to generally accepted methods. 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.

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.

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 vessels and financing for building vessels.

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 on 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.

NOTE 1

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.

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.

NOTE 1

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.

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.

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

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

Deferred tax assets and deferred tax liabilities
Deferred tax is calculated in accordance with the balance sheet liability method on all temporary differences between the tax base of the assets and liabilities and their carrying amounts. Deferred tax is recognised in the balance sheet under Deferred tax assets and Deferred tax liabilities on the basis of current tax rates.

NOTE 1

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

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

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

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

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

NOTES

NOTE 1

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

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

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

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

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

DKK MILLION	2010	2009

NOTE 2

INTEREST INCOME

Interest from credit institutions	3.7	10.6
Interest on loans	1,533.6	1,639.3
Index revaluations of index-linked loans	-	2.9
Interest on bonds	949.1	1,146.1
Other interest income	2.2	25.0
Derivatives		
Interest rate contracts	730.5	759.8
Foreign exchange contracts	(1.6)	4.7
Total interest income	**3,217.5**	**3,588.4**
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	(72.8)	(161.4)
Interest on issued bonds	(2,143.6)	(2,658.5)
Index revaluations on issued bonds	-	(2.9)
Interest on subordinated debt	(84.4)	(3.5)
Other interest expenses	(36.2)	(39.3)
Total interest expenses	**(2,337.0)**	**(2,865.6)**
Of this amount, interest expenses on genuine sale and repurchase transactions recognised in		
Due to credit institutions and central banks	(72.5)	(159.2)

NOTES

NOTE 4	DKK MILLION	2010	2009
	NET INTEREST INCOME		
	Net interest income from lending operations		
	Interest on loans	1,533.5	1,641.8
	Interest on block issues included in interest due from credit institutions	5.0	(9.5)
	Interest to credit institutions	(17.6)	(110.9)
	Interest expenses on issued bonds	(2,143.5)	(2,661.4)
	Interest on subordinated debt	(84.4)	(3.5)
	Other interest expenses	(23.9)	(26.9)
	Derivatives		
	Interest rate contracts	730.5	759.8
	Foreign exchange contracts	(1.6)	4.7
	Total net interest income from lending operations	**360.0**	**233.9**
	Net interest income from financing operations		
	Interest on bonds	587.0	506.3
	Interest on loans	0.1	0.4
	Interest due from credit institutions excluding interest on block issues	(1.3)	20.1
	Other interest income	2.2	25.0
	Interest to credit institutions	(55.2)	(50.5)
	Other interest expenses	(12.3)	(12.4)
	Total net interest income from financing operations	**520.5**	**488.9**
	Total net interest income	**880.5**	**722.8**

NOTES

	DKK MILLION	2010	2009
NOTE 5	FEE AND COMMISSION INCOME		
	Guarantee commission	6.7	3.0
	Fee and other commission income	54.7	36.3
	Total fee and commission income	**61.4**	**39.3**

	DKK MILLION	2010	2009
NOTE 6	MARKET VALUE ADJUSTMENTS		
	Market value adjustment of bonds	11.6	504.7
	Market value adjustment of shares	53.9	94.8
	Exchange rate adjustments	15.7	16.6
	Market value adjustment of financial instruments	(83.0)	(108.3)
	Total market value adjustments	**(1.8)**	**507.8**

DKK MILLION	2010	2009
NOTE 7 STAFF COSTS AND ADMINISTRATIVE EXPENSES		
Remuneration of Board of Directors and Management Board		
Management Board	(5.8)	(4.8)
Board of Directors	(1.7)	(1.7)
Staff costs		
Wages	(40.0)	(37.7)
Pensions	(4.5)	(4.7)
Social security costs and financial services employer tax	(9.7)	(8.5)
Other administrative expenses	(22.4)	(24.4)
Total staff costs and administrative expenses	**(84.1)**	**(81.8)**
Number of employees - full-time equivalents	57	59
Average number of employees - full-time equivalents	58	59

REMUNERATION OF THE BOARD OF DIRECTORS DKK '000	2010	2009
	Remuneration a year	**Remuneration a year**
Chairman	300	300
Deputy Chairman	225	225
Other board members	150	150
In addition, members of the Audit Committee will receive	50	50

DKK '000

NOTE 7, CONTINUED

REMUNERATION OF MANAGEMENT BOARD

	Erik I. Lassen	Per Schnack
2010		
Contractual remuneration	2,292	1,998
Pension	283	247
Tax value of car	119	127
Cash bonus	370	323
Share-based payment	-	-
Total	**3,064**	**2,694**
2009		
Contractual remuneration	2,204	1,936
Pension	272	239
Tax value of car	119	75
Cash bonus	-	-
Share-based payment	-	-
Total	**2,596**	**2,250**

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

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

For 2009, a deduction in the taxable income of DKK 2.4 million has been made in respect of remuneration to the Management Board.

For 2010, a deduction in the taxable income of DKK 2,9 million is expected to be made in respect of remuneration to the Management Board.

NOTES

	DKK MILLION	2010	2009
NOTE 8	AUDIT FEES		
	Audit fees, statutory audit	(0.7)	(0.8)
	Non-audit services	(0.3)	(1.1)
	Total fees	**(1.0)**	**(1.9)**
NOTE 9	TAX		
	Tax on profit/loss for the year		
	Estimated tax on profit/loss for the year	(246.4)	(90.6)
	Changes in deferred tax	36.1	30.7
	Adjustment of prior-year tax charges	90.4	0.0
	Total tax	**(119.9)**	**(59.9)**
	Effective tax rate	**Pct.**	**Pct.**
	Tax rate in Denmark	25.0	25.0
	Non-taxable income and non-deductible expenses	(5.4)	(6.4)
	Adjustment of prior-year tax charges	0.0	0.0
	Effective tax rate	**19.6**	**18.6**
NOTE 10	DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Genuine purchase and resale transactions (repo reverse)	0.0	0.0
	Other receivables	1,222.9	759.4
	Total due from credit institutions and central banks	**1,222.9**	**759.4**
	Broken down by due date:		
	Demand deposits	127.3	29.7
	Up to 3 months	1.080.3	715.6
	From 3 months to 1 year	15.3	0.0
	From 1 to 5 years	0.0	14.1
	Over 5 years	0.0	0.0
	Total due from credit institutions and central banks	**1,222.9**	**759.4**

DKK MILLION	2010	2009

NOTE 11

LOANS AT AMORTISED COST

At 1 January	48,437.6	48,117.7
Additions	6,057.1	9,001.0
Index revaluations during the year	-	2.9
Ordinary repayments and redemptions	(5,199.5)	(5,221.6)
Extraordinary prepayments	(3,154.9)	(834.1)
Net change concerning revolving credit facilities	(265.3)	(1.276.0)
Net change concerning debentures with Danmarks Nationalbank	-	(105.3)
Exchange rate adjustment of loans	3,807.6	(328.0)
Change in amortised cost for the year	(7.0)	(34.5)
Depreciation, amortisation and impairment for the year	(204.1)	(884.5)
At 31 December	**49,471.5**	**48,437.6**

NOTE 12

LOANS AT AMORTISED COST

Gross loans at exchange rates at the balance sheet date	51,502.2	50,264.3
Loan impairment charges	(2,030.7)	(1,826.7)
Total loans	**49,471.5**	**48,437.6**
Total loans broken down by due date:		
Up to 3 months	1,427.9	1,609.1
From 3 months to 1 year	4,863.4	4,851.7
From 1 to 5 years	25,614.7	23,291.8
Over 5 years	17,565.5	18,685.0
Total loans	**49,471.5**	**48,437.6**
Total loans		
Loans at fair value	50,322.6	48,996.5
Loans at amortised cost	49,471.5	48,437.6

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

Loans and receivables subject to individual impairment charges (breach of covenants)		
Value of loans with objective evidence of impairment		
Loans and receivables before impairment charges	4,231.9	8,584.9
Impairment charges	(774.6)	(1,090.7)
Total impaired loans and receivables	**3,457.3**	**7,494.2**

NOTE 13

IMPAIRMENT CHARGES

DKK MILLION	2010	2009
The following impairment charges were made on receivables		
Individual impairment charges	774.6	1,090.7
Impairment charges with a collective component	1,284.1	781.0
Total impairment charges	**2,058.7**	**1,871.7**
As a percentage of loans and impairment charges		
Individual impairment charges	1.5	2.2
Impairment charges with a collective component	2.4	1.5
Total impairment charges	**3.9**	**3.7**
Distribution of impairment charges		
Amount set off against loans	2,030.7	1,826.7
Provisions made for other liabilities	28.0	45.0
Total impairment charges	**2,058.7**	**1,871.7**
Movements in impairment charges		
At 1 January	1,871.7	985.6
Additions	960.9	1,353.7
Reversal of impairment charges from previous years	(696.1)	(465.0)
Losses covered by impairment charges from previous years	(77.8)	(2.6)
Total impairment charges	**2,058.7**	**1,871.7**
Losses on and impairment charges on receivables		
New impairment charges	(960.9)	1,353.7)
Reversed impairment charges	696.1	465.0
Reclassification of interest	19.6	14.5
Losses not covered by impairment charges from previous years	(0.1)	(0.9)
Received on claims previously written off	0.0	1.6
Total losses on and impairment charges on receivables	**(245.3)**	**(873.5)**

	DKK MILLION	2010	2009
NOTE 13, CONTINUED	IMPAIRMENT CHARGES		
	Impairment charges broken down by countries:		
	Bahamas	75.6	72.6
	Belgium	17.6	9.8
	Bermuda	42.3	105.0
	Cayman Islands	26.8	28.2
	Cyprus	101.2	65.3
	Denmark	691.1	679.4
	France	22.7	45.8
	Hong Kong	10.3	4.3
	Iceland	14.4	21.8
	Isle of Man	5.5	7.2
	Italy	69.4	69.3
	Liberia	162.8	35.1
	Marshall Islands	57.3	36.2
	Norway	123.7	119.4
	Switzerland	138.8	169.4
	Singapore	50.0	70.0
	Great Britain	17.3	-
	Sweden	124.7	52.5
	Germany	263.0	214.3
	USA	44.2	66.1
	Total impairment charges	**2,058.7**	**1,871.7**

NOTE 14	BONDS AT FAIR VALUE		
	Bond portfolio		
	Non-callable bonds	20,384.3	22,262.2
	Callable bonds	8,831.6	8,353.9
	Total bond portfolio	**29,215.9**	**30,616.1**
	Bond portfolio		
	Government bonds and bonds issued by KommuneKredit	755.6	2,401.8
	Mortgage bonds	28,460.3	28,214.3
	Total bond portfolio	**29,215.9**	**30,616.1**

NOTES

	DKK MILLION	2010	2009
NOTE 15	BOND HOLDINGS BY TIME TO MATURITY		
	Bond portfolio		
	Bonds with a maturity of up to and including 1 year	2,811,2	4,804.7
	Bonds with a maturity of over 1 year and up to and including 5 years	19,499,2	17,969.4
	Bonds with a maturity of over 5 years and up to and including 10 years	1,719,0	2,008.7
	Bonds with a maturity of over 10 years	5,186,5	5,833.3
	Total bond holdings specified by time to maturity	**29,215,9**	**30,616.1**

NOTE 16	SHARES, ETC.		
	Unit trust certificates (shares) listed on NASDAQ OMX Copenhagen	353,5	315.6
	Unlisted shares/unit trust certificates recognised at fair value	217,1	204.1
	Total shares, etc.	**570,6**	**519.7**

NOTE 17	LAND AND BUILDINGS		
	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	0,3	0.1
	Depreciation for the year	0,1	0.2
	Accumulated depreciation, 31 December	**0,4**	**0.3**
	Total revaluation, 31 December	**64,6**	**64.7**

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

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

The domicile property comprises the office property at Sankt Annæ Plads 1-3, Copenhagen, the public valuation of which was assessed at DKK 93.0 million at 1 October 2009.

NOTE 18 OTHER TANGIBLE ASSETS

DKK MILLION	2010	2009
Cost, 1 January	21.0	20.1
Additions during the year	0.8	1.3
Disposals during the year	0.0	(0.4)
Cost, 31 December	**21.8**	**21.0**
Accumulated depreciation, 1 January	13.0	11.6
Disposals during the year	0.0	(0.3)
Depreciation during the year	1.5	1.7
Accumulated depreciation, 31 December	**14.5**	**13.0**
Total other tangible assets	**7.3**	**8.0**

NOTE 19 OTHER ASSETS

DKK MILLION	2010	2009
Interest receivable	785.3	780.2
Prepayments to swap counterparties	14.1	13.0
Receivables concerning CIRR financing	82.8	106.7
Market value of derivatives	2,657.8	3,402.7
Miscellaneous receivables	6.0	25.5
Total other assets	**3,546.0**	**4,328.1**

NOTE 20 DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

DKK MILLION	2010	2009
Repo transactions	9,284.4	8,301.4
Other amounts due	65.6	2.0
Total due to credit institutions and central banks	**9,350.0**	**8,303.4**
Broken down by due date:		
On demand	65.6	2.0
Up to 3 months	9,284.4	8,301.4
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	**9,350.0**	**8,303.4**

	DKK MILLION	2010	2009
NOTE 21	**ISSUED BONDS AT AMORTISED COST**		
	At 1 January	63,056.9	60,006.5
	Additions in conjunction with block issues	1,310.0	9,363.4
	Amortisation of cost	393.2	494.1
	Adjustment for hedge accounting	1,254.7	603.0
	Index revaluations during the year	-	2.9
	Exchange rate adjustment	823.6	(319.6)
	Ordinary redemptions	(5,989.8)	(7,093.4)
	At 31 December	**60,848.6**	**63,056.9**
	Specification of issued bonds		
	Bonds issued in DKK		
	Bullet bonds	49,782.3	51,620.9
	Index-linked bonds, nominal value	-	10.5
	Total nominal value	**49,782.3**	**51,631.4**
	Index premium	-	15.3
	Total Danish bonds	**49,782.3**	**51,646.7**
	Bonds issued in foreign currency		
	Amortising CIRR bonds, at year-end exchange rates	10,209.0	10,554.4
	Bullet bonds, at year-end exchange rates	857.3	855.8
	Total bonds issued in foreign currency	**11,066.3**	**11,410.2**
	Total issued bonds	**60,848.6**	**63,056.9**
	Broken down by term to maturity:		
	Up to 3 months	0.0	313.0
	From 3 months to 1 year	3,247.6	5,568.0
	From 1 to 5 years	26,033.2	22,677.7
	Over 5 years	31,567.8	34,498.2
	Total issued bonds	**60,848.6**	**63,056.9**

	DKK MILLION	2010	2009
NOTE 22	**OTHER LIABILITIES**		
	Interest payable	500.1	566.1
	Market value of derivatives	3,043.5	3,016.7
	Other liabilities	22.7	18.5
	Total other liabilities	**3,566.3**	**3,601.3**
NOTE 23	**DEFERRED TAX**		
	Deferred tax, 1 January	(210.8)	(180.1)
	Estimated deferred tax on the profit for the year	(126.2)	(30.7)
	Adjustment of deferred tax relating to prior years	90.3	-
	Total deferred tax	**(246.7)**	**(210.8)**

	2010	2010	2010	2009
	Deferred tax assets	**Deferred tax liabilities**	**Deferred tax net**	**Deferred tax net**
Property, plant and equipment	(0.4)	4.3	3.9	3.9
Loans	(26.0)	20.7	(5.3)	(14.4)
Issued bonds	(225.1)	-	(225.1)	(199.9)
Employee obligations	(0.7)	-	(0.7)	(0.4)
Net loss - portfolio sheres	(19.7)	-	(19.7)	-
Total deferred tax	**(271.9)**	**25.0**	**(246.9)**	**(210.8)**

DKK MILLION	2010	2009

NOTE 24

SUBORDINATED DEBT

Principal	900.0	900.0
Origination fees for amortisation	(1.8)	(2.7)
Subordinated debt	**898.2**	**897.3**

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	SUBORDINATED DEBT
DKK	Dansih 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

	2010	2009
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	810.2	356.9
Total equity	**9,496.2**	**9,042.9**
of which proposed dividend, cf. allocation of profit	*73.9*	*39.4*

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	DKK MILLION	2010	2009
	SOLVENCY		
	Tier 1 capital		
	Share capital	333.3	333.3
	Tied-up reserve capital	8,343.1	8,343.1
	Retained earnings	810.2	356.9
	Total tier 1 capital	**9,486.6**	**9,033.3**
	Deductions in Tier 1 capital		
	Proposed dividend	73.9	39,4
	Deferred tax assets	88.5	210.8
	Additional straining relative to the Executive Order on a Ship Finance Institute	414.2	432.9
	Total deductions in tier 1 capital	**576.6**	**683.1**
	Total tier 1 capital	**8,910.0**	**8,350.2**
	Subordinated debt		
	Subordinated debt	898.2	897.3
	Total tier 1 capital	**9,808.2**	**9,247.5**
	Supplementary capital		
	Revaluation reserves	9.6	9.6
	Supplementary capital less deductions	**9.6**	**9.6**
	Capital base less deductions	**9,817.8**	**9,257.1**
	Weighted items not included in the trading portfolio	52,194.3	52,349.7
	Weighted off-balance sheet items	2,761.2	4,830.8
	Weighted items involving counterparty risk outside the trading portfolio	708.1	793.2
	Weighted items involving market risk, etc.	6,824.9	5,527.8
	Weighted items involving operational risk	1,653.6	1,377.1
	Total weighted items	**64,142.1**	**64,878.6**
	Tier 1 capital less deductions as a percentage of total risk-weighted items	**15.3**	**14.3**
	Solvency ratio pursuant to the Executive Order on a Ship Finance Institute	**15.3**	**14.3**
	Minimum requirement fixed at 8%		
	Weighted items with market risk, etc. consist of		
	Items with position risk: Debt instruments	5,006.1	3,774.1
	Items with position risk: Shares	572.6	521.8
	Total currency position	1,246.2	1;231.9
	Total weighted items with market risk, etc.	**6,824.9**	**5,527.8**

	DKK MILLION	2010	2009
NOTE 27	**CONTINGENT LIABILITIES**		
	In the ordinary course of its lending operations,		
	Danish Ship Finance has undertaken guarantee commitments of	605.2	445.4
	Other financial guarantees	-	16.5
	Payment guarantee provided to the Danish Securities Centre	3.7	3.6
	Guarantees provided to the Danish Securities Centre	1.7	1.6
	Total contingent liabilities	**610.6**	**467.1**
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	1,115.1	1,490.7
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken commitments relating to irrevocable credit commitments on loans with revolving credit facilities in the amount of	77.7	409.5
	In the ordinary course of its lending operations, Danish Ship Finance has undertaken commitments relating to irrevocable credit commitments on other loans in the amount of	3,116.1	6,867.5
	Total other binding agreements	**4,308.9**	**8,767.7**

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.

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**

2009	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	35,139.3	33,291.7	33,817.2
Total commitments	**35,139.3**	**33,291.7**	**33,817.2**
Derivatives			
Interest rate swaps	(35,139.3)	(475.4)	(475.4)
Total derivatives	**(835,139.3)**	**(475.4)**	**(475.4)**
Net	**0.0**	**32,816.3**	**33,341.8**

	DKK MILLION	2010	2009
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	124.5	680.7
	Banks	52,623.0	49,418.8
	Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:		
	Receivables	491.2	454.1
	Banks	61,323.0	64,304.1
	Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:		
	Banks	5,495.5	4,253.7
	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	3,253.5	1,199.2
	Forward securities transactions		
	Buying	389.7	100.0
	Selling	-	-

NOTE	DKK MILLION	2010 POSITIVE	2010 NEGATIVE	2009 POSITIVE	2009 NEGATIVE
NOTE 32	MARKET VALUES OF OUTSTANDING DERIVATIVES				
	Swap agreements:				
	Swap agreements have been made with the following parties to hedge the exchange rate exposure on loans and issued bonds:				
	Danmarks Nationalbank	17.9	-	158.3	-
	Banks	1,890.1	1,591.1	2,649.5	858.8
	Swap agreements have been made with the following parties to hedge the interest rate exposure on loans, bonds and issued bonds:				
	Receivables	-	90.8	-	64.0
	Banks	763.9	1,367.1	608.0	2,094.2
	Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:				
	Banks	40.5	156.9	49.7	124.3
	Forward interest rate and currency agreements				
	Forward interest rate and currency agreements have been made with the following parties to hedge interest rate and exchange rate risk				
	Banks	0.1	9.1	0.4	14.6
	Forward securities transactions				
	Buying	0.6	-	0.0	-
	Selling	-	-	-	-
	Netting of exposure value				
	The positive gross fair value of financial contracts after netting, pursuant to appendix 17 to the Danish Executive Order on Capital Adequacy				
	Counterparty with risk weight of 0%	17.9		158.3	
	Counterparty with risk weight of 20%	1,274.6		1,557.5	
	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%	17.9		158.3	
	Counterparty with risk weight of 20%	2,694.6		3,307.5	
	Counterparty with risk weight of 100%	0.0		0.0	

DKK MILLION

NOTE 33

EXCHANGE RATE RISK AND USE OF DERIVATIVES AT 31 DECEMBER 2010

The total unhedged foreign currency position at 31 December 2009, translated at year-end exchange rates into DKK amounts to DKK 882.2 million (DKK 908.3 million at 31 December 2009).

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

The net position is specified as follows:

	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCY	DKK	TOTAL
Loans at year-end exchange rates	45,239.6	5,080.7	50,320.3	1,181.9	51,502.2
Loan impairment charges				(2,030.7)	(2,030.7)
Loans as per the balance sheet					**49,471.5**
Due from credit institutions and central banks	88.0	35.6	123.6	1,099.3	1,222.9
Bond portfolio	0.0	458.5	458.5	28,757.4	29,215.9
Interest receivable, etc.	267.2	81,7	348.9	436.4	785.3
Other assets			0.0	3,650.1	3,650.1
Total assets as per the balance sheet	**45,594.8**	**5,656.5**	**51,251.3**	**33,094.4**	**84,345.7**
Issued bonds at year-end exchange rates	(9,901.1)	(857.3)	(10,758.4)	(50,090.2)	(60,848.6)
Issued bonds as per the balance sheet					(60,848.6)
Due to banks	0.0	(65.6)	(65.6)	(9,284.4)	(9,350.0)
Interest payable	(173.2)	(96.1)	(269.3)	(230.3)	(499.6)
Other payables				(4,151.3)	(4,151.3)
Total equity				(9,496.2)	(9,496.2)
Total liabilities as per the balance sheet	**(10,074.3)**	**(1,019.0)**	**(11,093.3)**	**(73,252.4)**	**(84,345.7)**
Derivativesr					
- receivables	2,237.8	7,150.9	**9,388.7**		
Derivatives					
- payables	(37,608.0)	(11,056.5)	**(48,664.5)**		
Total net position (translated into DKK)	**150.3**	**731.9**	**882.2**		

DKK MILLION	2010	2009

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.

DKK MILLION	2010	2009
Interest rate risk		
An interest rate increase of 1 percentage point		
Change in results	(219.1)	(181.5)
Change in equity	(219.1)	(181.5)
An interest rate fall of 1 percentage point		
Change in results	219.1	181.5
Change in equity	219.1	181.5
Equity risk		
An increase in the value of the shares of 10 percentage points		
Change in results	42.8	52.0
Change in equity	42.8	52.0
A decline in the value of the shares of 10 percentage points		
Change in results	(42.8)	(52.0)
Change in equity	(42.8)	(52.0)
Exchange rate risk		
An appreciation of the USD exchange rate vis-à-vis DKK		
Change in results	(212.4)	(223.2)
Change in equity	(212.4)	(223.2)
Percentage change in solvency	(1.8)%	(1.8)%
A depreciation of the USD exchange rate vis-à-vis DKK		
Change in results	212.4	223.2
Change in equity	212.4	223.2
Percentage change in solvency	1.8%	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.

NOTE 35	DKK MILLION	2010	2009

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	2010	2009
Loans		
Measured at amortised cost	49,471.5	48,437.6
Measured at fair value	50,322.6	48,996.5

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	2010	2009
Issued bonds		
Measured at amortised cost, incl. hedging	60,848.6	63,056.9
Measured at fair value	60,504.9	63,326.0

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 CREDIT RISK

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

DKK MILLION	2010	2009
Due from credit institutions and central banks	1,222.9	759.4
Loans at amortised cost	49,471.5	48,437.6
Bonds at fair value	29,215.9	30,616.1
Shares, etc.	570.6	519.7
Derivatives	2,657.8	3,402.7
Total balance sheet items	**83,138.7**	**83,735.5**
Off-balance sheet items		
Contingent liabilities	610.6	467.1
Other binding agreements	4,308.9	8,767.7
Total off-balance sheet items	**4,919.5**	**9,234.8**

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 2010	SHARE OF LOANS 2009
0 - 20%	32%	29%
20 - 40%	30%	27%
40 - 60%	26%	23%
60 - 80%	10%	16%
80 - 100%	1%	2%
Over 100%	1%	3%

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 before impairment charges accounted for 1.5% of the loan portfolio at 31 December 2009 (2.4% in 2009).

It appears from the table above that 88% 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 vessels has generally increased 14% since December 2009 meassured in DKK compared to 5% in USD.

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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