RISK REPORT 2010

DANISH
SHIP FINANCE

CVR NR. 27 49 26 49

INTRODUCTION

Like the rest of the Danish financial sector, Danish Ship Finance is subject to disclosure obligations pursuant to appendix 20 of the Danish Executive Order on Capital Adequacy.

The risk report is published once every year in connection with the presentation of the annual report. The risk report is available at www.shipfinance.dk/Investor-Relations/Risk-Report. The company regularly assesses whether there is a need for publication more frequently than once a year.

There is no audit requirement in respect of the risk report, and Danish Ship Finance has opted not to have its risk report for 2010 be subject to an audit.

CONTENTS

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.

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 Executive Order on bond issuance, the balance principle and risk management (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.

REPORTING TO THE BOARD OF DIRECTORS

Report	Frequency
Internal financial reporting	Quarterly
Financial reporting	Quarterly
Credit reports	Quarterly
Reports on the company's risk exposure	Yearly
Stress test	Quarterly
Annual asset review	Yearly
Authorisation list*	Each ordinary board meeting
Potential issues	Half-yearly

** Definition: "Loans or guarantees, increases, debtor replacements and other changes to loans, including the granting of any breach of loan agreements granted by the Management Board".*

REPORTING

The company regularly provides the Board of Directors with the necessary information about risk developments etc. On the basis of these reports, the Board of Directors revises the overall policies, framework and principles for risk and capital management.

RISK EXPOSURE

Danish Ship Finance's main business activity is to provide loans against a first mortgage in ships. 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 Bond Executive Order.

The credit risk should be seen primarily as the risk of the borrower's inability to repay the loan in due time and potentially a decline in value of the mortgaged ships. The company only provides financing against a first mortgage in vessels, and in its credit policy the company has defined overall targets to ensure a controllable lending risk. As part of the credit policy, in its loan portfolio the company seeks to ensure good credit quality and risk diversification in respect of borrowers and vessel types. When granting credit to new as well as existing customers, 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.

Market risk covers primarily interest rate, foreign exchange and liquidity risks, governed by lines defined in the Bond Executive Order and the Executive Order. As a result of Danish Ship Finance's focus on the security of the bond owners, financial risks are centred on the company's securities portfolio. The company's overall goal is to avoid financial positions jeopardising the company's solvency or continued existence, and to make sure that interest rate and foreign exchange risks are managed by hedging or through intended open positions and that the company achieves the highest possible return with due consideration to the risk targets defined.

Operational risks primarily concern the credit area, the finance area and IT application, and they are managed by way of business procedures and internal controls.

As stated above, liquidity risk represents a limited part of the overall risk exposure, as the company applies the specific balance principle in accordance with the Bond Executive Order. In addition, the company's liquidity policy defines liquidity risk limits, the purpose of which is to ensure consistently adequate liquidity.

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.

The regulatory framework for capital management is defined in the Executive Order on Capital Adequacy, which contains provisions implementing parts of the Capital Requirements Directive (CRD).
The framework builds on three pillars:

- Pillar I contains a set of rules for calculating the solvency requirement, which is 8% of risk-weighted assets for the three types of risk – Credit risk, Market risk and Operational risk.
- Pillar II contains a set of rules for how to calculate the adequate capital base, taking into consideration the company's individual characteristics, and all relevant risk types are included, irrespective of whether they are included in Pillar I or not.
- Pillar III sets forth rules on disclosure obligations, as a result of which the company, at least once annually, must disclose information on capital matters, its risk profile etc.

Pursuant to the Executive Order on Capital Adequacy, companies have some freedom when selecting how to calculate their adequate capital base. The reason is that companies must match their calculation methods to their risk profile. The company's management believes that Danish Ship Finance has applied the necessary prudence.

CAPITAL TARGET

The capital target defined by the Board of Directors is based on a solvency that is sufficient for Danish Ship Finance to continue its lending operations in spite of any cyclical fluctuations and difficult business conditions and to ensure compliance with statutory requirements.

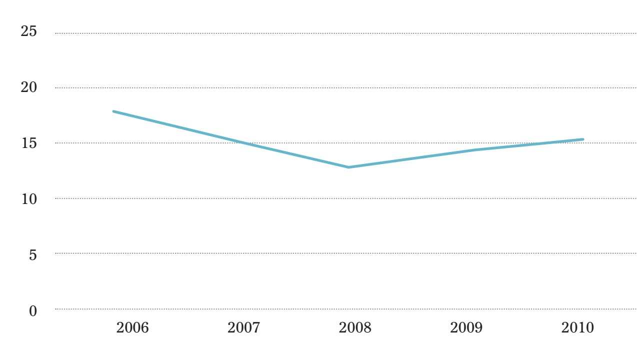
At the end of 2010, the company's solvency ratio was 15.3, against 14.3 at the end of 2009. The solvency ratio is believed to be consistent with the above-mentioned target.

CALCULATION OF SOLVENCY AND TIER 1 CAPITAL RATIOS

DKKm / %	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

SOLVENCY

%



CAPITAL BASE

The capital base is the sum of core capital (tier 1) and supplementary capital (tier 2), and the relationship between capital base and risk-weighted items 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.

Movements in the capital base are determined by factors such as the profit/loss for the year and the company's dividend policy. The company's solvency ratio is calculated as the capital base less deductions in percentage terms of the risk-weighted items. The capital base of a ship finance institute shall be at least 8 % of the risk-weighted items.

Danish Ship Finance's capital base consists predominantly of core capital (tier 1) in the form of tied-up reserve capital. The tied-up reserve capital may only be used to cover losses which cannot be covered by amounts available for dividend distribution in the limited liability company. The tied-up reserve capital shall as far as possible be restored by advance transfer of the profit for the year, if, in prior years, it was wholly or partly used to cover losses. Hence, no dividends shall be paid and no distributions shall be made in connection with capital reductions until the tied-up reserve capital has been restored to the same nominal amount as the undistributable reserve had before being used wholly or partly to cover losses.

The injected capital from the Second Banking Package is a state-funded capital injection in the form of hybrid tier 1 capital. The hybrid tier 1 capital is subordinated debt, which is included in the capital base pursuant to Section 132 of the Danish Financial Business Act. The purpose of raising hybrid tier 1 capital was to source new lending capacity while also retaining a solvency ratio that retains the credit quality for our bondholders. The repayment of the state-funded capital injection cannot take place until at the end of 2012 at the earliest and is subject to prior consent from the Danish FSA.

A small part of the capital base less deductions consists of share capital, retained earnings and revaluation reserves.

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 increase was mainly attributable to an increase in retained earnings after proposed dividends and a decline in the line item deferred tax assets including the resulting reduction of the statutory deductions in capital.

The company's capital base less deductions and excluding the capital injection under the Second Bank Package was DKK 8,919.6 million. Net of the hybrid tier 1 capital raised under the Second Banking Package, the tier 1 capital ratio would have been approximately 1.4 percentage point lower.

CALCULATION OF CAPITAL BASE LESS DEDUCTIONS

DKKm	2010	2009
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 from tier 1 capital		
Reduction due to		
additional straining	(414.2)	(432.9)
Proposed dividends	(73.9)	(39.4)
Deferred tax assets	(88.5)	(210.8)
Total deductions from tier 1 capital	**(576.6)**	**(683.1)**
Subordinated debt		
Subordinated debt	898.2	897.3
Supplementary capital		
Revaluation reserves	9.6	9.6
Total capital base less deductions	**9,817.8**	**9,257.1**

RISK-WEIGHTED ASSETS/EXPOSURES

	Risk-weighted exposure		Solvency requirement	
DKKm	2010	2009	2010	2009
Weighted assets outside the trading portfolio	52,193	52,350	4,176	4,188
Weighted off-balance sheet items	2,761	4,831	221	387
Weighted items with counterparty risk outside the trading portfolio	708	793	57	63
Weighted items with a market risk	6,825	5,528	546	442
Operational risk	1,653	1,377	132	110
Total weighted items	**64,140**	**64,879**	**5,131**	**5,190**

SOLVENCY REQUIREMENT

Pursuant to legislation, a ship finance institute must have a capital base which as a minimum amounts to the sum of the solvency requirement for credit risk, market risk and operational risk.

Because the CRD has been implemented in Danish legislation, 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. Danish Ship Finance has not applied for a permission from the Danish FSA to apply one of the internal methods. The company therefore applies the standard method for calculating risk-weighted assets and the solvency requirement concerning credit risk and market risk. When using the standard methods, the risk weights are defined in the legislation. In addition, the company applies the basic indicator method to calculate the risk-weighted assets for operational risk.

The table above shows the company's risk-weighted exposures/assets and solvency requirement for each exposure category.

The company's total weighted items at 31 December 2010 almost equalled the figure at the end of 2009. However, off-balance sheet items have declined, primarily due to a smaller portfolio of loan offers, whereas weighted items with market risk etc. have increased. On aggregate, this means that the weighted items have fallen marginally.

AVERAGE VALUES OF RISK-WEIGHTED EXPOSURES

	Risk-weighted exposure		Solvency requirement	
DKKm	2010	2009	2010	2009
Due from credit institutions	142	7	11	1
Loans and guarantees to shipowners	53,380	50,732	4,271	4,059
Of which exposures with arrears and overdrafts	3	3	0	0
Mortgage and government bonds	5,267	6,702	421	536
Exposures in other items, including irrevocable credit guarantees	7,579	9,612	606	769
Total, average weighted items	**66,368**	**67,056**	**5,309**	**5,365**

RISK-WEIGHTED ITEMS WITH CREDIT RISK

	Unweighted amount		Weighted amount		Solvency requirement	
DKKm	2010	2009	2010	2009	2010	2009
Due from credit institutions	1,223	30	245	6	20	0
Loans and guarantees to shipowners	50,077	48,883	51,008	50,288	4,081	4,023
Mortgage bonds	10,503	17,784	1,050	1,778	84	142
Derivatives	1,460	1,757	708	793	57	63
Other items with credit risk	722	1,017	496	723	40	58
Irrevocable credit commitments	4,314	8,773	2,156	4,385	172	351
Total risk-weighted items with credit risk	**68,298**	**78,244**	**55,663**	**57,974**	**4,453**	**4,638**

SOLVENCY REQUIREMENT – CREDIT RISK

The standard method is used to calculate the solvency requirement for credit risk, as a result of which all loans generally carry a weight of at least 100%. Under the standard method, the values of the ships' mortgages cannot be deducted, and in terms of solvency the loans are treated as unsecured loans. However, the Executive Order sets out that the following loans or shares of loans each carry a weight of more than 100%:

- Pursuant to section 21(5) of the Executive Order, building loans carry a weight of 200% if the sum of building loans does not exceed 125% of the solvency-related excess cover. If the sum of the building loan exceeds 125%, the excess amount must be deducted from the tier 1 capital. Building loans are secured through debtor's liability, assignment and subrogation in the building contract and assignment in the shipyard's collateral for payments under the building contract.
- Loans in which the loan exceeds 70% of the value of the mortgage at the date of grant must, in respect of the part that regularly exceeds 70%, result in a deduction in the core capital. The maximum deduction is determined at the date of grant.
- Where the borrower is domiciled in a country where the country risk calls for a higher weighting, the loan will carry a weight of 150%.

SOLVENCY REQUIREMENT – MARKET RISK

The standard method is used to calculate the solvency requirement for market risk. Positions with market risk are items in the trading portfolio and positions with foreign exchange risk outside the trading portfolio. Set out below is a table showing the solvency requirements for the risks in question.

RISK-WEIGHTED ITEMS WITH MARKET RISK

	Unweighted amount		Weighted amount		Solvency requirement	
DKKm	2010	2009	2010	2009	2010	2009
Debt instruments, specific risk						
Total specific risk	19,181	17,227	1,474	890	118	71
Debt instruments, general risk						
Total general risk	3,564	2,915	3,532	2,884	283	231
Shares, etc.						
Total shares, etc.	571	522	573	522	46	42
Currency positions						
Total long-term currency positions	1,246	1,232	1,246	1,232	100	99
Total risk-weighted items with market risk	**24,562**	**21,898**	**6,825**	**5,528**	**546**	**442**

RISK-WEIGHTED ITEMS WITH OPERATIONAL RISK

DKKm	2010	2009	2008*	Average
Accounting items				
Interest income	3,218	3,588	3,394	3,400
Interest expenses	(2,337)	(2,866)	(2,668)	(2,624)
Dividends from shares, etc.	6	10	17	11
Fee and commission income	61	40	53	51
Fees and commissions paid	(3)	(1)	0	(1)
Market value adjustments	(2)	508	(378)	43
Other operating income	-	-	3	1
Sum of accounting items	**944**	**1,281**	**421**	**882**
Risk weight under the basic indicator method				
2010				1,653
2009				1,377

**2008 figures are calculated according to the previous accounting policies.*

SOLVENCY REQUIREMENT – OPERATIONAL RISK

Danish Ship Finance must hedge operational risks by means of capital. The solvency requirement for the operational risks must cover: “The risk of losses as a result of inappropriate or insufficient internal processes, human error and system error or as a result of external events, including legal risks”.

Danish Ship Finance uses the basic indicator method to calculate its solvency requirement for operational risks. As a result, the solvency requirement for operational risks is calculated at 15% of a three-year average of net interest income and non-interest related net income.

An assessment of the solvency requirement for operational risks is performed regularly. If the solvency requirement is deemed to be higher than mentioned above, the company will make corresponding adjustments to its solvency requirement.

INDIVIDUAL SOLVENCY NEED AND ADEQUATE CAPITAL BASE

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

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

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

INDIVIDUAL SOLVENCY NEED AND ADEQUATE CAPITAL BASE

DKKm	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%.*

INTERNAL PROCESS:

The method used to calculate the individual solvency need must, as a minimum, be approved by the Management Board and the Board of Directors once a year, whereas the calculations are made quarterly. The company has established segregation of duties to the effect that the adequate capital base and the individual solvency need are not calculated by the same persons who are in charge of the risk management process.

The company's Middle Office is responsible for the quarterly calculation of the adequate capital base and the individual solvency need, and also for reporting results to the Board of Directors and Management Board.

THE COMPANY'S METHOD

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 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).

RISK FACTORS SUBJECTED TO STRESS TESTS IN RELATION TO DETERMINATION OF THE INDIVIDUAL SOLVENCY NEED:

- An increase in DKK-denominated interest rates (market risk)
- A widening of credit spreads (market risk)
- A decline in equity prices (market risk)
- An appreciating USD (market risk)
- A reduced credit quality of the loan portfolio in combination with an appreciating USD resulting in higher impairment charges (credit risk)
- A decline in the budgeted operating profit (credit and market risk)

The Board of Directors and the Management Board have defined the risks which Danish Ship Finance should be able to withstand and thus also the factors that need to be subjected to a stress test. In a stress test, the company's financial figures are exposed to a number of adverse events in order to illustrate how the company would respond in such a scenario.

The result of the stress tests performed is included in the solvency need model such that the company must as a minimum maintain capital sufficient to cover the loss that would arise if the scenario in question were to materialise. The overall effect of stress tests on the solvency need is calculated by comparing the overall profit impact with the weighted items. This approach provides a measurement of how much capital is required for the company to withstand the given scenario.

In addition to the risk areas included using stress tests, there is a large number of other risk areas identified by the company as being relevant for an assessment of the solvency need.

OTHER RISK AREAS ASSESSED IN RELATION TO THE DETERMINATION OF THE INDIVIDUAL SOLVENCY NEED:

- Risk concentration (credit risk)
- Growth in lending (credit risk)
- Settlement risks (credit risk)
- Asset quality (credit risk)
- Consolidation outside the trading portfolio (credit and market risk)
- Interest risks outside the trading portfolio (market risk)
- Currency risks (market risk)
- Liquidity risks (market risk)
- Operational risks (operational risk)

The determination of the impact of these areas on the solvency need percentage is either calculated directly using supplementary calculations or by way of a management estimate of the impact of these risk areas on the calculation of the solvency need.

The company believes that the risk factors included in the model cover all the risk areas that, pursuant to legislation, the Board of Directors and Management Board must take into consideration when determining the solvency need and the risks that the Board of Directors and Management Board find that the company is exposed to.

In addition, the Board of Directors and the Management Board must assess whether the company's capital base is sufficient to support upcoming activities. This assessment is part of the general determination of the solvency need. Management therefore regularly assesses how the growth expectations affect the calculation of the solvency need.

SPECIFICATION OF STRESS TESTS

The tests are made on the basis of the following assumptions:

- **An increase in DKK-denominated interest rates.** The calculation is made on the basis of the volatility of interest rates computed on a daily basis in the preceding 12-month period. Based on this volatility, the company calculates the maximum rise in interest rates in one year with a 99% probability. The capital need is calculated as the capital loss on the securities portfolio caused by the interest rate increase.

- **A widening of credit spreads.** The starting point applied is the credit spread on a fixed-rate non-callable mortgage bond. Against this background, the volatility is computed on a daily basis in the preceding 12-month period, and the company calculates the maximum widening of the credit spread in one year with a 99% probability. The capital need is calculated as the capital loss on the securities portfolio caused by the widened credit spread.

- **A decline in equity prices.** The calculation is made on the basis of the volatility of the MSCI world index computed on a daily basis in the preceding 12-month period. Based on this volatility, the company calculates the maximum decline in equity prices in one year with a 99% probability. The capital need is calculated as the specific loss caused by the price fall.

- **An appreciating USD.** The calculation is made on the basis of the volatility of the USD/DKK exchange rate computed on daily observations in the preceding 12-month period. Based on this volatility, the company calculates the maximum rise in the USD/DKK exchange rate in one year with a 99% probability. The effect is measured as the capital need arising in the form of higher impairment.

- **A reduced credit quality of the loan portfolio in combination with an appreciating USD resulting in higher impairment charges.** When reserving capital caused by a fall in credit quality, the calculation is based on the internal model for impairment charges. In this context, it is assumed that an objective evidence of impairment has been found within all vessel types and a sharp appreciation of the USD/DKK exchange rate, which will increase the capital need.

- **A decline in the budgeted operating profit.** The budgeted operating profit is reduced by DKK 100 million as a buffer in case the company fails to achieve the budgeted income. The lower operating budget reduces the capital need.

The sum of the items represents the stress test capital reservation for 2011 in the amount of DKK 4,501.4 million. Correlations are not taken into consideration, although this would reduce the requirement.

SPECIFICATION OF OTHER RISK AREAS

In addition to the risk areas included using stress tests, there is a number of other risk areas identified by the company as being relevant for an assessment of the solvency need. The following assumptions are applied:

- **Risk concentration.** Danish Ship Finance exclusively grants loans for the financing of vessels against a mortgage. The loan portfolio is characterised by a high concentration at debtor level. One or more losses on debtors may therefore have a significant impact on the risk of losses. In practice, it is assumed that the company's five largest customers will experience financial difficulties. In spite of strong credit quality in the loan portfolio, capital is reserved to accommodate for any losses which the company as a maximum may incur with 99.97% probability. Impairment charges already made on the five loans are deducted.

- **Lending growth.** Lending growth in the company affects the size of the adequate capital base, and the solvency need is therefore raised if there is strong lending growth and such growth is expected to persist. By reserving capital for lending growth, the company has reserves for weak as well as strong lending growth. In practice, lending growth consists of expected loans disbursed less any run-off on existing loans. In addition, the capital reservation is based on the most recently calculated impairment ratio.

- **Settlement risks.** Settlement risk is a natural part of running a financial institution. These risks are mitigated through the use of clearing centres and internal procedures but cannot be completely eliminated. A capital reservation is thus made, corresponding to an average payment transfer for 2010.

- **Asset quality.** Where there is no objective evidence of impairment of the credit quality, but there is a strong assumption that it will be impaired, capital will also be reserved to accommodate this situation in the form of preliminary impairment charges.

- **Consolidation and capital procurement.** A high and stable consolidation makes it easier for the company to absorb future losses and support its future expansion. The company's earnings ability, earnings stability, dividend policy and alternative capital procurement opportunities are also included in the assessment of the adequate capital base. If there is an unconditional commitment for transferring subordinate capital that can form part of the capital base, the company may also make a similar deduction in its capital reservation.

- **Interest risks outside the trading portfolio.** Unless the company can prove that the risk is 'modest and immaterial', the solvency need must take into consideration any interest exposure outside the trading portfolio. The company complies with the specific principle of balance and therefore regularly makes a number of yield curve shocks and calculates the impact of changing yields. Among the different yield scenarios, the company selects the one that causes the biggest decline in the market value, and this value is then applied in the calculation of the individual solvency need as an extra capital reservation.

- **Currency risks.** The adequate capital base to cover liquidity risks is calculated as the maximum currency risks that the company must assume. Under the specific balance principle, the company's currency risk must not represent more than 2% of its capital base. Stricter limitations have been defined within the company. The capital reservation is calculated on the basis of the maximum currency risks permitted according to the in-house policies.

- **Liquidity risks.** The company is only exposed to very limited liquidity risks. In addition to the limitations defined in the specific balance principle, in-house rules have currently been defined, requiring that the company maintains a positive liquidity coverage in the first-coming 18 months. Against this background, the liquidity risks are considered minimal, and no capital reservation is made to cover liquidity risks.

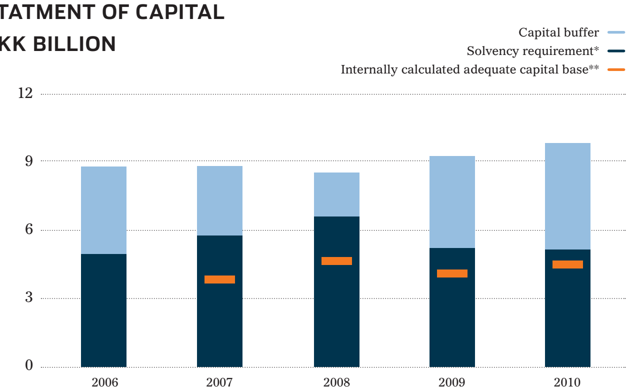
- **Operational risks.** Under the basic indicator method applied by Danish Ship Finance, the adequate capital base is calculated at 15% of a three-year average of net interest income and non-interest related net income, defined as net interest and fee income with the addition of other operating income and adjusted for price fluctuations. The company has positively assessed that there is no need for additional capital reservation to cover operational risks.

SOLVENCY NEED AND CAPITAL BUFFER

Danish Ship Finance's internally calculated adequate capital base and weighted items amounted to DKK 4.5 billion and DKK 64.1 billion, respectively, at 31 December 2010, corresponding to an internally calculated individual solvency need of 7.0%. 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 5.3 billion relative to its adequate capital base, of which DKK 0.9 billion derives from the Second Bank Package. At a solvency requirement of 8%, pursuant to the statutory solvency requirement, the adequate capital base amounts to DKK 5.1 billion, which translates into 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.

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.

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 limits for credit risk management are stipulated in the company's credit policy and policy on counterparty management. The policies build on the provisions in the Act and the Executive Order. These provisions stipulate that the board of directors shall lay down risk diversification rules.

In its risk management activities, the company distinguishes between credit risk derived from lending operations and credit risks derived from transactions with financial counterparties. The day-to-day responsibility for the credit policy, the policy on counterparty management and for the periodical risk calculation and reporting rests with the credit department.

LOANS

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.

Danish Ship Finance provides ship financing against a first mortgage in ships and, on a limited scale, also financing of the shipowner's payment of instalments to a shipyard. The company is 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.

CREDIT EXPOSURE BY MATURITY

	Credit institutions		**Shipowners**		**Total credit exposure**	
DKKm	2010	2009	2010	2009	2010	2009
On demand	127.3	29.7	0	0	127.3	29.7
0-3 months	1,080.3	715.6	1,427.9	1,609.1	2,508.2	2,324.7
3 months-1 year	15.3	0	4,863.4	4,851.7	4,878.7	4,851.7
1 – 5 years	0	14.1	25,614.7	23,291.8	25,614.7	23,305.9
More than 5 years	0	0	17,565.5	18,685.0	17,565.5	18,685.0
Total	**1,222.9**	**759.4**	**49,471.5**	**48,437.6**	**50,694.4**	**49,197.0**

LOAN LIMITS AND ADDITIONAL STRAINING

Danish Ship Finance may grant loans up to 70% of the value of the mortgaged vessel(s).

However, the company may, on certain conditions, grant loans beyond 70% of the value against other collateral and/or against additional straining. The additional straining is maximised in Danish kroner when the loan offer is submitted.

As a result of the additional straining, for this part of the lending operations a deduction is calculated in the company's core capital in connection with the solvency calculation. The deduction equals the part of loan in question that exceeds 70% of the mortgaged vessel(s) at the time of calculation, although capped by the maximum defined.

The calculation of the additional straining is made on the basis of an evaluation made or approved by the company on the basis of independent broker assessments of the market value of the mortgage.

The company's weighted average loan-to-value ratio (LTV) after impairment charges at 31 December 2010 was 64.6%. The table below shows the percentage distribution of loans including guarantees after impairment calculated in LTV ranges measured in terms of nominal value.

PERCENTAGE DISTRIBUTION OF LOANS INCLUDING GUARANTEES AFTER IMPAIRMENT CHARGES CALCULATED IN THE LTV RANGES (BY NOMINAL OUTSTANDING DEBT)

LTV range	Share of lending	
%	2010	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

LARGE EXPOSURES

Danish Ship Finance is exempt from the EU's credit institution directive and any related directives. The most important consequence of this exception is that the company will not be subject to a limitation in respect of large customers and therefore is not subject to the executive order on large exposures. As a result, unlike other financial institutions the company is not bound by any statutory limits for maximum loans to an individual borrower. The Board of Directors shall instead lay down rules concerning risk diversification, including for its lending operations.

If the company had been subject to the executive order on large exposures, a major Danish financial counterparty would have exceeded the limit at 31 December 2010 under the calculation method applied in the regulations. The sum of the exposure was DKK 2.8 billion, corresponding to 27% of the capital base.

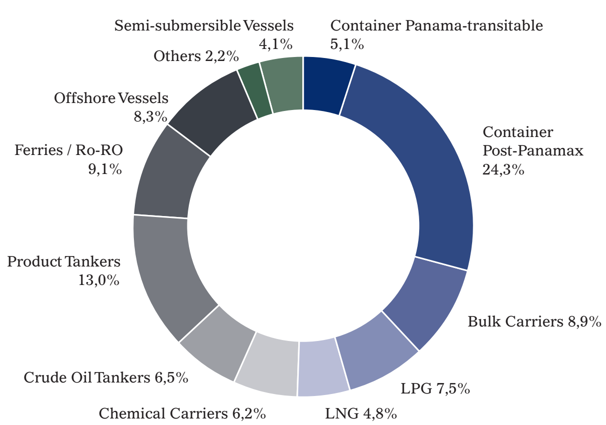
DIVERSIFICATION

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

RISK DIVERSIFICATION ON VESSEL TYPES:

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

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



RISK DIVERSIFICATION ON BORROWERS

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

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

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

MOVEMENTS IN THE FIVE LARGEST SHIPPING DEBTORS BEFORE IMPAIRMENT CHARGES

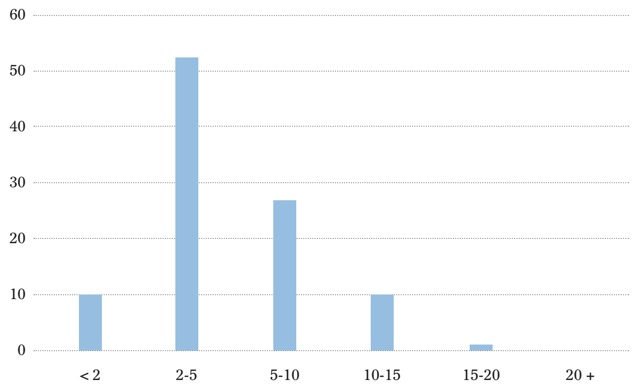
DKKm	2010	2009
5 largest shipping debtors	26,630	27,427
Total loans and guarantees	52,212	50,748

The five largest loans to shipowners at 31 December 2010 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.

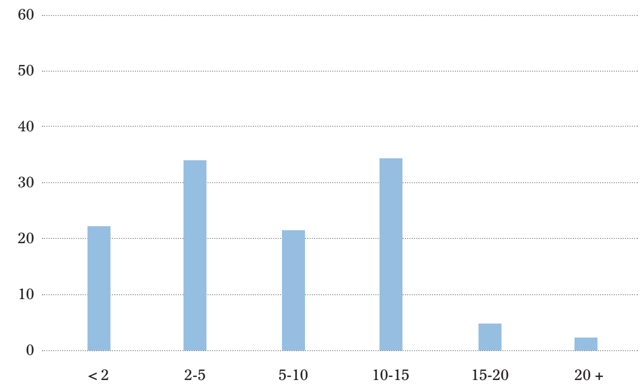
With respect to risk diversification on borrowers, the company focuses on diversification on vessel types in each loan. The largest loan was thus secured through mortgage on vessels distributed on 10 different vessel segments (loans for container vessels accounted for about 62%, semi-submersible vessels about 11% and LPG vessels about 10%). The other four loans were secured through mortgages in 10 different vessel segments.

AGE DISTRIBUTION OF MORTGAGED VESSELS (AS A PERCENTAGE OF TOTAL LENDINGS)

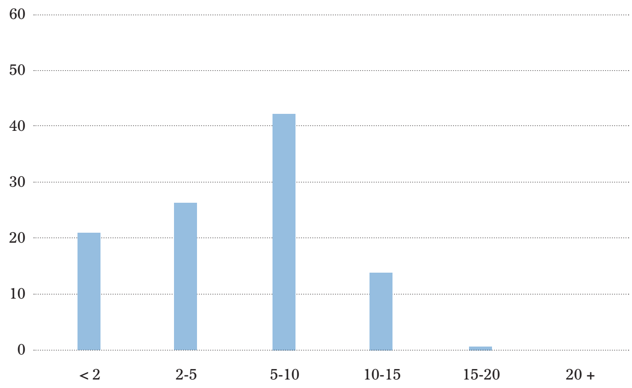
Container Post-Panamax



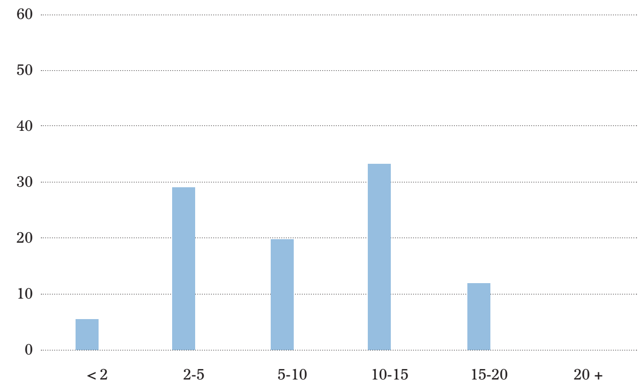
Ferries / Ro-Ro



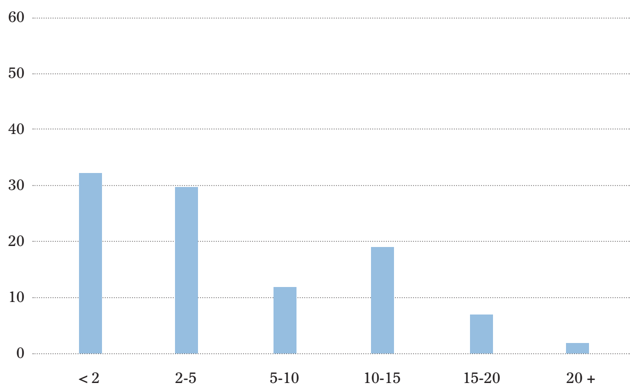
Crude/Product Tankers



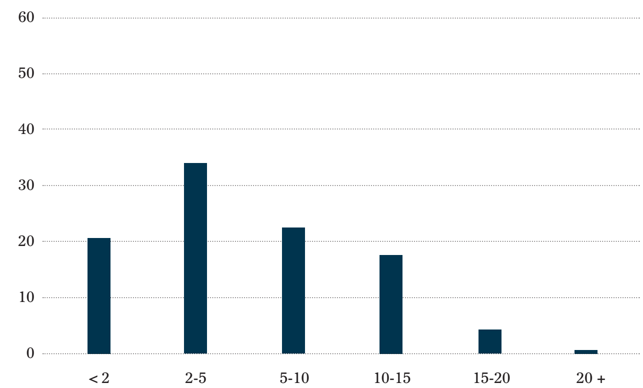
Offshore



Others



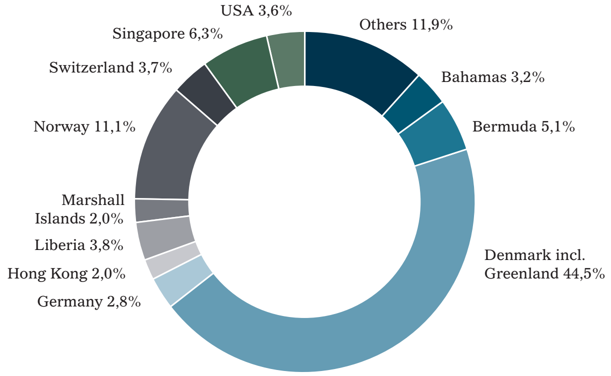
Total Age Distribution



RISK DIVERSIFICATION ON COUNTRIES

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

DEBTOR DISTRIBUTION BY COUNTRY INCLUDING DANISH GOVERNMENT RISK (PERCENTAGE OF TOTAL LENDING)



Countries with a share of at least 2% are shown separately. Other countries are grouped into 'Others'.

CREDIT RISK ON SHIPOWNERS

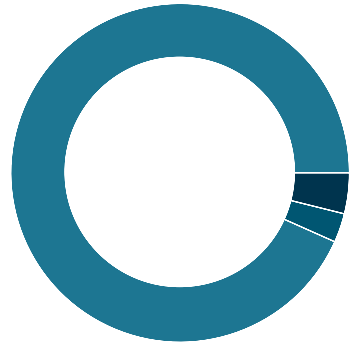
Danish Ship Finance's credit policy contains specific guidelines for the ongoing risk management in the company's loan portfolio. A number of predefined procedures are used in the ongoing credit risk management process, the most important of which are described below.

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.

DISTRIBUTION OF SECURITIES PORTFOLIO



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.

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

As a general rule, the insurance includes:

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

On the basis of individual assessments, 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.

Inspection of ships: As a supplement to the half-yearly market valuations, physical inspections of the financed vessels are made on a spot-check basis. The inspection may be performed both during the loan period or prior to submitting an offer to finance second-hand tonnage. When financing second-hand tonnage, focus is on the age of the vessel and its condition.

MARKET VALUATIONS

The company values each ship 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 ships.

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.

CREDIT RISK ON FINANCIAL COUNTERPARTIES

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.

COUNTERPARTY RISK

Counterparty risk is the risk of losses incurred by a counterparty who fails to meet his obligations. Counterparty risk occurs when the company enters into transactions with 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.

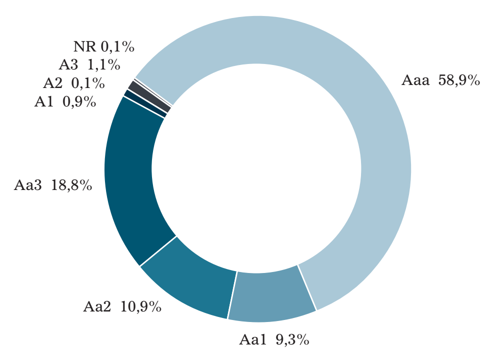
ONGOING MONITORING

Danish Ship Finance conducts ongoing monitoring of the company's exposures to each counterparty, partly to ensure that the financial counterparties consistently complies 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.

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.

EXPOSURE ON FINANCIAL COUNTERPARTIES BY CREDIT RATING



The Management Board and the Credit Manager have been allocated authorities by the Board of Directors allowing them to grant lines to financial counterparties within certain limits. The granting of such lines must be disclosed at the subsequent board meeting.

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

CONTRACTUAL BASIS

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

COUNTERPARTY RISK

DKKm	2010	2009
Netting of exposure value:		
The positive gross fair value of financial contracts after netting, cf. appendix 17 to the 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
The value of the total counterparty risk calculated according to the market value 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

COUNTERPARTY RISK ON DERIVATIVE FINANCIAL INSTRUMENTS AND CALCULATION OF CAPITAL

Danish Ship Finance applies the market value method of the Executive Order on Capital Adequacy for counterparty risk to calculate the size of the exposures for derivatives.

When determining the value of the exposure using the market value method for counterparty risk, the following method is applied:

1. Contracts are calculated at market value to obtain the current replacement cost for all contracts with a positive value.

2. In order to generate a figure for the potential future credit exposure, the nominal principal of the contracts or the underlying values are multiplied by percentages determined by the Danish Financial Supervisory Authority. Swaps based on two floating rates in the same currency are exempt, because only the current replacement cost needs to be calculated.

3. The sum of the applicable replacement costs and the potential future credit exposures represents the counterparty risk.

In its loan granting process and the ordinary monitoring of loans, the company takes into consideration the calculated exposure value to ensure that this value does not exceed the granted credit line on the counterparty in question.

FINANCIAL COLLATERAL

	Exposure		Collateral	
DKKm	2010	2009	2010	2009
Export credit guarantees	396	536	218	247
Bank guarantees	62	0	16	29
Deposited bonds and cash deposit	700	1.260	88	77
Total deposited bonds	**1,158**	**1,796**	**321**	**352**

COLLATERAL

Danish Ship Finance does not apply netting, whether on or off the balance sheet.

The company receives financial collateral in the following principal areas:

- Deposit funds
- Securities (bonds, shares, unit trust certificates), primarily listed
- Government and credit institution guarantees

Pursuant to the company's policy for the valuation of financial collateral, the valuation is a conservative market value assessment. The company has business procedures in place for the management and valuation of collateral, and the procedures form an integral part of the ordinary risk monitoring process handled by the company's credit department.

Danish Ship Finance applies the simple method as a credit risk-reducing mechanism. This means that the company can reduce the capital charge on an exposure, when financial collateral is mortgaged. Appendix 7 of the Executive Order on Capital Adequacy sets out the financial collateral the company may use under the simple credit risk-reducing method. In this connection, it should be noted that the executive order includes a requirement that the financial collateral used must be issued by a business or country holding a premium rating.

In accordance with the rules of the Executive Order on Capital Adequacy, Danish Ship Finance uses financial collateral to hedge its credit risk exposure. The table above shows for each exposure category the coverage of the collateral, i.e. the fully adjusted size of the collateral within each exposure category.

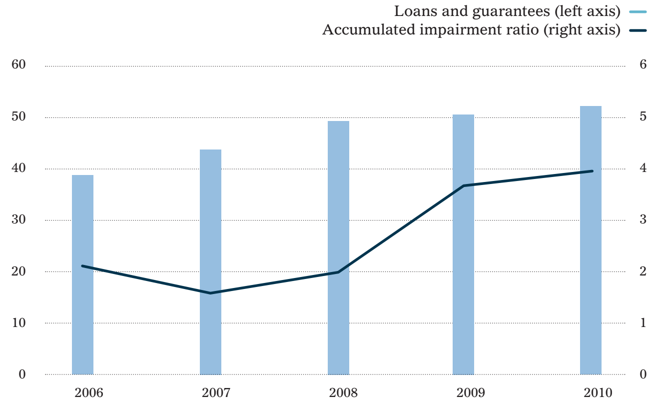
LOAN IMPAIRMENT CHARGES

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

LOANS AND IMPAIRMENT CHARGES DKK BILLION / %



LOSSES AND IMPAIRMENT CHARGES DKK MILLION

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

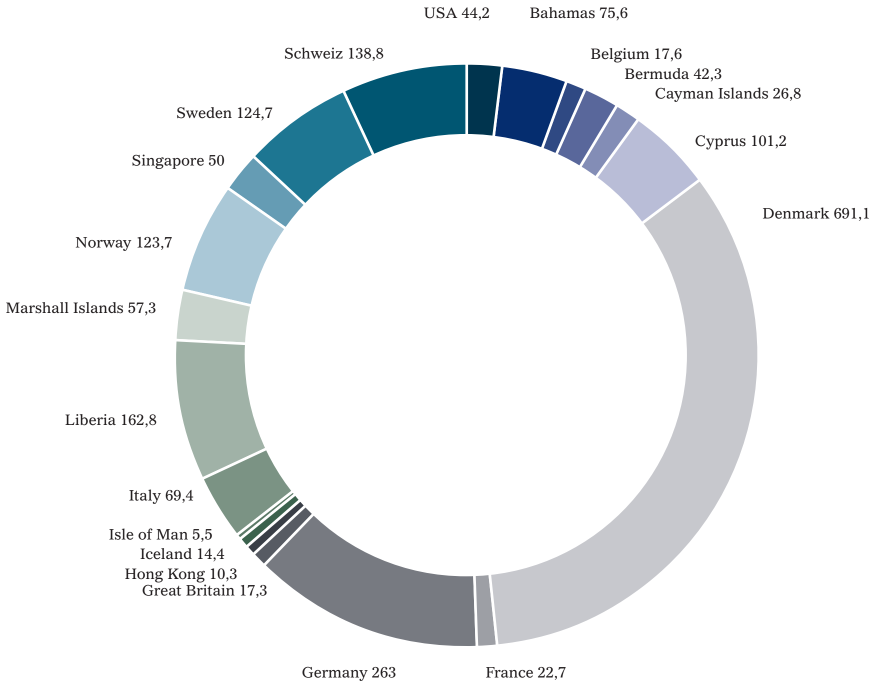
3) that each loan is tested for impairment for all the criteria for objective evidence of impairment based on the likelihood with which they are expected to reduce the cash flow from the loan.

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

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

Danish Ship Finance's 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.

IMPAIRMENT CHARGES BROKEN BY COUNTRIES IN MILLION DKK



DEVELOPMENTS IN IMPAIRED CLAIMS DUE TO VALUE ADJUSTMENT AND IMPAIRMENT CHARGES

	Loans		Financial counterparties	
DKKm	2010	2009	2010	2009
Individual impairment charges/provision				
Impairment charges/provisions for loans and counterparties, 1 January	1,045.7	710.1	45.0	40.0
Impairment charges/provisions during the year	343.4	806.7	0.0	5.0
Reversal of impairment charges/provisions made in previous financial years, where there is no longer any objective evidence of impairment or the impairment is reduced	564.6	467.6	17.0	0.0
Final loss (written off) on previous impairment charges/provisions	77.9	3.5	0.0	0.0
Accumulated impairment charges/provisions for loans and financial counterparties, 31 December	746.6	1,045.7	28.0	45.0
Sum of loans and financial counterparties where individual impairment charges/provisions have been made (calculated before impairment charges/provisions)	4,031.8	8,384.6	200.1	200.3
Collective impairment charges/provisions				
Accumulated impairment charges/provisions for loans and financial counterparties, 1 January	781.0	235.5	0.0	0.0
Impairment charges/provisions during the year	709.9	545.5	0.0	0.0
Reversal of impairment charges/provisions, where there is no longer any objective evidence of impairment or the impairment is reduced	206.8	0.0	0.0	0.0
Accumulated impairment charges/provisions for loans and financial counterparties, 31 December	1,284.1	781.0	0.0	0.0
Final loss (written off)	0.0	0.0	0.0	0.0
Sum of loans and financial counterparties where individual impairment charges/provisions have been made (calculated before impairment charges/provisions)	18,162.7	15,710.3	0.0	0.0

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 company's overall market risk is calculated as the sum of fixed income, exchange rate and equity positions. The most significant market risks are associated with the securities portfolio, as the company is governed by the limits 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.

The company's treasury department has the day-to-day responsibility for the market risk policy, while the responsibility for the current calculation and reporting of market risks lies with a function outside the treasury department. Market risks are monitored in an ongoing process and reported to the Board of Directors on a quarterly basis. In case of breach of the limits defined in the market risk policy, the Management Board must be informed immediately and the Board of Directors not later than at the next board meeting.

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 case of a major rise 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 market risk 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.

Interest rate risks are adjusted among other things by 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. In addition, there are frameworks for the interest rate risk broken down by maturities ranging from 0.5 year to 30 years. The table below shows the interest rate risk at the end of 2009 and 2010 broken down by maturities.

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. Using the Danish FSA's guidelines for calculating interest rate risks, the risk was calculated at DKK 292.1 million at 31 December 2010, corresponding to 3.0% of the capital base, against DKK 269.4 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.

INTEREST RATE RISK BY MATURITIES

DKKm	0.5 year	2 years	5 years	10 years	15 years	30 years
2010	67.1	67.3	37.8	(0.4)	26.5	26.0
2009	56.0	78.5	45.4	8.4	52.4	1.1

EXCHANGE RATE RISK

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

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

Exchange rate indicator 1 at 31 December 2010: DKK 1.2 Billion. Exchange rate indicator 1 corresponds to the company's overall net exposure in foreign currency on the total balance sheet items, calculated according to the guidelines of the Danish Financial Supervisory Authority.

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

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

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.

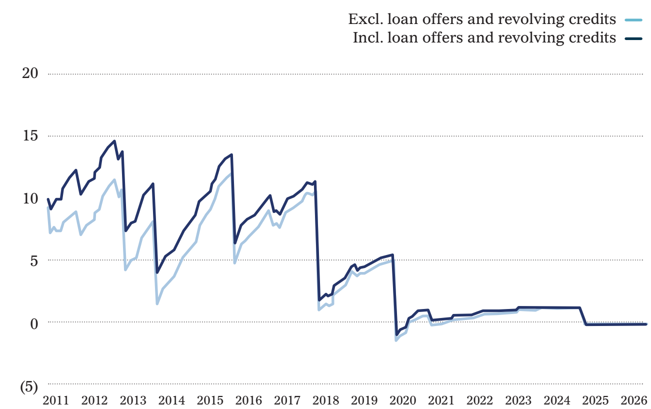
Pursuant to the company's liquidity policy, the company must have overall positive liquidity within the first-coming 18-month period. The calculation of the limit includes the securities portfolio at market value, and loan offers are included if they are expected to be disbursed during the period.

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. The risk caused by lack of access to convert DKK funding into USD involves higher financing costs or the loss of business opportunities.

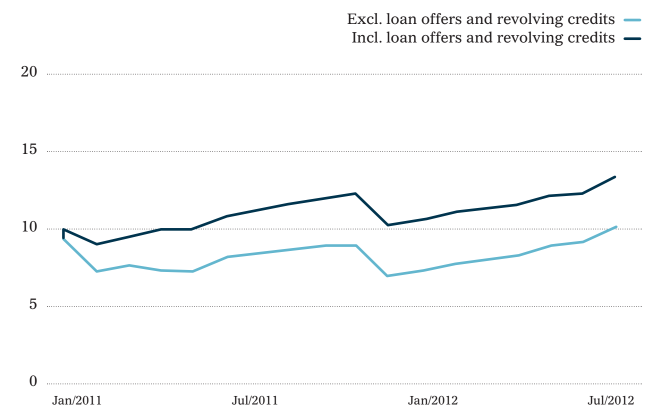
The opportunities for sourcing USD liquidity rely on an efficient financial market.

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

LIQUIDITY AND DURATION MISMATCH
DKK BILLION



18-MONTHS' EXPECTED LIQUIDITY
DKK BILLION



OPERATIONAL RISKS

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.

CALCULATION OF OPERATIONAL RISK

DKKm	**Operational risk**
2010	132.3
2009	110.2

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