Interim Report – first half 2018

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FOREWORD

Following a number of difficult years, there are some bright spots on the horizon for the shipping industry although many sectors are still affected by overcapacity and pressure on earnings. The global economy is still strong, but geopolitical tensions and the threat of a global trade war are causing uncertainty. The Offshore segment has been particularly problematic for Danish Ship Finance in recent years, and a large number of vessels remain idle. We are pleased to note that the situation has stabilised so that the company's loan impairment charges in this segment and on an overall basis were minimal in the first half of 2018.

Despite significantly lower loan impairment charges, Danish Ship Finance's net profit of DKK 139 million for the first half of 2018 was on a par with the level recorded for the same period in 2017. This is mainly due to lower earnings from investing activities compared to the exceptional result in 2017. However, lending is growing, with a continued healthy pipeline, and we expect to enter 2019 with a satisfactorily loan portfolio.

The company anticipates a lower net profit for the year than in 2017, albeit with a positive trend over the last six months of the year. Net earnings from lending are expected to show a positive trend, which will take full effect from 2019, depending on movements in exchange rates. We have taken advantage of the strong bond markets last year and at the beginning of this year to obtain funding at attractive prices, providing a solid foundation for future earnings.

The total capital ratio of Danish Ship Finance remains high at 19.2%, resulting in excess capital adequacy of 7.2 percentage points, and the company maintains a strong liquidity position.

Eivind Kolding Chairman	Erik I. Lassen Chief Executive Officer

FINANCIAL HIGHLIGHTS FOR DANISH SHIP FINANCE A/S

DKK MILLION	1ST HALF 2018	1ST HALF 2017	FULL YEAR 2017
Net interest income from lending	202	271	500
Net interest income from finance activities	90	76	135
Total net interest income	292	347	635
Total net interest and fee income	308	356	655
Market value adjustments	(69)	10	37
Staff costs and administrative expenses	(90)	(75)	(141)
Loan impairment charges etc.	34	(103)	(122)
Profit before tax	183	188	427
Net profit for the period	139	145	334
Loans	35,297	34,670	34,492
Issued bonds	42,461	41,714	42,467
Equity	9,105	9,110	9,307
Total assets	59,727	56,939	58,161

KEY RATIOS

	1ST HALF 2018	1ST HALF 2017	FULL YEAR 2017
Net interest and fee income from lending (DKKm)	218	280	520
Return on equity after tax (%)	1.5	1.6	3.6
Return on finance activities (%) *)	0.3	1.8	3.1
Common equity tier 1 capital after deductions (DKKm)	8,914	8,832	8,930
Common equity tier 1 capital ratio (%)	19.2	19.3	19.7
Internal capital adequacy requirement incl. countercyclical capital buffer	12.0	11.2	10.8
Cost/income ratio (%) **)	37.8	20.7	19.0
Equity as % of lending	25.9	26.3	27.0
Write-offs on loans as % of gross lending	0.2	0.1	0.3
Total allowance account as % of loans ***)	6.7	6.9	7.0
Weighted loan-to-value ratio after loan impairment charges (%)	55	62	57
Proportion of loans covered within 60% of market value (%)	97	90	95

**) Return on finance activities was calculated exclusive of return from shares and foreign currency.*
***) The calculation of the cost/income ratio does not include loan impairment charges.*
****) See note 6.*

Unless otherwise indicated, the ratios were calculated in accordance with Appendix 5 of the Danish FSA's instructions for financial reports for credit institutions, etc.

MANAGEMENT'S REPORT

The Board of Directors of Danish Ship Finance A/S has today considered the Interim Report for the first half of 2018.

Danish Ship Finance A/S presents its financial statements in accordance with the rules set out in the Danish FSA's Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. (Executive Order on Financial Reports).

As in previous years, the Interim Report is unaudited and has not been reviewed.

INCOME STATEMENT

Net earnings from lending including fee income declined in the first half of 2018 to DKK 218 million from DKK 280 million in the first half of 2017. The decline in total interest and fee income was mainly due to higher funding costs to maintain excess liquidity in supporting the anticipated lending growth. Excess liquidity has been invested in short-dated bonds, which has had a negative impact on net earnings. The average USD exchange rate for the period was lower than in the same period in 2017, which contributed to the lower interest and fee income.

Interest and dividend income from finance activities rose to DKK 90 million in the first half of 2018 from DKK 76 million in the first half of 2017.

In total, net interest income decreased by DKK 55 million.

Market value adjustment of securities and foreign exchange for the first half of 2018 was a net expense of DKK 69 million against a net income of DKK 10 million in the first half of 2017, when markets were exceptionally favourable. Market value adjustment for the first half of 2018 included an expense of just under DKK 8 million, reflecting a capital loss related to buybacks of issued bonds for a nominal value of just over DKK 2.2 billion. In connection with these buybacks, new bonds with longer maturities were issued. The capital loss occurred because market prices were higher than the corresponding prices recognised in the financial statements at amortised cost. Viewed separately, a large proportion of the capital loss will reduce interest expenses in the coming years.

Impairment charges on loans and receivables for the first half of 2018 were a net income of DKK 34 million against a net expense of DKK 103 million for the same period in 2017. The positive development resulted from a stabilisation of the credit quality of the loan portfolio in the first half of 2018 compared with the same period in 2017, which was negatively affected by the Offshore segment.

Staff costs and administrative expenses totalled DKK 90 million. A number of initiatives resulted in extraordinary expenses of about DKK 15 million in the first half of 2018. These are not expected to recur in the second half of 2018. Otherwise, the cost level is comparable to the level recorded in 2017.

Net profit for the period was DKK 139 million, compared with DKK 145 million for the first half of 2017.

BALANCE SHEET AND CAPITAL STRUCTURE

Total assets were DKK 59.7 billion at 30 June 2018 against DKK 58.2 billion at 31 December 2017.

During the first half of 2018, lending rose by DKK 0.8 billion from DKK 34.5 billion at 31 December 2017 to DKK 35.3 billion at 30 June 2018, equivalent to a rise of 2.3%. Average lending was lower in the first half of 2018 than in the same period in 2017, as the increase only began in the second quarter. The primary reason was the USD appreciation, which caused lending to increase by DKK 0.9 billion. During the first half of 2018, there was an increase in new loans of DKK 2.3 billion, and loan repayments and prepayments totalled DKK 2.6 billion.

The allowance account, comprising accumulated loan impairment charges/impairment allowance, was largely unchanged at DKK 2.6 billion at 30 June 2018. In the first half of 2018, the company recorded net write-offs in the amount of DKK 94 million, loan impairment charges etc. contributed income of DKK 34 million, while the implementation effect on transition to the new impairment model increased the allowance account by DKK 132 million.

Issued bonds totalled DKK 42.5 billion at the end of the first half of 2018, which was largely unchanged on the end of the first half of 2017. Bond issuance in the first half of 2018 was a nominal amount of DKK 5.2 billion. Maturing bonds and buybacks totalled DKK 5.1 billion.

The bond portfolio grew slightly to DKK 21.5 billion at 30 June 2018 against DKK 20.1 billion at 31 December 2017 due to increased excess liquidity. The securities portfolio consists mainly of Danish covered bonds, and a small proportion is invested in Danish government bonds. The bond portfolio relates to the company's investment of its own funds, bond repo transactions and investment of proceeds from bonds issued to fund loans that have been granted but not yet disbursed.

The total capital ratio was 19.2% at 30 June 2018, down 0.5 percentage points on 31 December 2017. Net profit for the period has not been recognised in own funds.

IMPACT OF USD ON INCOME STATEMENT

The USD/DKK exchange rate for the first half of 2018 averaged just over 617 compared with just under 684 for the same period in 2017. All else being equal, this had a negative impact of DKK 31 million on net interest and fee income.

The USD/DKK exchange rate increased from 621 at the end of 2017 to 639 at 30 June 2018, equivalent to a 3.0% rise. All else being equal, this increased loan impairment charges by DKK 22 million in the first half of 2018.

EVENTS SINCE THE BALANCE SHEET DATE

In the period until publication of the Interim Report, no material events have occurred that affect the financial statements.

THE SHIPPING MARKET AND COMPETITION

The global economy and world trade are generally recovering, but rising geopolitical tensions and the threat of a trade war between China and the USA are causing increased uncertainty. Some ship segments are still under strain from an oversupply of vessels, but growing demand combined with smaller order books and high scrapping activity have made for an improved freight rate environment in a number of segments. Unfortunately, rising oil prices have caused vessels' fuel costs to increase considerably.

The Tanker market continued its slight downward trend in the first half of 2018, partly because of the rising oil prices, which dampen demand, and partly because of the supply of many new vessels to a fleet already notable for overcapacity.

The slight upwards momentum of the Dry Bulk market that set in after it touched bottom in spring 2016 has continued. It is far from stable, however, and could fall back again.

The Container market has enjoyed rising timecharter rates, but is facing a major challenge as the delivery schedule for giant vessels remains packed for the next 18-24 months.

The Offshore market is showing a few signs of life, but there are still too many vessels.

The LPG market has experienced high fleet growth and stagnant trade volumes over the past two years, which pushed freight rates down to very low levels in the first half of 2018.

The LNG market enjoyed strong growth in the period under review as a result of longer trade distances and brisk demand.

The competitive situation is undergoing a partial change. Over the course of the first six months, some European banks have reduced their exposure to shipping, partly through ordinary loan repayments, partly through loan portfolio sell-offs. However, there remain a small number of shipping banks with the capacity to provide lending to shipowners who have coped reasonably with the shipping crisis. Moreover, leasing companies – primarily Chinese – have increased their lending to shipping companies. The increased capital requirements likely to result from future banking regulation have not yet led to any noticeable change in shipping companies' borrowing costs.

The implementation of new environmental requirements in 2020 will likely lead to increased scrapping of old vessels and cause newer vessels to reduce speed and thereby their fuel consumption. Both scenarios will, in their own right, be positive for freight rates.

The slightly positive outlook could reduce the oversupply of vessels in several segments. However, in order for the sector to return to a period of acceptable earnings, it is essential that newbuild ordering is restrained and that a potential trade war does not escalate.

OUTLOOK FOR THE SECOND HALF OF 2018

Measured in lending currencies, the loan portfolio is expected to show an increase in the second half of 2018. Measured in DKK, the situation will depend on the trend in exchange rates, particularly for the USD. Margins are forecast to continue their slight upward trajectory. Overall, a positive trend is expected, manifested to some extent in 2018 and taking full effect in 2019.

Given the favourable demand for the company's bonds, Danish Ship Finance decided in the first half of 2018 to raise new liquidity with longer maturities to support the anticipated growth in lending. Consequently, total funding costs will be higher in 2018 than if the company had opted only to fund existing loans. The level of excess liquidity is expected to normalise in the second half of 2018.

With unchanged market conditions, investing activities are likely to yield a markedly lower return than in 2017 and 2016 when the return on investments was exceptionally high owing to the trends in yields and credit spreads.

Costs for the full year of 2018 are generally expected to match the level recorded in 2017, adjusted for price changes. Costs will furthermore be negatively affected by various non-recurring items incurred in the first half of 2018 related to changes made to strengthen the company's organisation and competencies.

The company therefore foresees a lower net profit for the year than in 2017, albeit with a positive trend over the last six months of the year.

The total capital ratio is expected to be at a high level at the end of the year.

Danish Ship Finance cannot provide more specific financial guidance given the potential impact from loan impairment charges, market value adjustments and fluctuations in the USD/DKK exchange rate, which are the principal risk and uncertainty factors facing the company during the remaining six months of the financial year.

The company only publishes full-year and half-year reports as it is believed that more frequent reporting would not affect the pricing of the bonds issued.

STATEMENT BY THE EXECUTIVE BOARD AND THE BOARD OF DIRECTORS

The Board of Directors and the Executive Board have today considered and approved the Interim Report of Danish Ship Finance A/S for the period 1 January - 30 June 2018.

The Interim Report is presented in accordance with the Danish Financial Business Act, including the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. (Executive Order on Financial Reports). Furthermore, the Interim Report has been prepared in accordance with additional Danish disclosure requirements for issuers of listed bonds.

In our opinion, the interim financial statements give a true and fair view of the company's assets, liabilities and financial position at 30 June 2018 and the results of the company's activities for the period 1 January - 30 June 2018.

Further, in our opinion, the Management's Report contains a fair review of developments in the activities and financial position of the company and describes the significant risks and uncertainty factors that may affect the company.

Copenhagen, 29 August 2018

EXECUTIVE BOARD

Erik Ingvar Lassen	Lars Jebjerg	Michael Frisch
Chief Executive Officer	Director - Chief Financial Officer	Director

BOARD OF DIRECTORS

Eivind Drachmann Kolding (Chairman)		Peter Nyegaard (Vice Chairman)
Marcus Freuchen Christensen	Anders Damgaard	Povl Christian Lütken Frigast
Thor Jørgen Guttormsen	Jacob Balslev Meldgaard	Michael Nellemann Pedersen
Christopher Rex	Henrik Sjøgreen	Henrik Rohde Søgaard

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

NOTE	DKK MILLION	1ST HALF 2018	1ST HALF 2017	FULL YEAR 2017
	Interest income	520	631	1.634
	Interest expenses	(227)	(284)	(998)
	Net interest income	**292**	**347**	**635**
	Dividends on shares, etc.	-	-	-
	Fee and commission income	15	9	20
	Fees and commission expenses	-	-	-
	Net interest and fee income	**308**	**356**	**655**
3	Market value adjustments	(69)	10	37
	Other operating income	0	0	0
	Staff costs and administrative expenses	(90)	(75)	(141)
	Depreciation and impairment of property, plant and equipment	(1)	(1)	(2)
6	Impairment charges on loans and receivables	34	(103)	(122)
	Profit before tax	**183**	**188**	**427**
	Tax	(44)	(42)	(93)
	Net profit for the period	**139**	**145**	**334**
	Other comprehensive income	-	-	10
	Tax on other comprehensive income	-	-	(2)
	Other comprehensive income after tax	**0**	**0**	**8**
	Comprehensive income for the period	**139**	**145**	**342**

BALANCE SHEET

NOTE	DKK MILLION	AT 30 JUNE 2018	AT 30 JUNE 2017	AT 31 DEC 2017
	ASSETS			
	Due from credit institutions and central banks	1.092	2.728	1.463
4, 5	Loans and other receivables at amortised cost	35.297	34.670	34.492
	Bonds at fair value	21.482	17.076	20.093
	Shares, etc.	11	14	11
	Land and buildings			
	Owner-occupied property	89	79	89
	Other tangible assets	8	8	8
	Current tax assets	0	202	51
	Deferred tax assets	43	58	7
	Other assets	1.705	2.104	1.947
	Total assets	**59.727**	**56.939**	**58.161**
	LIABILITIES AND EQUITY			
	Liabilities			
	Due to credit institutions and central banks	5.725	2.047	3.405
7	Issued bonds at amortised cost	42.461	41.714	42.467
	Current tax liabilities	0	0	-
	Other liabilities	2.437	4.067	2.981
	Total liabilities	**50.622**	**47.829**	**48.854**
8	**Equity**			
	Share capital	333	333	333
	Tied-up reserve capital	8.343	8.343	8.343
	Revaluation reserves	29	21	29
	Distributable reserves	400	412	601
	Total equity	**9.105**	**9.110**	**9.307**
	Total liabilities and equity	**59.727**	**56.939**	**58.161**
	Off-balance sheet items			
	Contingent liabilities	155	171	163
	Other binding agreements	4.443	1.540	3.860
	Total off-balance sheet items	**4.598**	**1.711**	**4.024**

STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Tied-up reserve capital	Revaluation reserves	Distributable reserves	Retained earnings	Total
Equity at 1 January 2017	**333**	**8.343**	**21**	**267**	**199**	**9.164**
Dividends paid for the financial year 2016	-	-	-	-	(199)	(199)
Amount for distribution	-	-	8	97	237	342
Equity at 31 December 2017	**333**	**8.343**	**29**	**364**	**237**	**9.307**
Dividends paid for the financial year 2017	-	-	-	-	(237)	(237)
Initial impact at 1 January 2018	-	-	-	-103	-	(103)
Comprehensive income for the period	-	-	-	139	-	139
Equity at 30 June 2018	**333**	**8.343**	**29**	**400**	0	**9.105**

LIST OF NOTES

NOTE 1 ACCOUNTING POLICIES

The Interim Report has been prepared in accordance with the Danish Financial Business Act, including the Danish FSA's Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. (Executive Order on Financial Reports).

The interim financial statements are presented in Danish kroner (DKK) and in millions unless otherwise stated.

The accounting policies are unchanged from the policies applied in the Annual Report 2017 except for the implementation of the new impairment rules into the Executive Order on Financial Reports, see below. The Annual Report 2017 provides a more detailed description of the accounting policies, including the definitions of the ratios used, which are calculated in accordance with the definitions laid down in the Executive Order on Financial Reports.

The preparation of the interim financial statements is based on Management's estimates and judgements of future events that may significantly affect the carrying amounts of assets and liabilities. As was the case in the Annual Report 2017, the amounts most influenced by critical estimates in the Interim Report are the fair value of financial instruments as well as measurement and impairment of loans.

New Executive Order on Financial Reports
As at 1 January 2018, the International Financial Reporting Standard 9 (IFRS 9) setting out new rules for classification and impairment of financial assets became effective, resulting in amendments to the previous approach based on incurred credit losses.

The new impairment rules have introduced a more forward-looking approach to measuring impairment of financial assets based on expected credit losses over the expected useful life of an asset as opposed to the previous approach based on incurred credit losses. The company's impairment model has been aligned with the new impairment rules.

Under the new impairment rules, the company recognises 12-months expected credit losses on initial recognition of credit exposures; further, the company recognises lifetime expected credit losses on credit exposures involving either significantly increased credit risk, significant signs of weakness or credit impairment since initial recognition.

Credit exposures for which credit risk has not increased significantly since initial recognition are placed in stage 1. Credit exposures for which credit risk has increased significantly since initial recognition and/or are showing significant signs of weakness are placed in stage 2. Credit exposures which are credit impaired are placed in stage 3. The staging of a credit exposure determines the method applied for calculating the expected credit loss.

Following the transition to the new impairment rules, only individual impairment charges are calculated, and collective impairment charges as at 31 December 2017 have been allocated to individual impairment charges as at 1 January 2018, see note 6.

The implementation of the new impairment model resulted in an increase in the company's allowance account of DKK 132.3 million. The impact after tax was DKK 103.2 million and has been recognised as a reduction in equity as at 1 January 2018 without affecting profit or loss.

The implementation has no impact on the classification of financial assets.

With the entry into force of the new impairment rules, transitional arrangements have been agreed, allowing institutions in determining own funds to add back an amount to their CET1 capital, which is reduced over a five-year transition period. The company has opted not to apply these transitional arrangements.

KEY FIGURES, DKK MILLION	1ST HALF 2018	1ST HALF 2017	FULL YEAR 2017
NOTE 2 Net interest income from lending	202	271	500
Net interest income from finance activities	90	76	135
Total net interest income	292	347	635
Net net interest and fee income	308	356	655
Market value adjustments	(69)	10	37
Staff costs and administrative expenses	(90)	(75)	(141)
Loan impairment charges etc.	34	(103)	(122)
Profit before tax	183	188	427
Net profit for the period	139	145	334
Loans	35.297	34.670	34.492
Bonds	21.482	17.076	20.093
Equity	9.105	9.110	9.307
Total assets	59.727	56.939	58.161

RATIOS	1ST HALF 2018	1ST HALF 2017	FULL YEAR 2017
Common equity tier 1 capital ratio	19,2	19,3	19,7
Tier 1 capital ratio	19,2	19,3	19,7
Total capital ratio	19,2	19,3	19,7
Return on equity before tax (%)	2,0	2,1	4,6
Return on equity after tax (%)	1,5	1,6	3,6
Income/cost ratio (DKK) *)	4,3	2,0	2,6
Income/cost ratio (ex. impairment charges)	2,6	4,8	4,8
Foreign exchange position (%)	3,1	7,3	10,8
Gearing of loans	3,9	3,8	3,7
Growth in lending for the period (%)	2,3	(12,9)	(13,4)
Impairment ratio for the period	(0,1)	0,3	0,3
Accumulated impairment ratio	6,9	6,9	7,0
Rate of return on assets (%)	0,2	0,3	0,6

The key figures are calculated in accordance with Appendix 5 of the Danish FSA's instructions for financial reports for credit institutions, etc.

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

DKK MILLION	1ST HALF 2018	1ST HALF 2017	FULL YEAR 2017

NOTE 3 MARKET VALUE ADJUSTMENTS

Market value adjustment of bonds	(45)	(107)	(61)
Market value adjustment of shares	0	(0)	(3)
Exchange rate adjustments	(1)	(11)	(30)
Market value adjustment of derivative financial instruments	(24)	128	130
Total market value adjustments	**(69)**	**10**	**37**

NOTE 4 LOANS AT AMORTISED COST

	AT 30 JUNE 2018	AT 30 JUNE 2017	AT 31 DEC 2017
At 1 January	34.492	39.811	39.811
Additions	2.322	1.003	6.914
Ordinary repayments and redemptions	(2.277)	(2.979)	(5.493)
Extraordinary repayments	(297)	(801)	(2.443)
Net change concerning revolving credit facilities	138	(7)	(100)
Exchange rate adjustment of loans	868	(2.297)	(4.111)
Change in amortised cost for the period	(3)	15	(12)
Depreciation, amortisation and impairment for the period	54	(75)	(74)
At the end of the period	**35.297**	**34.670**	**34.492**
Gross loans at exchange rates at the balance sheet date	37.834	37.261	37.083
Loan impairment charges	(2.537)	(2.591)	(2.591)
Total loans	**35.297**	**34.670**	**34.492**
Total loans			
Loans at fair value	36.092	35.314	35.387
Loans at amortised cost	35.297	34.670	34.492

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

NOTE 5 CREDIT IMPAIRED LOANS

Non-defaulted loans (rating 11)			
Loans subject to forbearance and/or modification of loan terms	4.119	4.807	4.189
Other credit impaired loans	205	980	532
Loan impairment charges	(1.785)	(1.843)	(1.829)
Non-defaulted loans, net	**2.539**	**3.944**	**2.892**
Defaulted loans (rating 12)			
Defaulted loans/gross	1.281	851	1.172
Loan impairment charges	(456)	(395)	(550)
Defaulted loans, net	**825**	**456**	**621**
Total net credit impaired loans	**3.364**	**4.400**	**3.513**

Reference is made to note 12 setting out LTV ranges for the entire loan portfolio and for credit impaired loans.

DKK MILLION	AT 30 JUNE 2018	AT 30 JUNE 2017	AT 31 DEC 2017

NOTE 6 LOAN IMPAIRMENT CHARGES/LOSS ALLOWANCE

The following impairment charges/loss allowance were made on loans/credit commitments			
Individual impairment charges	2.537	2.238	2.380
Collective impairment charges	-	353	211
Loss allowance for loan commitments	96	-	-
Total	**2.633**	**2.591**	**2.591**
As a percentage of loans and guarantee commitments			
Individual impairment charges	6,7	6,0	6,4
Collective impairment charges	-	0,9	0,6
Total *)	**6,7**	**6,9**	**7,0**
Breakdown of loan impairment charges			
Loan impairment charges	2.537	2.591	2.591
Loss allowance for loan commitments	96	-	-
Total	**2.633**	**2.591**	**2.591**
Movements in loan impairment charges			
At 1 January	2.591	2.516	2.516
Initial impact as at 1 January 2018	132	-	-
New impairment charges/loss allowance	395	316	748
Reversal of impairment charges/loss allowance	(355)	(177)	(550)
Credit losses covered by impairment charges from previous years	(130)	(64)	(124)
Total	**2.633**	**2.591**	**2.591**
Loan impairment charges for the period			
New impairment charges/loss allowance	(395)	(316)	(748)
Reversal of impairment charges/loss allowance	355	177	550
Reclassification of interest	39	21	51
Recovery on loans previously written off	36	15	25
Loan impairment charges	**34**	**(103)**	**(122)**

**) The calculation above only includes loan impairment charges.*

NOTE 7 ISSUED BONDS AT AMORTISED COST

At 1 January	42.467	42.352	42.352
Additions in conjunction with pre-issuance	5.249	11.035	19.161
Amortisation of cost	(25)	(6)	(36)
Adjustment for hedge accounting	(127)	22	14
Exchange rate adjustment	42	(251)	(376)
Own bonds	-	(150)	-
Ordinary and extraordinary redemptions	(5.147)	(11.288)	(18.648)
At the end of the period	**42.461**	**41.714**	**42.467**
Specification of issued bonds			
Bonds issued in DKK			
Bullet bonds	40.188	38.167	39.693
Amortising CIRR bonds	565	681	623
Total Danish bonds	**40.754**	**38.848**	**40.316**
Bonds issued in foreign currency			
Amortising CIRR bonds, at period-end exchange rates	1.707	2.866	2.151
Total bonds issued in foreign currency	**1.707**	**2.866**	**2.151**
Total issued bonds	**42.461**	**41.714**	**42.467**

DKK MILLION	AT 30 JUNE 2018	AT 30 JUNE 2017	AT 31 DEC 2017

NOTE 8 EQUITY

Share capital			
A shares	300	300	300
B shares	33	33	33
Total share capital	**333**	**333**	**333**
Tied-up reserve capital	8.343	8.343	8.343
Revaluation reserves	29	21	29
Distributable reserves	400	412	364
Proposed dividend for the financial year	-	-	237
Total equity	**9.105**	**9.110**	**9.307**

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 9 CAPITAL ADEQUACY

Common equity tier 1 capital			
Share capital A shares	300	300	300
Share capital B shares	33	33	33
Tied-up reserve capital	8.343	8.343	8.343
Revaluation reserves	29	21	29
Distributable reserves	400	412	601
Total common equity tier 1 capital before deductions	**9.105**	**9.110**	**9.307**
Deductions from common equity tier 1 capital			
Proposed dividend	-	-	237
Retained earnings	139	145	-
Additional capital charge pursuant to the Executive Order on a Ship Finance Institute	0	86	94
Prudent valuation pursuant to article 105 of the CRR	26	26	26
Deductions pursuant to transitional rules regarding B share capital *)	26	20	20
Total deductions from common equity tier 1 capital	**191**	**277**	**377**
Common equity tier 1 capital after deductions	**8.914**	**8.832**	**8.930**
Own funds after deductions	**8.914**	**8.832**	**8.930**
Risk exposure amount			
Risk exposure amount for assets outside the trading book	36.233	37.068	35.458
Risk exposure amount for off-balance sheet items	2.396	940	2.101
Risk exposure amount for counterparty risk outside the trading book	1.492	1.319	1.639
Risk exposure amount for market risk	4.761	4.607	4.618
Risk exposure amount for operational risk	1.497	1.725	1.497
Total risk exposure amount	**46.379**	**45.659**	**45.312**
Common equity tier 1 capital ratio	**19,2**	**19,3**	**19,7**
Tier 1 capital ratio	**19,2**	**19,3**	**19,7**
Total capital ratio	**19,2**	**19,3**	**19,7**
The risk exposure amount for market risk consists of:			
Position risk related to debt instruments	4.463	3.937	3.632
Position risk related to shares	22	27	21
Total currency position	276	642	965
Total risk-weighted items involving market risk	**4.761**	**4.607**	**4.618**

**) Recognised at 40% pursuant to transitional rules of CRR art. 484 at 30 June 2018 (January 1 to December 31 2017 recognised at 50%).*

NOTE 10 RELATED PARTIES

Related parties comprise members of the company's Executive Board and Board of Directors.

Related parties furthermore comprise Danmarks Skibskredit Holding A/S, which holds an ownership interest of 86.2% and more than 20% of the voting rights in the company.

Danmarks Skibskredit Holding A/S is owned by Axcel, PFA and PKA, which hold more than 20% of the share capital each and more than 20% of the voting rights each and are therefore also related parties of Danmarks Skibskredit A/S.

Transactions with the Executive Board and the Board of Directors only concerned remuneration.

Related-party transactions concerning loans and loan offers totalled a nominal amount of DKK 955 million at 30 June 2018 (at 31 December 2017: DKK 1,025 million).

Furthermore, related-party transactions included settlement of administration services provided by Danmarks Skibskredit Holding A/S and dividends to Danmarks Skibskredit Holding A/S.

There have been no related-party transactions other than those referred to above.

DKK MILLION

NOTE 11 STAGES FOR CHANGES IN CREDIT RISK

Exposures before impairment charges broken down by rating and stage, measured at nominal debt outstanding

RATING	STAGE 1	STAGE 2	STAGE 3	LOANS AND GUARANTEES 30 JUNE 2018
1	-	-	-	-
2	-	-	-	-
3	4.892	-	-	4.892
4	3.613	-	-	3.613
5	880	-	-	880
6	10.756	-	-	10.756
7	4.213	302	-	4.516
8	4.414	746	-	5.160
9	601	1.295	-	1.896
10	267	573	-	840
11	-	-	4.324	4.324
12 (default)	-	-	1.281	1.281
Total	**29.637**	**2.917**	**5.605**	**38.158**

Changes in allowance account broken down by stage

	STAGE 1	STAGE 2	STAGE 3	TOTAL
At 1 January	143	68	2.380	2.591
Initial impact at 1 January 2018	36	54	42	132
Transferred to stage 1 during the period	15	(15)	-	0
Transferred to stage 2 during the period	(1)	4	(3)	0
Transferred to stage 3 during the period	-	-	-	-
New impairment charges/loss allowance	70	34	291	395
Reversal of impairment charges/loss allowance	(54)	(22)	(279)	(355)
Gross write-offs for the period	-	-	(130)	(130)
Allowance account at 30 June 2018	**209**	**123**	**2.302**	**2.633**
Of which:				
- Loan impairment charges	181	115	2.241	2.537
- Loss allowance for credit commitments	28	8	61	96

Staging and impairment of loans

All loans have been reviewed for placing into stage 1, stage 2 or stage 3, and the company has established an allowance for the expected credit losses depending on the stage. For loans classified as stage 1, the company has recognised 12-month expected credit losses, and for loans classified as stages 2 and 3, the company has recognised lifetime expected credit losses.

Past-due loans

Loans which are 90 days or more past due are credit impaired and placed in stage 3, while loans which are 30 days past due are generally characterised by significant signs of weakness and therefore placed in stage 2. For all such loans, the expected credit losses arising over their lifetime have been recognised.

DKK MILLION	AT 30 JUNE 2018	AT 30 JUNE 2017	AT 31 DEC 2017

NOTE 12 CREDIT RISK IN THE LOAN PORTFOLIO

Exposures before loan impairment charges broken down by rating interval, measured at nominal debt outstanding

RATING	LOANS AND GUARANTEES 30 JUNE 2018	LOANS AND GUARANTEES 30 JUNE 2017	LOANS AND GUARANTEES 31 DEC 2017
1 - 2	-	-	-
3 - 4	8.505	7.786	9.030
5 - 6	11.636	10.671	10.843
7 - 8	9.676	9.665	9.098
9 - 10	2.736	2.809	2.548
11	4.324	5.788	4.721
12	1.281	851	1.172
Total	**38.158**	**37.570**	**37.412**

Ratings 11 and 12 are credit impaired loans.

Description of collateral
All loans are granted against a first lien mortgage in vessels, assignment in respect of the vessel's primary insurances and where relevant, supplementary collateral.

Since the end of 2017, the market value of the ships in the loan portfolio has generally decreased by 1.0% measured in DKK and decreased by 2.7% in USD. The values are affected by movements in the USD exchange rate.

Percentage distribution of loans after impairment by LTV range and measured at nominal debt outstanding

LOAN-TO-VALUE RANGE	SHARE OF LOANS 30 JUNE 2018	SHARE OF LOANS 30 JUNE 2017	SHARE OF LOANS 31 DEC 2017
0 - 20 %	39%	34%	37%
20 - 40 %	35%	32%	34%
40 - 60 %	23%	24%	24%
60 - 80 %	3%	9%	5%
80 - 90 %	-	1%	-
90 - 100 %	-	-	-
Over 100 %	-	-	-

It appears from the table above that 97% (end-2017: 95%) of all loans are secured through mortgages within 60% of the most recently calculated market value of the mortgage, and 100% (end-2017: 100%) of all loans are within 80% of the most recently calculated market value of the mortgage.

The weighted loan-to-value ratio of the loan portfolio was 55% after impairment charges (end-2017: 57%).

Percentage distribution of credit impaired loans, cf. note 5. The distribution is stated after impairment charges by LTV range, measured at nominal debt outstanding

LOAN-TO-VALUE RANGE	SHARE OF LOANS 30 JUNE 2018	SHARE OF LOANS 30 JUNE 2017	SHARE OF LOANS 31 DEC 2017
0 - 20 %	37%	36%	38%
20 - 40 %	34%	36%	36%
40 - 60 %	25%	25%	24%
60 - 80 %	4%	3%	2%
80 - 90 %	-	-	-
90 - 100 %	-	-	-
Over 100 %	-	-	-

It appears from the table above that 96% (end-2017: 98%) of credit impaired loans is secured through mortgages within 60% of the most recently market value of the mortgage, and 100% (end-2017: 100%) of credit impaired loans are within 80% of the most recently calculated market value of the mortgage.

The weighted average LTV ratio for credit-impaired loans after impairment charges was 57% (end-2017: 54%).

NOTE 13 SUPPLEMENTARY NOTES WITHOUT REFERENCE

Reference is made to the description of financial risk and policies for financial risk management provided in the risk management sections in the Annual Report 2017, as no significant changes are deemed to have occurred as at 30 June 2018.