
Annual Report 2018

Danish Ship Finance Holding A/S

Company reg. (CVR) no. 38 03 64 83

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Statements and reports

Management statement

The Board of Directors and the Executive Board have today considered and approved the Annual Report of Danish Ship Finance Holding A/S for the financial year 1 January – 31 December 2018.

The consolidated financial statements and the parent company financial statements for DSH have been prepared in accordance with the Danish Financial Business Act and the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

In our opinion, the Management report includes a fair summary of developments in the activities and financial position of the Group and the parent company and fairly describes the principal risks and uncertainties that may affect the Group and the parent company.

Further, in our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's assets, liabilities and financial position at 31 December 2018 and of the results of the Group's and the parent company's operations for the financial year 1 January – 31 December 2018.

We recommend the Annual Report for adoption by the annual general meeting on 25 March 2019.

Copenhagen, 25 February 2019

Executive Board

Erik Ingvar Lassen
Chief Executive Officer

Lars Jebjerg
Chief Financial Officer

Michael Frisch
Chief Commercial Officer

Board of Directors

Povl Christian Lütken Frigast
Chairman

Anders Damgaard

Michael Nellemann Pedersen

Independent auditor's report

Opinion

We have audited the consolidated financial statements and the parent financial statements of Danish Ship Finance Holding A/S (Danmarks Skibskredit Holding A/S) for the financial year 01.01.2018 – 31.12.2018, which comprise the income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2018, and of the results of their operations and the consolidated cash flows for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Business Act.

Basis for the opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements* section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the

economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial

statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 25 February 2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Kasper Bruhn Udam
State-Authorised
Public Accountant
MNE no 29421

Bjørn Philip Rosendal
State-Authorised
Public Accountant
MNE no 40039

Management report

Company information

Company

Danish Ship Finance Holding A/S
Company reg. (CVR) no: 38 03 64 83

Sankt Annæ Plads 3
DK-1250 Copenhagen K
Tel.: +45 33 33 93 33
Website: www.skibskredit.dk

Financial year: 1 January – 31 December

Municipality of registered office: Copenhagen

Board of Directors

Povl Christian Lütken Frigast (Chairman)
Anders Damgaard
Michael Nellemann Pedersen

Executive Board

Erik I. Lassen
Michael Frisch
Lars Jebjerg

Auditors

Deloitte
Statsautoriseret Revisionspartnerselskab
Company reg. (CVR) no. 33 96 35 56

Main activity

Danish Ship Finance Holding A/S ('DSH') is a financial holding company, the purpose of which is to hold equity investments in Danish Ship Finance A/S ('DSF'). DSH has no other activities than the ownership of shares in DSF.

Financial highlights

DKK MILLION	Group			Holding		
	2018	2017	2016	2018	2017	2016
Net interest income from lending	463	553	78	(1)	0	-
Net interest income from financial activities	(23)	(47)	(2)	(186)	(182)	(28)
Total net interest income	440	506	76	(186)	(182)	(28)
Net interest and fee income	472	526	82	(187)	(182)	(28)
Market value adjustments	(135)	37	74	-	-	-
Staff costs and administrative expenses	(160)	(148)	(36)	(2)	(7)	(18)
Loan impairment charges	(35)	(163)	70	-	-	-
Income from investments in associated companies	-	-	-	214	273	151
Profit before tax	140	250	189	25	84	105
Net profit for the year	98	210	147	66	125	115
Loans	37,117	35,000	40,454	-	-	-
Issued bonds	43,894	42,925	42,932	-	-	-
Subordinate loan capital	1,968	1,957	1,946	1,968	1,957	1,946
Equity *)	1,423	1,466	1,333	1,442	1,468	1,414
Total assets	62,782	58,735	63,300	3,433	3,449	3,394

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.

*) The equity in the Group represents 96.2% of A-shareholders. The remaining shares are classified as minority interests.

Income statement

Net profit for the year in Holding was DKK 66 million against DKK 125 million in 2017, and DKK 98 million for the Group against DKK 210 million in 2017.

Net interest and fee income were an expense of DKK 187 million for Holding and income of DKK 472 million for the Group. In 2017, net interest and fee income was an expense of DKK 182 million for Holding and income of DKK 526 million for the Group.

Market value adjustments of securities and foreign exchange, exclusively relating to DSF, generated loss of DKK 135 million in 2018, compared to an income of DKK 37 million in 2017.

Staff costs and administrative expenses at 31 December 2018 amounted to DKK 2 million for Holding and DKK 160 million for the Group, compared with DKK 7 million for Holding and DKK 148 million for the Group in 2017.

Income from equity investments in Holding, corresponding to Holding's share of net profit for the year of DSF, was DKK 214 million at 31 December 2018, against DKK 273 million in 2017.

Tax on profit for the year was an income of DKK 41 million in Holding. The Group recorded a total tax expense of DKK 43 million.

Balance sheet and capital structure

Holding's total assets amounted to DKK 3,433 million at 31 December 2018, compared with DKK 3,449 million at the end of 2017.

Assets consisted mainly of investments in group enterprises in the amount of DKK 3,331 million, and liabilities were mainly subordinate loan capital of DKK 1,968 million and equity of DKK 1,442 million.

At 31 December 2018, the Group's total assets were DKK 62,782 million, of which lending represented DKK 37,117 million and bonds DKK 22,470 million. The corresponding figures at the end of 2017 were DKK 58,735 million, DKK 35,000 million and DKK 20,093 million.

The Group's consolidated capital ratio was 17.0% at 31 December 2018, compared with 16.7% at the end of 2017.

At Group level, adequate own funds were calculated at DKK 5,354 million at 31 December 2018, corresponding to 11.2% of the total risk exposure amount. This corresponded to excess coverage in the amount of DKK 2,787 million at the end of 2018, against DKK 2,578 million at the end of 2017.

In 2016, the Danish FSA has ruled that the tied-up reserve capital in DSF shall be included in the determination of consolidated capital adequacy at an amount corresponding to the tied-up reserve capital's proportionate share of the capital requirement. DSH has initiated a dialogue with the Danish FSA in this matter in light of a recent ruling in a similar case in the Danish financial sector.

Events since the balance sheet date

No events have occurred in the period up to the presentation of the Annual Report 2018 which materially affect the financial position presented.

Results relative to outlook

Financial results for full-year 2018 were lower than expected at the beginning of the year. Particularly, the results contribution from investment of own funds was significantly below the result achieved in the previous year.

The expected increase in the net result from lending did not materialise in 2018. The resurgence in lending activity in the second half, to a year-end balance largely in line with expectations, did not fully compensate for the lower average lending balance earlier in the year.

Macro-economic developments did not materially impact the prospects of the shipping industry or the company in 2018. Global economic growth continued its subdued trends from

prior years and, as expected, 2018 was a year of mixed trends for international shipping. A few shipping segments are still struggling to move up from the bottom of a very protracted economic cycle while others appear to be steadily improving.

Environmental regulations have not yet had a measurable effect on the ability of global shipping to meet its debt-servicing obligations, or on second-hand vessel values. Increasing numbers of vessels were retro-fitted with emissions cleaning devices ("scrubbers") in 2018, in many cases financed by additional borrowing.

The effects of the implementation of IFRS 9 regulations resulted in a one-off reduction of the equity by DKK 103 million (DKK 132 million before tax in line with prior guidance of DKK 125-150 million). Overall, the total allowance account remained largely unchanged, and write-offs in 2018 were, as expected, covered by existing loan impairment charges.

No material market impacts have been observed in 2018 relating to upcoming financial regulation, or from the announcements of several competitors of their intent to scale back or withdraw their shipping market lending exposure.

The funding conditions in the Danish high-grade bond market, particularly in the second half of the year, remained strong compared to original expectations, allowing the issuance of longer-dated bonds and a moderate amount of own bonds buy-backs.

Outlook, risks and uncertainty factors

Business momentum coming into the new year is strong on the back of increased client engagement in the second part of 2018. The Group enters 2019 with a healthy pipeline of accepted loan offers, indicating a strong start to lending activity, supported by a strong liquidity position and continued good access to funding markets.

A healthy operating performance with increased net interest income from lending is expected, and financial results from 2019 onwards will increasingly show the run-rate benefits of initiatives for which laid the groundwork in 2018.

The Group will this year continue to invest in effectively utilising available lending capacity and strengthening the organisation for sustainable performance, laying the foundation for strong business and financial performance in the coming years. Strategy execution costs are fully budgeted in the projections and expected to result in temporarily higher costs in 2019 compared to 2018 levels, excluding other non-recurring items.

Overall, shipping markets have seen improvements on the back of a steady increase in demand for seaborne transportation and stabilisation in orderbooks in most segments.

Although the troubled offshore sector appears to be gradually moving out of its depression, recovery of rates in the sector is expected to take several years and expects some of the already challenged clients in the sector to remain under pressure in the coming years.

Credit quality has stabilised for some challenged clients and the number of problem loans reduced. However, it is expected that a limited number of non-performing loans to offshore clients will remain troubled in 2019 and beyond with an attendant risk of realising credit losses. The total allowance account of approximately DKK 2.5 billion provides adequate coverage for expected credit losses and no major changes to the level of accumulated loan impairment charges are currently envisaged.

Unexpected market or credit events could lead to a reassessment of the outlook. The business outlook for 2019 remains subject to market factors and can be shaped by elements outside of direct control. Uncertainties about global politics and global trade may impact the shipping market. An uncertain outlook for financial markets, including primary and secondary bond markets, interest rate and foreign exchange markets, may affect the financial performance.

On balance, management remains optimistic about prospects coming into 2019 and expects the 2019 financial results to materially exceed the results realised in 2018.

The shipping market and competition

Market conditions in the major shipping segments have registered mixed trends in 2018 but the balance between supply and demand has improved from an overall perspective. The supply side is becoming more manageable with a shrinking surplus in global shipyard capacity. Annual deliveries were down by almost 20% in 2018, demolition activity remained relatively elevated and the orderbook stabilised at a level representing 10% of the fleet. The world fleet expanded by approximately 2.5% in 2018 while distance-adjusted seaborne trade volumes increased by 3.5%.

The ClarkSea Index, a weighted average index of earnings across the major shipping segments, remained at a low level but picked up slightly from an average of USD 10,700 per day in 2017 to an average of USD 12,100 per day in 2018. The index closed above USD 15,800 per day at the end of 2018, which indicated clear signs of improved market fundamentals in some segments, although the index dropped in early 2019. Still, higher fuel prices limited the effect of the gains on 2018 sector earnings.

The Dry Bulk, Container and LNG segments saw gains in earnings and Ferries and Ro-Ro earnings have remained firm. Market conditions in the Crude-, Product Tanker and LPG segments were difficult, but positive seasonal trends supported earnings at the end of the year. Chemical Tankers struggled to absorb surplus capacity and the offshore related segments remained challenged despite improved market activity. Car Carriers saw some market improvement although surplus capacity left little room for earnings increases.

Owners continued to consolidate their fleets across many of the major shipping segments. Sale and purchase activity remained strong in 2018, albeit slightly below the high level of activity in 2017. Secondhand prices in several of the major shipping segments, especially for modern units, have increased over the year.

In the last couple of years, the shipping industry has encountered stricter environmental requirements, some of which apply globally, others regionally. Many of these requirements may have severe consequences for the industry, as shipping companies with weaker balance sheets may find it challenging to make the investments necessary to meet the increased requirements. Consequently, the environmental requirements may also partially impact prices of older vessels, because often it will not be financially viable to make the required investments to install new technology in older vessels.

The hottest topic was how to deal with the reduced limits for the sulphur content of fuel oil by 2020. The sulphur cap has spurred a vigorous debate on whether to install scrubbers or not. Many shipowners have invested in scrubbers based on an investment case of a high positive price spread between high and low sulphur fuel. Others have tried to calculate the potential savings in low sulphur fuel in case larger parts of the fleets slow steam, while others have argued that the sulphur cap will accelerate the decision to scrap older vessels and therefore improve the utilisation of the remaining fleet. Time will tell which strategy turns out to be the best performing. The potential earnings impact from lower supply as fleets are being retro-fitted or slow stream will most likely benefit all shipowners.

Most shipowners are capable of adapting to the very changeable conditions of international shipping, including new regulation, and adjust according to the fluctuations in earnings which are inherent to the industry. Thus, the majority focus on having a capital structure which is robust, and which is resilient to downturns and can foster growth when the opportunity arises.

Digitalisation of the shipping industry was another widely discussed topic of the year. The industry has seen an unprecedented interest from both corporates and start-ups from outside the existing shipping ecosystem that work to innovate various parts of the industry, introducing new technologies or new business models. Little indicates that any of the current initiatives are outright disruptive, but many hold the potential to change how future value is created if broadly adopted by the market.

For further research on the digitalisation of the shipping industry, please see the Maritime Trend Report published by DSF and Rainmaking in November 2018, at www.nextgenmaritime.io/

INCOME STATEMENT

NOTE	1 JANUARY - 31 DECEMBER	DKK MILLION	Group		Holding		
			2018	2017	2018	2017	
3	Interest income		1,967	1,687	-	-	
4	Interest expenses		(1,527)	(1,181)	(187)	(182)	
5	Net interest income		440	506	(187)	(182)	
6	Fee and commission income		32	20	-	-	
	Net interest and fee income		472	526	(187)	(182)	
7	Market value adjustments		(135)	37	-	-	
8,9	Staff costs and administrative expenses		(160)	(148)	(2)	(7)	
22,23	Depreciation and impairment of property, plant and equipment		(2)	(2)	-	-	
	Other operating expenses		-	-	(0)	-	
15	Impairment charges on loans and receivables		(35)	(163)	-	-	
21	Income from investments in associated companies		-	-	214	273	
	Profit before tax		140	250	25	84	
10	Tax		(43)	(40)	41	41	
	Net profit for the year		98	210	66	125	
	Other comprehensive income		-	10	-	10	
	Tax on other comprehensive income		-	(2)	-	(2)	
	Other comprehensive income after tax		0	8	0	8	
	Comprehensive income for the year		98	217	66	133	
	PROPOSED ALLOCATION OF PROFIT						
	Minority shareholders		48	61	-	-	
	Revaluation reserve		-	8	-	8	
	Retained earnings		50	148	66	125	
	Total		98	217	66	133	

BALANCE SHEET

NOTE	AT 31 DECEMBER	DKK MILLION	Group		Holding	
			2018	2017	2018	2017
	ASSETS					
11	Due from credit institutions and central banks		1,369	1,465	70	2
12,13,14	Loans and other receivables at amortised cost		37,117	35,000	-	-
17,18,19	Bonds at fair value		22,470	20,093	-	-
20	Shares, etc.		3	11	-	-
21	Shares in associated companies		-	-	3,331	3,396
22	Land and buildings		-	-	-	-
	Owner-occupied property		89	89	-	-
23	Other tangible assets		9	8	-	-
	Current tax assets		0	52	-	-
28	Deferred tax assets		114	70	32	51
19,24	Other assets		1,609	1,947	-	-
	Total assets		62,782	58,735	3,433	3,449
	LIABILITIES AND EQUITY					
	Liabilities					
25	Due to credit institutions and central banks		8,522	3,405	-	-
26	Issued bonds at amortised cost		43,894	42,925	-	-
	Current tax liabilities		27	0	-	-
19,27	Other liabilities		979	3,005	23	24
	Total liabilities		53,421	49,335	23	24
	Provisions					
	Other provisions		6	-	-	-
	Total provisions		6	-	-	-
29	Additional Tier 2 capital		1,968	1,957	1,968	1,957
30	Equity					
	Share capital		1,224	1,220	1,224	1,220
	Premium received on issues of shares		1	-	1	-
	Revaluation reserves		8	8	8	8
	Retained earnings		191	239	209	241
	Holding's share of equity		1,423	1,466	1,442	1,468
30	Minority interests' share of equity		5,962	5,975	-	-
	Total equity		7,385	7,442	1,442	1,468
	Total liabilities and equity		62,782	58,735	3,433	3,449
	Off-balance sheet items					
32	Contingent liabilities		148	163	-	-
33	Other binding agreements		3,953	3,860	-	-
	Total off-balance sheet items		4,101	4,024	-	-

STATEMENT OF CHANGES IN EQUITY

Group

DKK MILLION	Share capital	Share premium at issue	Revaluation reserves	Retained earnings	Holding's share of Equity	Minority's share of Equity	Total
Equity at 1 January 2017	1,220	-	-	113	1,332	5,952	7,285
Adjustments to opening transactions	-	-	-	(21)	(21)	(3)	(24)
Dividends paid for the financial year 2016	-	-	-	-	-	(34)	(34)
Amount for distribution	-	-	-	148	148	61	209
Other comprehensive income	-	-	8	-	8	-	8
Purchase of own shares	-	-	-	(3)	(3)	-	(3)
Sale of own shares	-	-	-	1	1	-	1
Equity at 31 December 2017	1,220	-	8	239	1,466	5,975	7,442
Adjustments to opening transactions	-	-	-	-	-	-	0
Initial impact at 1 January 2018 (IFRS 9), net of tax	-	-	-	(99)	(99)	(4)	(103)
Capital increase May 24, 2018	4	1	-	-	5	-	5
Dividends paid for the financial year 2017	-	-	-	-	-	(57)	(57)
Amount for distribution	-	-	-	50	50	48	98
Other comprehensive income	-	-	-	-	-	-	0
Purchase of own shares	-	-	-	(0)	(0)	-	(0)
Sale of own shares	-	-	-	1	1	-	1
Equity at 31 December 2018	1,224	1	8	191	1,423	5,962	7,385

Danish Ship Finance Holding A/S

DKK MILLION	Share capital	Share premium at issue	Revaluation reserves	Retained earnings	Total
Equity at 1 January 2017	1,220	-	-	195	1,414
Adjustments to opening transactions	-	-	-	(78)	(78)
Amount for distribution	-	-	8	125	133
Purchase of own shares	-	-	-	(3)	(3)
Sale of own shares	-	-	-	1	1
Equity at 31 December 2017	1,220	0	8	241	1,468
Initial impact at 1 January 2018 (IFRS 9), net of tax	-	-	-	(99)	(99)
Capital increase May 24, 2018	4	1	-	0	5
Amount for distribution	-	-	-	66	66
Purchase of own shares	-	-	-	(0)	(0)
Sale of own shares	-	-	-	1	1
Equity at 31 December 2018	1,224	1	8	209	1,442

Group overview

Affiliated companies	Ownership	Voting share	Assets	Equity	Net profit	Liabilities
Danish Ship Finance A/S	86.6%	96.2%	62,349	9,229	262	53,114

Activity: Financing of ships against first lien mortgages for Danish and foreign shipowners.

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NOTES

NOTE 1

ACCOUNTING POLICIES

General

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

The accounting policies are unchanged from those applied in the Annual Report 2017, except for changes due to the implementation by the Danish FSA of the new impairment rules (IFRS 9) into the Executive Order on Financial Reports with effect from 1 January 2018. The initial impact from the changes is disclosed in note 12.

Financial statement figures are stated in Danish kroner (“DKK”) and whole millions, unless otherwise stated. As a result, rounding discrepancies may occur because totals have been rounded off and the underlying decimals are not presented to financial statement users. Figures stated as zero (0) denotes rounding off of an underlying value, and figures stated as a dash (-) represent no value.

The financial statements of DSF are consolidated into the financial statements of Danish Ship Finance Holding A/S (“DSFH”), the smallest and largest group entity for which consolidated financial statements are prepared.

Consolidated financial statements

The consolidated financial statements comprise Danish Ship Finance Holding A/S and Danish Ship Finance A/S.

The consolidated financial statements have been prepared by combining items of a uniform nature and subsequently eliminating intercompany income and costs, gains and losses, intercompany shareholdings and intercompany balances as well as off-balance sheet liabilities and guarantees.

Acquisition

Newly acquired enterprises are recognised in the consolidated financial statements from the date of acquisition. On acquisition of new enterprises, the purchase method is applied, and the acquirees’ identifiable assets and liabilities are measured at fair value at the date of acquisition. Provisions are made for costs related to adopted and published restructuring of the acquired enterprise in connection with the acquisition. The tax effect of the restatement of assets and liabilities is taken into account.

Non-controlling interests

In the calculation of consolidated profit and consolidated equity, the shares of Danish Ship Finance A/S’s profit and equity attributable to non-controlling interests are recognised separately in the income statement and balance sheet. Non-controlling interests are recognised at fair value based on acquired assets and liabilities at the date of acquisition.

Significant accounting estimates

The preparation of the Annual Report is based on the Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities. The amounts most influenced by the critical estimates and assumptions are:

- Measurement of expected credit losses
- Fair value measurement of financial instruments

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

Measurement of expected credit losses

The group has implemented the new impairment rules for measurement of expected credit losses ("ECL") set out in the Executive Order on Financial Reports, which are based on the three-stage expected credit loss impairment model ("ECL impairment model") pursuant to IFRS 9.

According to the new ECL impairment model, ECL is calculated for all credit exposures measured at amortised cost. The impairment charge for ECL depends on the current stage of the credit risk.

If the credit risk has not increased significantly since initial recognition, the impairment charge equals ECL for the next 12 months (stage 1). If the credit risk has increased significantly or is showing significant signs of weakness, or the credit exposure is in default or otherwise impaired, the impairment charge equals the lifetime ECL (stage 2 and 3).

For more information, see 'Loan impairment charges' below.

Fair value measurement of financial instruments

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

Measurements of financial instruments, which are only to a limited extent based on observable market data, are subject to estimates. This applies to unlisted shares and shares received in connection with financial restructuring of loans as well as certain bonds for which an active market does not exist.

For more information, see 'Determination of fair value' below.

Segment reporting

Segment reporting of the business pursuant to the definitions in the Executive Order on Financial Reports is not applicable, as the group is solely involved in ship finance.

Offsetting

Amounts due to and from the group are offset when the group has a legally enforceable right to set off the recognised amounts and intends either to settle by way of netting or to realise the asset and settle the liability simultaneously.

Translation of transactions in foreign currency

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

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

Assets and liabilities in foreign currency are translated into the functional currency at the exchange rate prevailing at the balance sheet date. Exchange rate adjustments of assets and liabilities arising due to differences in the exchange rates applying at the transaction date and at the balance sheet date are recognised in the income statement.

Exchange rate adjustments are included in the fair value adjustments of assets and liabilities.

Financial instruments

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

Before the settlement date, changes in the value of financial instruments are recognised. Financial instruments are derecognised on the settlement date when the right to receive (obligation to pay) cash flows from financial assets or liabilities has expired, or if it has been transferred, and the group has transferred substantially all risks and rewards of ownership.

Classification

Financial instruments are divided into financial assets and financial liabilities.

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

- Trading book assets measured at fair value
- Loans and other financial receivables measured at amortised cost

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

- Trading book liabilities measured at fair value
- Other financial liabilities measured at amortised cost

The trading portfolio, which is measured at fair value, comprises the following financial assets and liabilities:

- Bonds at fair value
- Shares, etc.
- Derivatives (Other assets and Other liabilities)

Hedge accounting

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

Hedged risks that meet specific criteria qualify for fair value hedge accounting are treated accordingly. The interest rate risk on the hedged liabilities is measured at fair value in the income statement. The accounting treatment of the hedged risk subsequently corresponds to the accounting treatment of the hedging instrument, which is also recognised at fair value in the income statement.

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

Determination of fair value

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

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

If no active market exists, the fair value of standard and simple financial instruments, such as interest rate and currency swaps and unlisted bonds, is measured according to generally accepted valuation techniques. Market-based parameters are used for measuring fair value, and the fair value of derivatives is subject to credit valuation adjustment (“CVA”) taking into account the possibility of a counterparty’s default.

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

BALANCE SHEET

Amounts due from credit institutions and central banks

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

Loans

Loans consist of credit exposures which have been disbursed to shipping clients either on a bilateral basis or as part of a syndicated transaction. Loans comprise traditional shipping loans against mortgages on vessels, but may also to a limited extent comprise financing of shipping customers’ payment of instalments to shipyards under shipbuilding contracts.

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

Loan impairment charges

At 1 January 2018, IFRS 9 became effective, setting out new rules for classification and impairment of financial assets.

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

The loan impairment charge for ECL depends on whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly, the impairment charge equals ECL within the next 12 months (stage 1). If the credit risk has increased significantly (e.g. a loan is more than 30 days past due) or is showing significant signs of weakness, the impairment charge equals the lifetime ECL (stage 2). If the credit exposure is in default (e.g. a loan is more than 90 days past due) or otherwise impaired, the impairment charge equals the lifetime ECL (stage 3).

ECL is calculated as a function of probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"), adjusted for forward-looking information by way of a macroeconomic factor ("MEF"). MEF is based on Management's expectations and various scenarios (base case, best case and worst case) for each shipping segment.

$$\text{ECL} = \text{PD} * \text{EAD} * \text{LGD} * \text{MEF}$$

In few situations where the ECL impairment model is believed to either overestimate or underestimate ECL, an adjustment will be made based on a Management judgement.

Following the transition to the new impairment rules, only individual loan impairment charges are calculated by the group, and collective loan impairment charges at 31 December 2017 have therefore been allocated to individual loan impairment charges at 1 January 2018 as disclosed in note 15. Loss allowances for credit commitments are recognised as provisions.

The implementation of the new ECL impairment model resulted in an increase in the group'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 at 1 January 2018 without affecting the group's income statement.

The implementation of the ECL impairment model 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 group has opted not to apply these transitional arrangements.

The Risk Report 2018 provides more information about the ECL impairment model.

Bonds at fair value

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

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

Shares, etc.

Shares, etc. comprises investments in sector shares and shares received in connection with financial restructuring of loans.

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

Shares received in connection with financial restructuring of loans are measured on initial recognition at no value and subsequently at fair value with value adjustments through the income statement, provided that the related restructured loans are no longer characterised as non-performing loans.

Land and buildings

Land and buildings consist of the group's fully owned domicile located at Sankt Annæ Plads 3, DK-1250 Copenhagen K, Denmark.

Owner-occupied property

On initial recognition, the domicile property used for the group's own operations are measured at cost. The domicile property is subsequently measured at the revalued amount plus property improvement expenditures and less depreciation and impairment charges. Revaluations and any reversals of previous revaluations are made via other comprehensive income, while any impairment charges relative to cost are made via the income statement.

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

Other tangible assets

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

Other assets

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

Due to credit institutions and central banks

Amounts due to credit institutions and central banks include amounts received under repo transactions (sale of securities with an agreement to repurchase the same securities back later).

Amounts due to credit institutions and central banks are measured at amortised cost, which corresponds to the nominal amount.

Issued bonds at amortised cost

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

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

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

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

Interest income from the portfolio of own bonds is offset against interest expenses for own bonds.

Other liabilities

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

Deferred tax assets and deferred tax liabilities

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

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

Equity

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

Proposed dividends

The Board of Directors’ proposal for dividends for the year submitted to the general meeting is recognised in equity as a component of the net profit for the period. Dividends are recognised as a liability when the annual general meeting has adopted the proposal to distribute dividends.

OFF-BALANCE SHEET ITEMS

Contingent liabilities

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

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

Other contingent liabilities

Other contingent liabilities comprise irrevocable credit commitments made and unutilised drawing rights on credit facilities provided as part the lending activities.

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Interest income and expenses

Interest income and expenses in respect of interest-bearing financial instruments measured at amortised cost are recognised in the income statement applying the effective interest rate method based on the cost of the financial instrument.

Interest includes amortisation of fees which are an integral part of the current yield of the financial instrument, including origination fees, and amortisation of any additional difference between cost and redemption price.

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

Recognition of interest on credit impaired loans is made based on the value after loan impairment charges.

Fee and commission income and expenses

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

Market value adjustments

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

STAFF COSTS AND ADMINISTRATIVE EXPENSES

Staff costs

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

Bonuses and share-based payments

Bonuses and share-based payments (including revaluations) are expensed when they are granted or revalued.

Pension costs

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

Depreciation and impairment of tangible assets

The item consists of depreciation and impairment charges of the owner-occupied property and other tangible assets.

Loan impairment charges

The item includes write-offs on and loan impairment charges for ECL on loans, credit commitments, amounts due from credit institutions and guarantees.

Tax

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

DKK MILLION	Group			Holding		
	2018	2017	2016	2018	2017	2016
NOTE 2						
Net interest income from lending	463	553	78	(1)	0	-
Net interest income from financial activities	(23)	(47)	(2)	(186)	(182)	(28)
Total net interest income	440	506	76	(187)	(182)	(28)
Net interest and fee income	472	526	82	(187)	(182)	(28)
Market value adjustments	(135)	37	74	-	-	-
Staff costs and administrative expenses	(160)	(148)	(36)	(2)	(7)	(18)
Loan impairment charges	(35)	(163)	70	-	-	-
Income from investments in associated companies	-	-	-	214	273	151
Profit before tax	140	250	189	25	84	105
Net profit for the year	98	210	147	66	125	115
Loans	37,117	35,000	40,454	-	-	-
Bonds	22,470	20,093	19,730	-	-	-
Subordinate loan capital	1,968	1,957	1,946	1,968	1,957	1,946
Equity	1,423	1,466	1,333	1,442	1,468	1,414
Total assets	62,782	58,735	63,300	3,433	3,449	3,394

KEY RATIOS

	Group			Holding		
Common equity tier 1 capital ratio	17.0	16.7	15.8	-	-	-
Tier 1 capital ratio	17.0	16.7	15.8	-	-	-
Total capital ratio	17.0	16.7	15.8	-	-	-
Return on equity before tax (%)	9.9	17.1	14.2	1.7	5.7	7.4
Return on equity after tax (%)	6.9	14.3	11.1	4.6	8.5	8.1
Income/cost ratio *	1.7	2.0	(4.5)	(112.3)	(26.1)	(1.5)
Income/cost ratio (excluding loan impairment charges)	2.1	3.5	4.3	(112.3)	(26.1)	(1.5)
Foreign exchange position (%)	5.3	12.6	4.9	-	-	-
Gearing of loans	26.1	23.8	30.3	-	-	-
Annual growth in lending (%)	6.0	(13.5)	(6.3)	-	-	-
Loan impairment charges for the year as % of gross lending	0.1	0.4	(0.2)	-	-	-
Total allowance account as % of gross lending	6.3	6.9	5.8	-	-	-
Rate of return on assets (%)	0.2	0.4	0.2	1.9	3.9	3.4

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 income/cost ratio must be calculated including loan impairment charges. The list of key ratios also includes income/cost ratio excluding loan impairment charges.

DKK MILLION		Group		Holding	
		2018	2017	2018	2017
NOTE 3	INTEREST INCOME				
	Due from credit institutions and central banks	40	18	-	-
	Loans and other receivables	1,586	1,320	-	-
	Bonds	282	295	-	-
	Other interest income	0	12	-	-
	Derivatives				
	Interest rate contracts	61	36	-	-
	Foreign exchange contracts	(1)	6	-	-
	Total interest income	1,967	1,687	-	-
	Of this amount, income from genuine purchase and resale transactions recognised in:				
	Due from credit institutions and central banks	38	13	-	-
NOTE 4	INTEREST EXPENSES				
	Credit institutions and central banks	(8)	(13)	(1)	0
	Issued bonds	(310)	(392)	-	-
	Interest paid on additional Tier 2 capital	(186)	(182)	(186)	(182)
	Other interest expenses	(130)	(135)	-	-
	Derivatives				
	Interest rate contracts	(893)	(458)	-	-
	Total interest expenses	(1,527)	(1,181)	(187)	(182)
	Of this amount, interest expenses for genuine sale and repurchase transactions recognised in:				
	Due to credit institutions and central banks	(2)	(2)	-	-

DKK MILLION	Group		Holding	
	2018	2017	2018	2017
NOTE 5	NET INTEREST INCOME			
Net interest income from lending				
Loans and other receivables	1,586	1,320	-	-
Bonds	33	33	-	-
Due from credit institutions	4	8	-	-
Interest to credit institutions	(2)	(11)	(1)	0
Issued bonds	(310)	(392)	-	-
Other interest expenses	(14)	12	-	-
Derivatives	0	0	-	-
Interest rate contracts	(832)	(423)	-	-
Foreign exchange contracts	(1)	6	-	-
Total net interest income from lending	463	553	(1)	0
Net interest income from Finance activities				
Bonds	249	262	-	-
Due from credit institutions	36	10	-	-
Interest paid on additional Tier 2 capital	(186)	(182)	(186)	(182)
Other interest income	-	0	-	-
Interest to credit institutions	(6)	(2)	-	-
Other interest expenses	(116)	(135)	-	-
Total net interest income from Finance activities	(23)	(47)	(186)	(182)
Total net interest income	440	506	(187)	(182)
NOTE 6	FEE AND COMMISSION INCOME			
Guarantee commission	1	2	-	-
Fee and other commission income	30	18	-	-
Total fee and commission income	32	20	-	-
NOTE 7	MARKET VALUE ADJUSTMENTS			
Market value adjustment of bonds	(122)	(61)	-	-
Market value adjustment of shares	(7)	(3)	-	-
Exchange rate adjustments	8	(30)	-	-
Market value adjustment of derivatives	(13)	130	-	-
Total market value adjustments	(135)	37	-	-

DKK MILLION	Group		Holding	
	2018	2017	2018	2017
NOTE 8	STAFF COSTS AND ADMINISTRATIVE EXPENSES			
Remuneration of Board of Directors and Executive Board				
Board of Directors	(3)	(2)	-	-
Executive Board	(27)	(12)	(1)	(0)
Total remuneration of Board of Directors and Executive Board	(29)	(14)	(1)	(0)
Staff costs				
Salaries and wages	(74)	(68)	(0)	(2)
Pensions	(7)	(6)	-	-
Social security costs and financial services employer tax	(21)	(19)	(0)	0
Total staff costs	(102)	(93)	(0)	(2)
Other administrative expenses	(28)	(41)	(1)	(4)
Total staff costs and administrative expenses	(160)	(148)	(2)	(7)
Number of employees - full-time equivalents	80	71	-	-
Average number of employees - full-time equivalents	76	70	-	-

DKK '000

NOTE 8 REMUNERATION OF THE BOARD OF DIRECTORS
CONTINUED

Group		Ordinary fee	Committee fee	Total fee
2018				
Eivind Kolding (Chairman)	*)	750	-	750
Peter Nyegaard (Vice Chairman)	*)	-	-	-
Anders Damgaard	*)	-	-	-
Christian Frigast	*)	-	-	-
Michael Nellemann Pedersen	*)	200	150	350
Henrik Sjøgreen	*)	200	150	350
Jacob Meldgaard	*)	200	150	350
Thor Jørgen Guttormsen	*)	200	150	350
Henrik Rohde Søgaard	**)	200	-	200
Marcus Freuchen Christensen	**)	200	-	200
Christopher Rex	**)	200	-	200
Total		2,150	600	2,750

The figures relate to the subsidiary Danish Ship Finance A/S

		Ordinary fee	Committee fee	Total fee
2017				
Eivind Kolding (Chairman)	*)	550	-	550
Peter Nyegaard (Vice Chairman)	*)	-	-	-
Anders Damgaard	*)	-	-	-
Christian Frigast	*)	-	-	-
Michael Nellemann Pedersen	*)	188	104	292
Henrik Sjøgreen	*)	188	75	263
Jacob Meldgaard (member as of 16 June 2017)	*)	100	75	175
Thor Jørgen Guttormsen (member as of 16 June 2017)	*)	100	75	175
Henrik Rohde Søgaard	**)	188	-	188
Marcus Freuchen Christensen	**)	188	-	188
Christopher Rex	**)	188	-	188
Total		1,688	329	2,017

The figures relate to the subsidiary Danish Ship Finance A/S

DKK '000

**NOTE 8 REMUNERATION OF THE BOARD OF DIRECTORS
CONTINUED**

Group

		Ordinary fee	Committee fee	fee Total
2016 (for the full year)				
New members as of 15 November 2016				
Eivind Kolding (Chairman)		-	-	-
Peter Nyegaard (Vice Chairman)	*)	-	-	-
Anders Damgaard	*)	-	-	-
Christian Frigast		-	-	-
Michael Nellemann Pedersen	*)	-	-	-
Henrik Sjøgreen		-	-	-
Continuing members as of 15 November 2016				
Henrik Rohde Søgaard	**)	175	-	175
Marcus Freuchen Christensen	**)	175	-	175
Christopher Rex	**)	175	-	175
Members leaving as of 15 November 2016				
Peter Lybecker (Chairman)		350	-	350
Jesper Teddy Lok (Vice Chairman)		262	-	262
Fatiha Benali		175	58	233
Jenny N. Braat		175	-	175
Glenn Söderholm		175	58	233
Jan B. Kjærviik		175	58	233
Total		1,837	174	2,011

The figures relate to the subsidiary Danish Ship Finance A/S

*) Member of Audit Committee or Remuneration Committee at year-end

***) Employee representative

Danish Ship Finance Holding A/S

Christian Frigast (Chairman)
Anders Damgaard
Michael Nellemann Pedersen

Members of the Board of Directors received no fee in the financial year under review.

DKK '000

**NOTE 8 REMUNERATION OF THE EXECUTIVE BOARD
CONTINUED**

Group

2018	Erik I. Lassen	Lars Jebjerg	Michael Frisch	Per Schnack	Total
Salary	4,146	2,299	2,872	1,538	10,854
Pension	511	249	349	190	1,298
Tax value of car	172	101	110	49	432
Anniversary bonus	334	-	-	-	334
Sign-on bonus, cash	-	-	800	-	800
Retention bonus	-	1,912	1,071	-	2,983
Incentive bonus	2,208	-	-	-	2,208
Warrants awarded in a previous year	103	-	-	96	198
Total	7,474	4,561	5,202	1,872	19,109
Adjustment of variable pay for previous years	112	-	-	104	216
Salary, pension and compensation during termination period	-	-	-	7,308	7,308
Total expenses for accounting purposes/earned income	7,585	4,561	5,202	9,284	26,632

In addition to total expenses for accounting purposes/earned income, the Executive Board receive the following benefits: Multimedia, insurance covering critical illness, group life insurance, dental, accident and health insurance.

Per Schnack resigned from the Executive Board on 22 May 2018 and receives contractual salary, pension and compensation until his contract of service expires on 31 December 2019. The amount payable was expensed in 2018.

As of 9 April 2018, Michael Frisch joined the company as COO, and as of 22 May 2018, Lars Jebjerg joined the company as CFO.

The incentive bonus for 2017 received by the Executive Board is in the form of equity-like instruments (Total Shareholder Return) with a deferral period of four years and a retention period of one year.

The Executive Board's retention bonus is distributed between TSR instruments (75%) with the same deferral period as for incentive bonus allocated and warrants (25%).

TSR instruments are allocated in Danish Ship Finance A/S and warrants are allocated in Danish Ship Finance Holding A/S. The related costs are recognised in the respective companies. TSR instruments are expensed when granted and movements in the index are expensed annually - warrants are expensed as earned.

The Executive Board's pension plan is a defined contribution plan with a third party. The company has no further pension obligations towards members of the Executive Board.

The company may terminate Executive Board members' contracts of service by giving up to 18 months' notice.

2017	Erik I. Lassen	Per Schnack	Total
Salary	3,985	3,691	7,676
Pension	492	455	947
Tax value of car	128	149	277
Retention bonus	2,005	1,873	3,878
Total	6,609	6,168	12,777

2016 (for the full-year)	Erik I. Lassen	Per Schnack	Total
Salary	3,583	3,505	7,088
Pension	383	347	729
Tax value of car	118	147	265
Incentive bonus	1,804	1,655	3,459
Total	5,888	5,653	11,541

The incentive bonus to the Executive Board for 2016 is allocated on the basis of the sale of the company in the preceding financial year. The bonus is evenly distributed between a cash consideration and remuneration bonds, 40% of which were allocated in 2016 while the remaining part will be acquired over the subsequent four years depending on the company's future financial status.

NOTE 8 Danish Ship Finance Holding A/S
CONTINUED

Variable remuneration of the Executive Board and other risk takers for 2018 and preceding financial years were only allocated in the form of warrants, which are expensed as earned.

Retention bonus allocated in the form of warrants	2018	2017	2016
Executive Board			
Erik I. Lassen	-	718	-
Lars Jebjerg	635	-	-
Michael Frisch	635	-	-
Per Schnack (resigned as of 22 May 2018)	-	671	-
Executive Board, total	1,270	1,389	-
Other Employees whose activities have a material impact on the company's risk profile	328	938	-
Other risk takers, total	328	938	-
Warrants, total	1,598	2,327	-

INFORMATION ON REMUNERATION POLICY
Information about remuneration policy and practice for the Board of Directors, the Executive Board and Other Employees whose activities have a material impact on the company's risk profile.

The remuneration policy was adopted at the company's annual general meeting on 26 March 2018.

The remuneration policy is available on the company's website:

<https://www.skibskredit.dk/media/1793/loenpolitik-for-danmarks-skibskredit-2018.pdf>

In accordance with the remuneration policy, variable remuneration may be provided to the Executive Board and Other Employees whose activities have a material impact on the company's risk profile as well as employees in key functions.

2018	Fixed salary/fee	Variable salary	Total salary/fee	Number of recipients
Board of Directors	2,750	-	2,750	11
Executive Board	11,142	6,094	17,236	3
Other Employees whose activities have a material impact on the company's risk profile	10,754	2,242	12,996	7
Total	24,646	8,337	32,983	

The variable remuneration of Other Employees is provided as a bonus in the form of equity-like instruments (Total Shareholder Return) with a deferral period of four years and a retention period of one year.

Other Employees has received warrants in Danish Ship Finance Holding A/S.

The related costs are recognised in Danish Ship Finance Holding A/S.

The pension plans of other employees are defined contribution plans.

DKK '000

NOTE 8 INFORMATION ON REMUNERATION POLICY
CONTINUED

Members of the Board of Directors and the Executive Board as well as other employees hold shares and warrants allocated in Danish Ship Finance Holding A/S.

2018	Number of	
	Shares	Warrants
Board of Directors		
Eivind Kolding (Chairman)	300,000,000	
Henrik Sjøgreen	150,000,000	
Jacob Meldgaard	150,000,000	
Thor Jørgen Guttormsen	150,000,000	
Henrik Rohde Søgaard *)	34,171,444	
Marcus Freuchen Christensen *)	11,447,974	
Christopher Rex *)	9,999,900	16,666,500
Executive Board		
Erik I. Lassen	279,999,998	382,893,720
Lars Jebjerg	80,000,000	294,408,000
Michael Frisch	160,000,000	294,408,000
Other Employees whose activities have a material impact on the company's risk profile	518,342,384	783,815,834
Resigned from the Executive Board as of 22 May 2018		
Per Schnack	399,999,998	357,704,053
Total	2,243,961,698	2,129,896,107

*) Employee representative

2017	Fixed salary/fee	Variable salary	Total salary/fee	Number of recipients
Board of Directors	2,017	-	2,017	11
Executive Board	8,900	3,877	12,777	2
Other Employees whose activities have a material impact on the company's risk profile	8,302	3,156	11,458	5
Total	19,219	7,033	26,252	

2016 (for the full-year)	Fixed salary/fee	Variable salary	Total salary/fee	Number of recipients
Board of Directors	2,011	-	2,011	9
Executive Board	8,083	3,459	11,541	2
Other Employees whose activities have a material impact on the company's risk profile	10,180	-	10,180	6
Total	20,274	3,459	23,732	

Danish Ship Finance Holding A/S

Other Employees whose activities have a material impact on the company's risk profile did not receive remuneration in 2016.

DKK MILLION	Group		Holding		
	2018	2017	2018	2017	
NOTE 9	AUDIT FEES				
	Fees for statutory audit of financial statements	(1.0)	(0.9)	(0.1)	(0.3)
	Fees for tax advisory services	(0.2)	(0.0)	-	0.0
	Fees for non-audit services	(0.4)	(0.2)	(0.2)	(0.1)
	Fees for other assurance engagements	(0.1)	(0.3)	-	-
	Total fees	(1.6)	(1.4)	(0.3)	(0.3)

Fees for non-audit services provided by Deloitte Statsautoriserede Revisionspartnerselskab to Danish Ship Finance A/S cover various assurance reports, review of the Interim Report, and VAT and tax advisory services.

NOTE 10	TAX				
	Tax on profit for the year				
	Estimated tax on profit for the year	(37)	-	-	-
	Changes in deferred tax	(13)	(41)	41	41
	Adjustment of prior-year tax charges	7	1	-	-
	Total tax	(43)	(40)	41	41
	Effective tax rate	%	%	%	%
	Tax rate in Denmark	22.0	22.0	22.0	22.0
	Non-taxable income and non-deductible expenses	5.3	(5.6)	(189.5)	(70.9)
	Adjustment of prior-year tax charges	(5.3)	(0.2)	0.0	0.0
	Effective tax rate	22.0	16.2	(167.5)	(48.7)

NOTE 11	DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS				
	Genuine purchase and resale transactions (reverse repo)	46	1,006	-	-
	Other receivables	1,324	459	70	2
	Total due from credit institutions and central banks	1,369	1,465	70	2
	Broken down by due date				
	Demand deposits	1,331	17	70	2
	Up to 3 months	38	1,449	-	-
	Total due from credit institutions and central banks	1,369	1,465	70	2

The company has no term deposits with central banks.

NOTE 12	LOANS AT AMORTISED COST *)				
	At 1 January	35,000	40,454	-	-
	Additions	8,441	6,914	-	-
	Ordinary repayments and redemptions	(4,418)	(5,493)	-	-
	Extraordinary repayments	(2,850)	(2,443)	-	-
	Net change concerning revolving credit facilities	(281)	(100)	-	-
	Exchange rate adjustment of loans	1,301	(4,111)	-	-
	Initial impact at 1 January 2018 (IFRS 9)	(132)	-	-	-
	Other adjustments	(125)	(134)	-	-
	Change in amortised cost for the year	(34)	(12)	-	-
	Depreciation, amortisation and impairment for the year	215	(74)	-	-
	At 31 December	37,117	35,000	-	-

*) The figures relates to Danish Ship Finance A/S

DKK MILLION	Group		Holding	
	2018	2017	2018	2017
NOTE 13	LOANS AT AMORTISED COST BROKEN DOWN BY DUE DATE			
Gross loans at exchange rates at the balance sheet date	39,632	37,591	-	-
Loan impairment charges	(2,514)	(2,591)	-	-
Total loans	37,117	35,000	-	-
Total loans broken down by due date				
Up to 3 months	1,245	1,245	-	-
From 3 months to 1 year	3,534	5,345	-	-
From 1 to 5 years	21,934	23,008	-	-
Over 5 years	10,405	5,402	-	-
Total loans	37,117	35,000	-	-
Total loans				
Loans at fair value	37,389	35,387	-	-
Loans at amortised cost	37,117	35,000	-	-
Loans at fair value is an approximation based on amortised cost with the addition of the value of fixed-rate loans.				
NOTE 14	NON-PERFORMING LOANS			
Impaired loans (rating 11)				
Loans subject to forbearance or otherwise impaired, gross	3,655	4,721	-	-
Loan impairment charges	(1,206)	(1,829)	-	-
Impaired loans, net	2,449	2,892	-	-
Defaulted loans (rating 12)				
Loans in default, gross	1,716	532	-	-
Loan impairment charges	(1,032)	(146)	-	-
Defaulted loans, net	684	386	-	-
Non-performing loans, gross (NPL)				
	5,372	5,253	-	-
Non-performing loans, net (Net NPL)				
	3,133	3,278	-	-
Note 16 provides detailed information about LTV intervals for the total loan book and for non-performing loans.				
NOTE 15	LOAN IMPAIRMENT CHARGES			
The following impairment charges/loss allowances were made on loans/credit commitments				
Individual impairment charges	2,508	2,380	-	-
Collective impairment charges	-	211	-	-
Loss allowances for credit commitments	6	-	-	-
Total	2,514	2,591	-	-
As a percentage of loans and guarantees				
Individual impairment charges	6	6	-	-
Collective impairment charges	-	1	-	-
Total *)	6	7	-	-
Breakdown of total allowance account				
Loan impairment charges	2,508	2,591	-	-
Loss allowances for credit commitments	6	-	-	-
Total	2,514	2,591	-	-
Reconciliation of total allowance account				
At 1 January	2,591	2,516	-	-
Initial impact at 1 January 2018	132	-	-	-
New impairment charges/loss allowances	699	748	-	-
Reversal of impairment charges/loss allowances	(610)	(550)	-	-
Gross write-offs debited to the allowance account	(298)	(124)	-	-
Total	2,514	2,591	-	-
Loan impairment charges for the period				
New impairment charges/loss allowances	(699)	(748)	-	-
Reversal of impairment charges/loss allowances	610	550	-	-
Reclassification of interest	8	10	-	-
Recovery on loans previously written off	46	25	-	-
Loan impairment charges	(35)	(163)	-	-

*) The calculation only includes loan impairment charges.

DKK MILLION	Group		Holding	
	2018	2017	2018	2017
NOTE 16 CREDIT RISK				
Reconciliation of loans and guarantees (loan book)				
Balance sheet				
Loans at amortised cost	37,117	35,000	-	-
Other receivables	200	166	-	-
Loan impairment charges	2,508	2,591	-	-
Total balance sheet items	39,826	37,757	-	-
Off-balance sheet items				
Guarantees	148	163	-	-
Total off-balance sheet items	148	163	-	-
Total loans and guarantees	39,973	37,920	-	-
Reconciliation of financial exposure				
Due from credit institutions and central banks	1,369	1,465	70	2
Bonds at fair value	22,470	20,093	-	-
Shares, etc.	3	11	-	-
Derivatives	1,288	1,661	-	-
Total financial exposure	25,131	23,230	70	2

RATING CATEGORY BREAKDOWN

The internal rating scale consists of 12 rating categories.

The main objective of the internal rating model is to rank the clients according to credit risk and to estimate each client's probability of default ("PD"). As an integral part of the credit risk management, each client is assigned an internal rating, and the internal rating is reviewed upon receipt of new information or in case of a risk event, and at least annually.

Clients with non-performing loans are placed in rating category 11 or 12. This includes clients with loans for which no loan impairment charges have been recognised, for example because adequate collateral has been provided.

Loan book before loan impairment charges broken down by rating category

RATING	Group		Holding	
	LOANS AND GUARANTEES 2018	LOANS AND GUARANTEES 2017	LOANS AND GUARANTEES 2018	LOANS AND GUARANTEES 2017
1 - 2	-	-	-	-
3 - 4	7,089	9,153	-	-
5 - 6	13,905	10,990	-	-
7 - 8	12,028	9,222	-	-
9 - 10	1,528	2,583	-	-
11	3,690	4,785	-	-
12	1,733	1,188	-	-
Total	39,973	37,920	-	-

DKK MILLION

**NOTE 16 STAGES FOR CHANGES IN CREDIT RISK
CONTINUED**

Loan book before loan impairment charges broken down by rating category and stages

RATING	STAGE 1	STAGE 2	STAGE 3	LOANS AND GUARANTEES 2018
1	-	-	-	-
2	-	-	-	-
3	3,602	-	-	3,602
4	3,488	-	-	3,488
5	1,631	-	-	1,631
6	12,274	-	-	12,274
7	6,960	178	-	7,138
8	4,592	298	-	4,890
9	302	1,018	-	1,321
10	-	207	-	207
11 (impaired)	-	-	3,690	3,690
12 (default)	-	-	1,733	1,733
Total	32,848	1,702	5,423	39,973

Changes in total allowance account broken down by stages

	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	9	(9)	-	0
Transferred to stage 2 during the period	(25)	25	-	0
Transferred to stage 3 during the period	-	(31)	31	0
New impairment charges/loss allowances	86	7	606	699
Reversal of impairment charges/loss allowances	(52)	(35)	(523)	(610)
Gross write-offs for the period	-	-	(298)	(298)
Total allowance account at 31 December 2018	197	79	2,238	2,514

Of which:

- Loan impairment charges	191	79	2,238	2,508
- Loss allowances for credit commitments	6	-	-	6

Classification, stage migration and impairment charges

The classification of loans between stage 1 and 2 for the purpose of calculating loan impairment charges for expected credit losses ("ECL") depends on whether the credit risk has increased significantly since initial recognition and/or is showing significant signs of weakness. All credit-impaired loans are placed in stage 3.

The stage migration of a loan is closely linked to the development of the client's internal rating. The assessment of whether the credit risk has increased significantly since initial recognition and/or is showing significant signs of weakness is supported by an internally developed stage migration model, which is based on a combination of the internal rating model and the rating model used by the Danish FSA according to guidelines set out in the Executive Order on Financial Reports.

For loans classified in stage 1, loan impairment charges for 12-month ECL are recognised, and for loans in stage 2 and 3, loan impairment charges for lifetime ECL are recognised.

The Risk Report 2018 provides more detailed information.

Arrears/Past-due loans

Loans in arrears/past due for 30 days or more (but less than 90 days) are generally showing significant signs of weakness, and they are classified as stage 2 for the purpose of calculating ECL. Loans in arrears/past due for 90 days or more are in default, and they are classified as stage 3 for the purpose of calculating ECL. For all such loans, ECL arising over their remaining lifetime have been recognised.

NOTE 16 CREDIT RISK
CONTINUED
Credit risk mitigation

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

The USD market value of mortgaged vessels has on average declined by 5% in 2018.

Loan book after loan impairment charges broken down by LTV interval

LOAN-TO-VALUE INTERVAL	Koncernen		Holding	
	SHARE OF LOANS		SHARE OF LOANS	
	2018	2017	2018	2017
0 - 20 %	41%	37%	0%	0%
20 - 40 %	37%	34%	0%	0%
40 - 60 %	20%	24%	0%	0%
60 - 80 %	2%	5%	0%	0%
80 - 90 %	0%	0%	0%	0%
90 - 100 %	0%	0%	0%	0%
Over 100 %	0%	0%	0%	0%

The table above shows that at year-end 98% (2017: 95%) of all loans are secured within 60% of the market value of the mortgage, and 100% (2017: 100%) of all loans are within 80% of the market value of the mortgage.

The weighted loan-to-value ratio on the loan book after loan impairment charges was 52% (2017: 57%).

Non-performing loans after loan impairment charges broken down by LTV interval

LTV INTERVAL	Group		Holding	
	SHARE OF LOANS		SHARE OF LOANS	
	2018	2017	2018	2017
0 - 20 %	36%	38%	0%	0%
20 - 40 %	35%	36%	0%	0%
40 - 60 %	24%	24%	0%	0%
60 - 80 %	5%	2%	0%	0%
80 - 90 %	0%	0%	0%	0%
90 - 100 %	0%	0%	0%	0%
Over 100 %	0%	0%	0%	0%

The table above shows that at year-end 95% (2017: 98%) of non-performing loans are secured within 60% of the market value of the mortgage, and 100% (2017: 100%) of non-performing loans are within 80% of the market value of the mortgage.

The weighted average loan-to-value ratio for non-performing loans after loan impairment charges was 58% (2017: 54%).

	DKK MILLION			
			Group	Holding
	2018	2017	2018	2017
NOTE 17	BONDS AT FAIR VALUE			
Bond portfolio				
Non-callable bonds	15,944	12,759	-	-
Callable bonds	6,527	7,334	-	-
Total portfolio of bonds	22,470	20,093	-	-
Bond portfolio				
Government bonds and bonds issued by KommuneKredit	3,702	5,380	-	-
Mortgage bonds	18,768	14,713	-	-
Total portfolio of bonds	22,470	20,093	-	-
NOTE 18	BONDS BY TIME TO MATURITY			
Bond portfolio				
Bonds with a maturity up to and including 1 year	1,067	323	-	-
Bonds with a maturity over 1 year and up to and including 5 years	13,951	6,886	-	-
Bonds with a maturity over 5 years and up to and including 10 years	964	4,449	-	-
Bonds with a maturity over 10 years	6,489	8,435	-	-
Total bonds specified by time to maturity	22,470	20,093	-	-

DKK MILLION	Group		Holding	
	2018	2017	2018	2017
NOTE 19	CSA COLLATERAL			
	Collateral under CSA agreements			
	111	109	-	-
	(750)	(467)	-	-
	(639)	(359)	-	-

The bonds received and delivered have been recognised in the balance sheet so that they reduce the market values of derivatives by the market value of the bonds at the balance sheet date. The portfolio of bonds at fair value has been adjusted correspondingly by the net market value hereof.

NOTE 20	SHARES, ETC.				
	Shares listed on Nasdaq Copenhagen A/S	-	7	-	-
	Unlisted shares recognised at fair value	3	3	-	-
	Total shares, etc.	3	11	-	-

NOTE 21	SHARES IN ASSOCIATED COMPANIES				
	Cost, 1 January	-	-	4,088	4,088
	Additions	-	-	-	-
	Redemptions	-	-	-	-
	Cost, 31 December	-	-	4,088	4,088
	Depreciation, amortisation and impairment losses, 1 January	-	-	(692)	(731)
	Dividend	-	-	(180)	(165)
	Value adjustment for the period	-	-	(99)	(70)
	Profit share	-	-	214	273
	Depreciation, amortisation and impairment losses, 31 December	-	-	(757)	(692)
	Carrying amount, 31 December	-	-	3,331	3,396

NOTE 22	LAND AND BUILDINGS				
	Owner-occupied property				
	Revaluation, 1 January	89	79	-	-
	Revaluations	-	10	-	-
	Revaluation including improvements, 31 December	89	89	-	-
	Accumulated depreciation, 1 January	0	0	-	-
	Depreciation for the year	0	0	-	-
	Accumulated depreciation, 31 December	0	0	-	-
	Total revaluation, 31 December	89	89	-	-

The owner-occupied property is the office property at Sankt Annæ Plads 3, Copenhagen, which was valued at DKK 79 million at the most recent public property valuation on 1 October 2017.

The owner-occupied property has been valued based on existing budgets for property and the rent level for similar properties in the area. Consequently, revaluations have been made to the recognised value. External experts were not involved in valuing the owner-occupied property.

DKK MILLION	Group		Holding	
	2018	2017	2018	2017
NOTE 23	OTHER TANGIBLE ASSETS			
Cost, 1 January	30	30	-	-
Additions during the year	2	1	-	-
Disposals during the year	(9)	(1)	-	-
Cost, 31 December	23	30	-	-
Accumulated depreciation, 1 January	22	21	-	-
Disposals during the year	(9)	(1)	-	-
Depreciation during the year	1	2	-	-
Accumulated depreciation, 31 December	14	22	-	-
Total other tangible assets	9	9	-	-
NOTE 24	OTHER ASSETS			
Interest receivable	301	260	-	-
Prepayments to swap counterparties	0	16	-	-
Derivatives	1,288	1,661	-	-
Miscellaneous receivables	20	10	-	-
Total other assets	1,609	1,947	-	-
NOTE 25	DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS			
Repo transactions	8,470	3,390	-	-
Other amounts due	52	15	-	-
Total due to credit institutions and central banks	8,522	3,405	-	-
Broken down by due date				
On demand	52	15	-	-
Up to 3 months	8,470	3,390	-	-
Total due to credit institutions and central banks	8,522	3,405	-	-

DKK MILLION	Group		Holding	
	2018	2017	2018	2017
NOTE 26	ISSUED BONDS AT AMORTISED COST			
The figures relate to the subsidiary Danish Ship Finance A/S				
At 1 January	42,925	42,932	-	-
Additions in connection with pre-issuance	9,256	19,161	-	-
Amortisation of cost	(68)	(36)	-	-
Adjustment for hedge accounting	93	14	-	-
Exchange rate adjustment	70	(376)	-	-
Other adjustment	(112)	(122)	-	-
Ordinary and extraordinary redemptions	(8,271)	(18,648)	-	-
At 31 December	43,894	42,925	-	-
Specification of issued bonds				
Bonds issued in DKK				
Bullet bonds	42,143	40,150	-	-
Amortising CIRR bonds	508	623	-	-
Total Danish bonds	42,650	40,774	-	-
Bonds issued in foreign currency				
Amortising CIRR bonds, at year-end exchange rates	1,244	2,151	-	-
Total bonds issued in foreign currency	1,244	2,151	-	-
Total issued bonds	43,894	42,925	-	-
Broken down by term to maturity				
Up to 3 months	1,342	2,610	-	-
From 3 months to 1 year	179	258	-	-
From 1 to 5 years	19,402	19,190	-	-
Over 5 years	22,972	20,867	-	-
Total issued bonds	43,894	42,925	-	-

DKK MILLION	Group		Holding	
	2018	2017	2018	2017
NOTE 27	OTHER LIABILITIES			
Interest payable	227	240	21	21
Derivatives	682	2,721	-	-
Other liabilities	70	43	2	2
Total other liabilities	979	3,005	23	24

NOTE 28	DEFERRED TAX			
Deferred tax, 1 January	(70)	(110)	(51)	(10)
Initial adjustment regarding IFRS 9	(29)	-	-	-
Adjustment of prior-year	(40)	-	-	-
Estimated deferred tax on profit for the year	25	41	20	(41)
Total deferred tax	(114)	(70)	(32)	(51)

	Group		Holding	
	2018	2018	2018	2018
	Deferred tax assets	Deferred tax liabilities	Deferred tax net	Deferred tax net
Property, plant and equipment	(0)	9	9	-
Loans	(75)	-	(75)	-
Shares, etc.	(2)	-	(2)	-
Issued bonds	-	83	83	-
Payables	7	-	7	7
Employee obligations	(1)	-	(1)	-
Balance of tax losses	(136)	-	(136)	(39)
Total deferred tax	(207)	93	(114)	(32)

NOTE 29	SUBORDINATED DEBT			
Convertible debt instrument	2,000	2,000	2,000	2,000
Amortised initial expenses	(32)	(43)	(32)	(43)
Total subordinate loan capital	1,968	1,957	1,968	1,957

On 15 November 2016 the company raised a loan of DKK 2,000 million against the issue of debt instruments entitling the lenders to convert their claims into shares in the company subject to specified conditions. The loan matures on 15 May 2037, but may be prepaid on 15 November 2021. The loan carries interest at the rate of 8.5% + 3M Cibur.

DKK MILLION	Group		Holding	
	2018	2017	2018	2017
NOTE 30	EQUITY			
	Share capital			
A-shares	1,224	1,220	1,224	1,220
Total share capital	1,224	1,220	1,224	1,220

The share capital is divided into the following denominations:

A shares 122,389,930,000 shares of 0.01 DKK each

Each A share of DKK 0.01 entitles the holder to one vote.

The company's holding of treasury shares totals 97,377,258 stk. shares and the value has been deducted from the distributable reserves.

The tied-up reserve capital of Danish Ship Finance A/S may be used only to cover losses which cannot be covered by amounts available for dividend distribution. The tied-up reserve capital must as far as possible be restored by advance transfer of profit for the year, if, in prior years, it was wholly or partly used to cover losses. Hence, no dividends may be paid and no distributions may 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 tied-up reserve capital of Danish Ship Finance A/S was established in connection with the conversion from a foundation into a limited liability company in 2005 and has represented an unchanged amount of DKK 8,343 million under equity of Danish Ship Finance Holding A/S the tied-up reserve capital is regarded as non-controlling interests, and the DKK 5,962 million represents the fair value of the tied-up reserve capital at the date of acquisition of 15 November 2016 with the addition of the non-controlling interest shares of profit and dividends for the period.

DKK MILLION

Group
2018 2017

NOTE 31

CAPITAL ADEQUACY

Common Equity Tier 1

capital Share capital	1,224	1,220
Tied-up reserve capital	4,784	4,375
Retained earnings	191	239
Revaluation reserves	-	-
Total Common Equity Tier 1 capital	6,198	5,833

Deductions from Common Equity Tier 1 capital

Proposed dividends for the financial year	-	-
Additional capital charge pursuant to the Executive Order on a Ship Finance Institute	-	94
Prudent valuation pursuant to Article 105 of the CRR	25	26
Deductions pursuant to transitional rules regarding B share capital *)	1	2
Total deductions from Common Equity Tier 1 capital	26	122

Common Equity Tier 1 capital after deductions

	6,172	5,711
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Tier 2 capital

	1,968	1,957
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Own funds after deductions

	8,141	7,669
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Risk exposure amount

Assets outside the trading book	38,756	37,082
Off-balance sheet items	1,875	1,654
Counterparty risk outside the trading book	1,218	1,128
Market risk	4,528	4,618
Operational risk	1,374	1,497
Total risk exposure amount	47,751	45,978

Common Equity Tier 1 capital

	17.0	16.7
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ratio Tier 1 capital ratio

	17.0	16.7
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Total capital ratio

	17.0	16.7
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The risk exposure amount for market risk consists of:

Position risk related to debt instruments	4,089	3,632
Position risk related to shares	7	21
Total currency position	432	965
Total risk exposure amount for market risk	4,528	4,618

*) Recognised at 20% pursuant to transitional rules of CRR art. 484 at 31 December 2018 (January 1 to December 31 2017 recognised at 40%).

DKK MILLION	Group		Holding	
	2018	2017	2018	2017
NOTE 32	CONTINGENT LIABILITIES			
In the ordinary course of its lending operations, DSF has undertaken guarantee commitments of	148	163	-	-
Payment guarantee provided to the Danish Securities Centre	0	0	-	-
Guarantees provided to the Danish Securities Centre	-	0	-	-
Total contingent liabilities	148	163	-	-

NOTE 33	OTHER CONTINGENT LIABILITIES			
In the ordinary course of its lending operations, DSF has undertaken commitments in relation to unutilised drawing rights on loans with revolving credit facilities in the amount of	202	553	-	-
In the ordinary course of its lending operations, DSF has undertaken commitments relating to irrevocable credit loan commitments in the amount of	3,751	3,307	-	-
Total other contingent liabilities	3,953	3,860	-	-

NOTE 34 RELATED PARTIES

Related parties comprise members of the company's Executive Board and Board of Directors as well as its shareholders.

Related parties furthermore comprise Danish Ship Finance A/S, which became a related party in connection with the acquisition of the majority of the company's shares on 15 November 2016.

Transactions with the Executive Board and the Board of Directors concerned remuneration. See Note 8.

Furthermore, related-party transactions included settlement of administration services provided to Danish Ship Finance A/S and dividends from Danish Ship Finance A/S.

There were no related-party transactions other than as stated above.

DKK MILLION

NOTE 35 HEDGE ACCOUNTING

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

Group 2018	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	10,739	11,108	11,242
Total commitments	10,739	11,108	11,242
Derivatives			
Interest rate swaps	(10,739)	(288)	(288)
Total derivatives	(10,739)	(288)	(288)
Net	0	10,820	10,953

Holding 2018	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	-	-	-
Total commitments	-	-	-
Derivatives			
Interest rate swaps	-	-	-
Total derivatives	-	-	-
Net	-	-	-

Group 2017	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	10,047	10,369	10,593
Total commitments	10,047	10,369	10,593
Derivatives			
Interest rate swaps	(10,047)	(275)	(275)
Total derivatives	(10,047)	(275)	(275)
Net	0	10,095	10,319

Holding 2017	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Commitments			
Issued bonds	-	-	-
Total commitments	-	-	-
Derivatives			
Interest rate swaps	-	-	-
Total derivatives	-	-	-
Net	-	-	-

DKK MILLION	Group		Holding	
	2018	2017	2018	2017
NOTE 36	NOTIONAL PRINCIPALS OF OUTSTANDING DERIVATIVES			
Swap agreements				
Swap agreements have been made with the following parties to hedge the foreign exchange risk on loans and issued bonds:				
Receivables	508	623	-	-
Credit institutions	49,501	40,579	-	-
Swap agreements have been made with the following parties to hedge the interest rate risk on loans, bonds and issued bonds:				
Receivables	-	-	-	-
Credit institutions	58,680	47,537	-	-
Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:				
Credit institutions	52,482	48,360	-	-
Forward interest rate and currency agreements				
Forward interest rate and currency agreements have been made with the following parties to hedge interest rate and foreign exchange risk:				
Credit institutions	46,285	23,250	-	-

DKK MILLION	Group		Holding	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
NOTE 37	FAIR VALUES OF OUTSTANDING DERIVATIVES			
Swap agreements				
Swap agreements have been made with the following parties to hedge the foreign exchange risk on loans and issued bonds:				
Receivables	54	-	-	-
Credit institutions	153	452	-	-
Swap agreements have been made with the following parties to hedge the interest rate risk on loans, bonds and issued bonds:				
Receivables	-	-	-	-
Credit institutions	1,234	441	-	-
Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:				
Credit institutions	619	1,267	-	-
Forward interest rate and currency agreements				
Forward interest rate and currency agreements have been made with the following parties to hedge interest rate and foreign exchange risk:				
Credit institutions	129	63	-	-
Netting of exposure value				
The positive gross fair value of financial contracts after netting				
Counterparty with risk weight of 0%	-	-	-	-
Counterparty with risk weight of 20%	286	-	-	-
Counterparty with risk weight of 50%	1,270	-	-	-
Counterparty with risk weight of 100%	79	-	-	-
Value of total counterparty risk calculated according to the market valuation method for counterparty risk				
Counterparty with risk weight of 0%	-	-	-	-
Counterparty with risk weight of 20%	514	-	-	-
Counterparty with risk weight of 50%	1,622	-	-	-
Counterparty with risk weight of 100%	54	-	-	-

DKK MILLION

NOTE 38 FOREIGN EXCHANGE RISK AND USE OF DERIVATIVES

The total unhedged foreign currency position at 31 December 2018, translated at year-end exchange rates into DKK amounts to DKK 113 million (DKK 961 million at 31 December 2017).

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

The net position is specified as follows

	USD	OTHER	TOTAL	DKK	TOTAL
	CURRENCIES		CURRENCY		
Loans at year-end exchange rates	34,386	4,319	38,705	927	39,632
Loan impairment charges	-	-	0	(2,514)	(2,514)
Loans as per the balance sheet					37,117
Due from credit institutions and central banks	169	22	192	1,178	1,369
Bond portfolio	-	1,787	1,787	20,683	22,470
Interest receivable, etc.	275	23	298	2	301
Other assets	-	-	-	1,524	1,524
Total assets as per the balance sheet	34,830	6,152	40,982	21,800	62,782
Issued bonds at year-end exchange rates	(1,244)	-	(1,244)	(42,650)	(43,894)
Issued bonds as per the balance sheet					(43,894)
Due to credit institutions and central banks	-	(1,090)	(1,090)	(7,432)	(8,522)
Interest payable	(156)	(11)	(167)	(59)	(227)
Other payables	-	-	-	(779)	(779)
Provisions	-	-	-	(6)	(6)
Subordinated capital	-	-	-	(1,968)	(1,968)
Minority	-	-	-	(5,962)	(5,962)
Total equity	-	-	-	(1,423)	(1,423)
Total liabilities as per the balance sheet	(1,400)	(1,101)	(2,501)	(60,274)	(62,782)
Derivatives					
- receivables	3,989	6,720	10,710		
Derivatives					
- payables	(37,238)	(11,840)	(49,078)		
Total net position	182	(70)	113		

DKK MILLION

Group		Holding	
2018	2017	2018	2017

NOTE 39 MARKET RISK SENSITIVITY**Interest rate risk**

The equity is invested primarily in Danish government and mortgage bonds. Some of the bond investments are in fixed-rate claims where the interest rate risk is partly hedged using DKK or EUR interest rate swaps. In the company's internal calculations, EUR rates and DKK rates are assumed to be fully correlated.

Calculated in accordance with internal calculation methods, the interest rate risk associated with a 1 percentage point increase in interest rates would lead to:

(51)	(124)	-	-
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Calculated in accordance with internal calculation methods, the interest rate risk associated with a 1 percentage point decrease in interest rates would technically lead to:

34	93	-	-
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Exchange rate risk

Most of the loans are denominated in USD, and most of the ship mortgages provided as collateral for the loans are also valued in USD. When calculating the collateral value of the ship mortgages for determining the level of loan impairment charges, a haircut is made to the market value of the vessel.

For loans on which loan impairment charges have been made, there will typically be a difference in USD between the size of the credit exposure and the mortgage values. Other things being equal, the loan impairment charges will therefore be adversely affected in case of an increase and positively affected by a fall in the USD/DKK exchange rate. Since a small proportion of the loans are denominated in currencies other than USD, while the ship mortgage in question is valued in USD, the total positive net effect from a fall in the USD/DKK exchange rate is reduced, and the sensitivity is thus not symmetric in case of changes in the USD/DKK exchange rate.

Furthermore, earnings from lending is primarily denominated in USD, which means that, other things being equal, an increase in the USD/DKK exchange rate would result in higher earnings from lending and vice versa if the USD/DKK exchange rate falls.

An appreciation of the USD exchange rate vis-à-vis DKK

Change in profit for the year and equity	31	(45)	-	-
Percentage change in total capital ratio	(2)	(2)	-	-

A depreciation of the USD exchange rate vis-à-vis DKK

Change in profit for the year and equity	(36)	28	-	-
Percentage change in total capital ratio	2	3	-	-

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

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

DKK MILLION

	Group		Holding	
	2018	2017	2018	2017

**NOTE 40 FAIR VALUE OF FINANCIAL INSTRUMENTS
MEASURED AT AMORTISED COST**

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

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

Loans				
Measured at amortised cost	37,117	35,000	-	-
Measured at fair value	37,389	35,387	-	-
Difference between carrying amounts and fair-value based value of loans, total	272	387	-	-

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

Issued bonds				
Measured at amortised cost, incl. hedging	43,894	42,925	-	-
Measured at fair value	44,003	43,213	-	-
Difference between carrying amounts and fair-value based value of issued bonds total	109	289	-	-

For issued bonds, the fair value is calculated on the basis of quoted market prices.

For unlisted bonds, the fair value is calculated on the basis of observable market data.

NOTE 41 SUPPLEMENTARY NOTES WITHOUT REFERENCE**FINANCIAL RISKS AND POLICIES FOR FINANCIAL RISK MANAGEMENT****RISK MANAGEMENT**

DSF is exposed to different types of risk.

The most important types of risk are:

- Credit risk: The risk of loss caused by borrowers or counterparties failing to meet all or part of their payment obligations
- Market risk: The risk of loss resulting from changes in the fair value of the assets and liabilities as a result of changes in market conditions.

CREDIT RISK

Credit risk is the risk of loss caused by borrowers or counterparties failing to meet all or part of their payment obligations, including risk associated with clients in financial difficulty, large exposures, concentration risk and risk on offered, non-disbursed loans.

The overall credit risk is managed on the basis of the company's credit policy, which the Board of Directors determines together with the overall risk management framework. The key objective of the credit policy is to ensure that earnings and risks are balanced, and that the assumption of risk is always quantified.

The credit process is controlled centrally by the Credit Department. The Executive Board and the Head of Credit have been authorised by the Board of Directors to grant loans up to pre-determined limits. The granting of loans must be disclosed at the subsequent ordinary board meeting. Other loans are granted by the Board of Directors. Note 16 includes a more detailed description of credit risk.

DSF has developed IT tools for managing and monitoring credit risks. The credit analysis system is used for monitoring purposes, and the system records key data regarding credit exposures and clients' financial standing to detect warning signals for exposures at an early stage as well as to monitor portfolios and client groups.

In addition, a number of risk events have been defined as representing credit impairment and default.

MARKET RISK

Market risk is defined as the risk of changes in the market value of the company's financial assets and liabilities because of changes in market conditions.

Market risk can be divided into interest rate risk, equity price risk, foreign exchange risk and liquidity risk.

The Board of Directors determines the general policies, frameworks and principles for risk management. The policies cover the identification and calculation of various types of market risk. The frameworks indicate specific limits on the extent of risk the company is ready to assume. The principles establish the methods to be used in calculating the various risk targets. The Board of Directors receives continuous reporting on risk developments and the utilisation of allocated risk limits.

The purpose of the company's market risk policy is to ensure that the market risk at all times is appropriate in relation to the total capital. The objective of the market risk policy is also to ensure that the company consistently maintains adequate and appropriate handling and management of market risk.

The Risk Management function is responsible for calculating, monitoring, controlling and reporting market risk to the Board of Directors and Executive Board. The function is independent of front office department. The market risks are managed and monitored via a risk management system. The company follows up on all material types of market risk with respect to all units subject to instructions, and failure to comply with instructions are escalated accordingly to policy.

Notes 38-39 include more detailed descriptions of foreign exchange risk and market risk sensitivity.

For further information, please see the unaudited Risk Report at www.shipfinance.dk.

Directorships and executive positions

This section lists positions, other directorships, executive positions and fiduciary positions held by board members at the date of publication of the Annual Report for 2018.

Board of Directors

Christian Frigast, Partner, Axcel

Chairman

Born on 23 November 1951

Nationality: Danish

Directorships and executive positions:

Chairman of the Board of Directors:

Axcel Management

Danish Ship Finance A/S

EKF (Denmark's Export Credit Agency)

The Board Leadership Society in Denmark

Axcelfuture, Axcel's think tank

Vice Chairman of the Board of Directors:

PANDORA

PostNord

DVCA (Danish Venture Capital and Private Equity Association)

Axcel Advisory Board

Member of the Board of Directors:

Nissens A/S

Associate professor at CBS (Copenhagen Business School)

Michael N. Pedersen, Management Executive, PKA A/S

Born on 8 July 1961

Nationality: Danish

Directorships and executive positions:

Management Executive of:

Property companies owned by the three pension funds managed by PKA A/S

Ejendomsselskabet Dronningegården

OPP HoldCo ApS

A/S Kjøbenhavns Ejendomsselskab

Forstædernes Ejendomsaktieselskab

Chairman/member of Advisory Board and investment committees of various foundations relating to private equity, infrastructure and micro finance due to PKA's investment in such foundations

Member of the Board of Directors:

Danish Ship Finance A/S

Refshaleøen Holding A/S

Refshaleøens Ejendomsselskab A/S

Margrethelholmen P/S

Komplementarselskabet Margrethelholm ApS

PKA Skejby Komplementar ApS

PKA Skejby P/S

Hotel Koldingfjord A/S

Fonden Dansk Sygeplejehistorisk Museum

Poppelstykket 12 A/S
P/S PKAE Ejendom
Komplementarselskabet PKA AE ApS
SAS Pilot & Navigators Pension Fund
Investeringselskabet af 24. februar 2015 A/S
Tuborg Havnevej I/S
PKA Ejendomme I I/S
PKA Ejendomme af 2013 I/S
PKA Projektselskab I/S
Brokvarteret P/S
P/S Tranders Høje
Investeringselskabet af 4. juli 2018 ApS
Institutional Holding GP ApS
Institutional Holding P/S
PKA Ejendomme af 2012 I/S
DEAS Invest I A/S
DEAS Invest I Holding A/S

Anders Damgaard, Group CFO, PFA Pension

Born on 8 August 1970

Nationality: Danish

Directorships and executive positions:

Member of the Board of Directors:

Blue Equity Management A/S

Danish Ship Finance A/S

PFA Asset Management A/S

PFA DK Boliger Høj A/S

PFA DK Boliger Lav A/S

PFA Ejendomme Høj A/S

PFA Ejendomme Lav A/S

PFA Europe Real Estate High A/S

PFA Europe Real Estate Low A/S

PFA Europe Real Estate Medium A/S

PFA Kapitalforening

PFA Kollegier ApS

PFA US Real Estate Medium P/S

Executive Board

Erik I. Lassen, CEO

Executive positions in other business enterprises:

CEO at Danish Ship Finance A/S

Michael Frisch

Executive positions in other business enterprises:

Member of the Executive Board at Danish Ship Finance A/S

Lars Jebjerg

Executive positions in other business enterprises:

Member of the Executive Board at Danish Ship Finance A/S