



**DANISH  
SHIP FINANCE**

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# Interim Report – first half 2019

## Danish Ship Finance A/S

## COMPANY INFORMATION

### COMPANY

Danish Ship Finance A/S  
Company reg. no. (CVR): 27 49 26 49

Sankt Annæ Plads 3  
1250 Copenhagen K  
Phone: +45 33 33 93 33  
Website: [www.skibskredit.dk](http://www.skibskredit.dk)

Municipality of registered Office: Copenhagen

### BOARD OF DIRECTORS

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

### EXECUTIVE BOARD

Erik I. Lassen  
Lars Jebjerg  
Michael Frisch

### AUDITORS

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

## FOREWORD

The global economy is facing political uncertainty and increasing barriers to global trade. This did not impact the company's lending business in the first half of 2019 and is not expected to do so for the remainder of the year.

The shipping industry has continued its slow and steady improvement of fundamentals in most sectors. Moderation of the orderbook, averaging 10% of the world fleet, is a welcome development.

Business momentum carried its strong trend into the first half of the year. Net lending grew to DKK 38.0 billion as of 30 June 2019, an increase of DKK 1.3 billion since year-end 2018. Net loan margins and the credit quality of new loans remained healthy. Net interest income from lending increased versus the first half of 2018.

We expect these trends to continue for the remainder of 2019.

Loan impairment charges were again minimal in the first half of 2019.

The company continued to issue bonds on favourable terms and supported market liquidity with selective bond repurchases. Outstanding bond volume increased by DKK 1.0 billion.

The macroeconomic backdrop continued to make for a challenging fixed-income investment environment. Income from own funds investments was significantly below the same period in 2018.

As a result, Danish Ship Finance's net profit of DKK 106 million for the first half of 2019 was lower than the result of DKK 139 million recorded for the same period in 2018.

The company continues to anticipate a positive business momentum and a positive earnings trend, expecting a higher net profit for the full year 2019 compared to 2018.

The core capital ratio remains high at 17.9%, representing 5.9 percentage points excess capital adequacy. This, combined with strong liquidity and good access to Danish and European bond markets, continues to underpin steady lending growth.

In March 2019, Danish Ship Finance successfully issued its inaugural EUR 500 million covered bond, re-opening the Euro ship covered bond market. The issue was 2.8 times oversubscribed with participation of 35 international investors.

Although the Danish bond market will remain our most important source of funding, access to the EUR market is a first step towards diversification of our funding platform.

The rating agency Standard & Poor's on 14 August 2019, after the reporting date, affirmed the company's strong 'BBB+' rating and improved the Rating Outlook to 'Stable'.

Eivind Kolding  
Chairman

Erik I. Lassen  
Chief Executive Officer

## SUMMARY RESULTS

DKK MILLION	1ST HALF 2019	1ST HALF 2018	FULL YEAR 2018
Total net interest and fee income	305	339	672
Market value adjustments	(80)	(69)	(135)
Staff costs and administrative expenses	(84)	(90)	(158)
Loan impairment charges	(3)	3	(35)
Net profit for the period	106	139	262

Net profit totalled DKK 106 million (DKK 139 million for the first half of 2018) as income from own funds investments in the first half of 2019 was significantly below the prior year period.

Total net interest and fee income decreased to DKK 305 million (DKK 339 million in the first half of 2018) reflecting lower investment income. Market value adjustment of securities and foreign exchange was a net expense of DKK 80 million (DKK 69 million in the first half of 2018).

Loan impairment charges remained minimal, at DKK 3 million (net income of DKK 3 million for the same period in 2018) and overall staff costs and administrative expenses were DKK 84 million (DKK 90 million for the prior year period, including non-recurring personnel related costs).

## BUSINESS AREA

This section shows income by business area.

<b>INCOME BY BUSINESS AREA</b>			
DKK MILLION	1 <sup>ST</sup> HALF 2019	1 <sup>ST</sup> HALF 2018	FULL YEAR 2018
Lending	290	266	549
Own funds investments	(29)	37	66
Other items	(29)	(25)	(70)
<b>Total Income</b>	<b>232</b>	<b>278</b>	<b>245</b>

## LENDING

Lending comprises lending to ship-owning clients, funded by issuance of ship covered bonds.

<b>INCOME LENDING</b>			
DKK MILLION	<b>1<sup>ST</sup> HALF 2019</b>	<b>1<sup>ST</sup> HALF 2018</b>	<b>FULL YEAR 2018</b>
Net interest income	275	252	520
Net fees & commission	15	14	29
<b>Total Income</b>	<b>290</b>	<b>266</b>	<b>549</b>

Total lending income for the first half of 2019 was DKK 290 million, up 9% from DKK 266 million in the same period in 2018. An increased USD/DKK exchange rate in the first half of 2019 compared to the prior year period impacted positively on the result. Interest income from lending has been hedged to limit exposure to currency movements for the remainder of the year.

Credit margins remained at the same level as the prior year period and credit quality of new business remained robust.

The company continued to enjoy good access to funding markets in the first half of 2019, which allowed the issuance of bonds in the DKK and EUR markets on competitive terms, underpinning the positive development in lending income. The company supported liquidity in its outstanding bonds by actively buying back especially shorter-dated bonds held by investors, while issuing predominantly longer dated instruments.

## OWN FUNDS INVESTMENTS

Investments comprises investment of the company's own funds: core equity and amounts held in the allowance account.

<b>INCOME OWN FUNDS INVESTMENTS</b>			
DKK MILLION	<b>1<sup>ST</sup> HALF 2019</b>	<b>1<sup>ST</sup> HALF 2018</b>	<b>FULL YEAR 2018</b>
Net interest income	54	90	163
MV adjustments	(83)	(53)	(97)
<b>Total Income</b>	<b>(29)</b>	<b>37</b>	<b>66</b>

Own funds are placed in high-grade instruments, predominantly AAA mortgage and government bonds, subject to limits set by the Board of Directors.

A challenging fixed income environment meant that own funds investments incurred a net loss of DKK 29 million (a net gain of DKK 37 million for the same period in 2018). The result was driven by adverse performance of highly rated mortgage bond as interest rates declined in the second quarter of 2019.

## OTHER ITEMS

Other items comprise income and costs not allocated to the lending and own funds investment business areas: primarily buybacks of own bonds, warehousing of bond issuance proceeds until loan disbursement, and hedging costs.

<b>INCOME OTHER ITEMS</b>			
DKK MILLION	<b>1<sup>ST</sup> HALF 2019</b>	<b>1<sup>ST</sup> HALF 2018</b>	<b>FULL YEAR 2018</b>
Other interest income	0	0	-1
Buy back, issued bonds	(4)	(9)	(20)
- <i>Of which MV adjustments</i>	(12)	(8)	(20)
- <i>Of which amortization, issued bonds (internal allocation)</i>	8	(1)	0
Warehousing	(4)	(19)	(38)
Funding hedging costs	(20)	4	(11)
<b>Total Income</b>	<b>(29)</b>	<b>(25)</b>	<b>(70)</b>

Buy back expenses of DKK 12 million for the first half of 2019 related to repurchase of own bonds with a nominal value of DKK 4.2 billion, which will partially reduce future interest expenses.

Warehousing costs for the first half of 2019 were DKK 4 million (DKK 19 million for the same period in 2018) as warehousing balances reduced in tandem with loan disbursements and targeted buy-back of outstanding own bonds.

Funding hedging costs increased in first half of 2019 compared to first half of 2018, reflecting costs of currency hedging, particularly USDDKK basis swaps, and certain costs of the March 2019 EUR bond issuance while the proceeds await disbursement of new loans.

## FINANCIAL HIGHLIGHTS

### KEY FIGURES

DKK MILLION	1ST HALF 2019	1ST HALF 2018	FULL YEAR 2018
Net interest income from lending	236	234	477
Net interest and fee income from lending	251	249	509
Net interest income from investment activities	54	90	163
Total net interest income	290	324	640
Total net interest and fee income	305	339	672
Market value adjustments	(80)	(69)	(135)
Staff costs and administrative expenses	(84)	(90)	(158)
Loan impairment charges	(3)	3	(35)
Profit before tax	138	183	343
Net profit for the period	106	139	262
Loans	38,048	35,297	36,735
Issued bonds	44,549	42,461	43,549
Equity	9,130	9,105	9,229
Total assets	63,802	59,727	62,349

### KEY RATIOS

	1ST HALF 2019	1ST HALF 2018	FULL YEAR 2018
Return on equity after tax (%)	1.2	1.5	2.8
Return on investment activities (%) *)	(0.6)	0.5	0.5
Total capital ratio (%)	17.9	19.2	19.0
Combined capital buffer requirement (%)	12.0	12.0	11.2
Cost/income ratio (%) **)	37.8	33.4	29.1
Equity as % of lending	24.0	25.8	25.1
Net write-offs on loans as % of gross lending	0.4	0.2	0.6
Total allowance account as % of gross lending (***)	5.9	6.9	6.4
Weighted loan-to-value after loan impairment charges (%)	54	55	52
Proportion of loans covered within 60% of market value (%)	97	97	98

\*) Return on investment activities was calculated exclusive of return from shares and foreign currency.

\*\*) The calculation of the cost/income ratio does not include loan impairment charges.

\*\*\*) See note 6.

## MANAGEMENT'S REPORT

The Board of Directors of Danish Ship Finance A/S has today considered the Interim Report for the first half of 2019.

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

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

### INCOME STATEMENT

- Net interest and fee income from lending of DKK 251 million, including pre-funding and hedging costs, in the first half of 2019 the result was on the same level as first half of 2018.
- The average USD/DKK exchange rate for the period was higher than in the same period in 2018, which contributed positively to interest and fee income.
- Interest income from investment activities was DKK 54 million in the first half of 2019 compared to DKK 90 million in the first half of 2018 reflecting lower interest rates.
- In total, net interest income decreased by DKK 34 million from DKK 324 million to DKK 290 million.
- Market value adjustment of securities and foreign exchange for the first half of 2019 was a net expense of DKK 80 million against a net expense of DKK 69 million in the first half of 2018, reflecting losses on highly rated mortgage bonds.
- Loan impairment charges for the first half of 2019 were a net expense of DKK 3 million against a net income of DKK 3 million for the same period in 2018. The minimal numbers reflect stabilisation of credit quality in the past 18 months.
- Overall operating costs for the first half of 2019 were below the level recorded in the same period of 2018 which included certain non-recurring personnel related costs.
- Staff costs and administrative expenses totalled DKK 84 million and were on par with expectations for the first half of 2019.
- The higher cost/income ratio was primarily due to lower income from investment activities.
- Net profit for the period was DKK 106 million compared with DKK 139 million for the first half of 2018.



## **BALANCE SHEET AND CAPITAL STRUCTURE**

- Total assets were DKK 63.8 billion at 30 June 2019 against DKK 62.3 billion at 31 December 2018.
- During the first half of 2019, lending increased by DKK 1.3 billion from DKK 36.7 billion at 31 December 2018 to DKK 38.0 billion at 30 June 2019, a rise of 4%.
- New loans of DKK 4.2 billion were disbursed, while loan repayments and prepayments amounted to DKK 2.9 billion.
- Average lending was up 9% in the first half of 2019 compared to the same period in 2018. Lending benefitted from appreciation of the USD/DKK exchange rate.
- The total allowance account decreased to DKK 2.4 billion at 30 June 2019 from DKK 2.5 billion at 31 December 2018.
- Issued bonds totalled DKK 44.5 billion at 30 June 2019, an increase of DKK 1.0 billion over the period and an increase of 2.0 billion from 30 June 2018. The increase was supported by higher lending activity; including a strategic decision to issue a first a EUR covered bond.
- Bond issuance in the first half of 2019 was a nominal amount of DKK 6.9 billion. Maturing bonds and buybacks totalled nominal DKK 6.0 billion.
- The bond investments portfolio fell slightly to DKK 22.2 billion at 30 June 2019 against DKK 22.5 billion at 31 December 2018 due to loan disbursement.
- The bond portfolio consists mainly of Danish covered bonds, and a smaller proportion of Danish government bonds and bonds with similar risk. The bond portfolio comprises the company's investment of its own funds investments, bond repo transactions and investment proceeds from bonds issued to fund loans not yet disbursed.
- The total capital ratio was 17.9% at 30 June 2019, down 1.1 percentage points at 31 December 2018. Net profit for the period has not been recognised in own funds for regulatory purpose of calculating the total capital ratio.

## **IMPACT OF USD ON INCOME STATEMENT**

The USD/DKK exchange rate for the first half of 2019 averaged just over 659 compared with just over 617 for the same period in 2018. All else being equal, this had a positive impact of DKK 14 million on net interest and fee income.

At 30 June 2019, the USD/DKK exchange rate of 652 was on par with the USD/DKK exchange rate of 659 at 31 December 2019, hence there was no significant exchange rate effect on loan impairment charges in the first half of 2019.

## **EVENTS SINCE THE BALANCE SHEET DATE**

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

## **THE SHIPPING MARKET AND COMPETITION**

Global economic growth is softening with the escalation of the US-China trade tensions, an increase in trade-restrictive measures, tighter credit policies in China, and financial tightening alongside the normalization of monetary policy in many of the advanced economies. These factors are slowing the momentum in world trade volumes. Current projections suggest that seaborne trade volumes may increase by 2.5% in 2019 which is a considerable discount to the 3.3% growth in global GDP.

The new-build orderbook has reduced and now averages only 10% of the world fleet, to the benefit of the future supply-demand balance. Some sectors, LNG and large container vessels, are still experiencing a larger orderbook partially reflecting higher expectations to future demand. As in recent years, the offshore sector remains challenged, with only gradually improving fundamentals and large numbers of vessels remaining idle.

The environmental regulation coming into force on 1 January 2020 with regard to limiting the content of sulphur on emissions globally continue to drive a strong debate on scrubbers, but is also spurring related discussions on potential investments in new technologies that may lower fuel consumptions. It is currently estimated that close to 10% of world fleet capacity will be scrubber fitted by the beginning of 2020. Off-hire time for scrubber retrofit may temporarily reduce available capacity in the major fleets by an annualised 0.5-1% in 2019.

The overall earnings index, the ClarkSea index, has in the first half of 2019 on average been USD 1,500 per day (or 12%) below the second half of 2018. The index has, however, been steadily increasing since the low point in February 2019. The average second hand price has remained fairly stable during the period.

After a strong winter season, the gloom of the worst tanker markets for years has been replaced by an improved outlook. This change is partly driven by temporary factors that may only support earnings during a transition period. The crude tanker fleet is scheduled to expand quicker than demand in 2019 while the outlook for product tankers seems closer balanced. It remains to be seen whether US sanctions on Iran and Venezuela and the prolonged OPEC+ production cuts can lengthen travel distances further for crude tankers.

The Dry Bulk market experienced declining average freight rates in the first half of 2019 reflecting a seasonal downturn and significant disruption to Brazilian iron ore exports, but did increase significantly towards the end of the first half. The fleet is expected to expand ahead of demand in 2019, in particular for the largest vessels.

The Container market remains divided. The inflow of super-large vessels continues to put pressure on box rates. The smaller vessel segments benefit from low supply growth and steady demand growth that allow for improved fleet utilisations and timecharter rates.

The LPG market has experienced strong growth in freight rates for larger vessels. However, the smaller vessel segments continue to struggle with surplus capacity and low freight rates.

The LNG market continued to be powered by strong demand and longer trade distances. Following the seasonal demand pattern freight rates decline during the first half of 2019 but are expected to increase during the second half of the year.

Ro-Ro, ferry and cruise markets remain balanced. The offshore sector is seeing more activity but there are still many idle vessels.

Commercial banks continue to reduce their overall exposure to shipping. This is mostly done through ordinary instalments and by syndicating new deals to a larger extent than previously seen.

Leasing companies, especially Asian, continue to fill this lending gap. For the shipowners with solid balance sheets and strong liquidity reserves, good finance opportunities at relatively low margins are still obtainable. The expected increase of capital requirements for banks have so far not led to any noticeable change in shipowners borrowing cost. We are however seeing a preference amongst banks for providing shipping loans with shorter tenors.

#### **OUTLOOK FOR THE SECOND HALF OF 2019**

The business outlook remains positive and the steady lending growth experienced over the past 12 months is expected to continue. At the end of 2019, lending is expected to surpass its current level of DKK 38.0 billion (subject to exchange rate fluctuations) and will continue to drive improvement in net interest income from lending.

The high quality of new business manifested to date is expected to continue to deliver healthy credit quality and satisfactory lending margins. Combined with the company's strong capital and liquidity position, this continues to underpin the company's very solid financial profile.

The level of pre-funding has been normalised. Demand for the company's domestic and EUR bonds is expected to remain favourable, allowing Danish Ship Finance to access the moderate amounts of new funding required to support its anticipated lending growth over the remainder of the year.

The company's capital ratio and liquidity position are both expected to remain highly robust for the remainder of the year.

With unchanged market conditions, own funds investment activities are likely to yield a small positive return in 2019.

The company is well on track to deliver on its strategic agenda, set out in the Annual Report 2018. At the same time overall operating costs are managed in line with expectations.

Absent unexpected market or credit events, the company expects the positive trends to continue such that net profit for the full year of 2019 will be somewhat higher than the level reported in 2018.

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

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

## **STATEMENT BY THE MANAGEMENT**

The Board of Directors and the Executive Board have today considered and approved the Interim Report of Danish Ship Finance A/S for the period 1 January - 30 June 2019.

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

In our opinion, the interim financial statements give a true and fair view of the company's assets, liabilities and financial position at 30 June 2019 and the results of the company's activities for the period 1 January - 30 June 2019.

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

Copenhagen, 26 August 2019

### **EXECUTIVE BOARD**

Lars Jebjerg Chief Financial Officer	Erik Ingvar Lassen Chief Executive Officer	Michael Frisch Chief Commercial Officer
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### **BOARD OF DIRECTORS**

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

## INCOME STATEMENT

NOTE	DKK MILLION	1ST HALF 2019	1ST HALF 2018	FULL YEAR 2018
	Interest income	1,043	928	1,967
	Interest expenses	(753)	(604)	(1,327)
	<b>Net interest income *)</b>	<b>290</b>	<b>324</b>	<b>640</b>
	Dividends on shares, etc.	-	-	-
	Fee and commission income	16	15	32
	Fees and commission expenses	-	-	-
	<b>Net interest and fee income</b>	<b>305</b>	<b>339</b>	<b>672</b>
3	Market value adjustments	(80)	(69)	(135)
	Other operating income	0	0	0
	Staff costs and administrative expenses	(84)	(90)	(158)
	Depreciation and impairment of property, plant and equipment	(1)	(1)	(2)
6	Loan impairment charges	(3)	3	(35)
	<b>Profit before tax</b>	<b>138</b>	<b>183</b>	<b>343</b>
	Tax	(32)	(44)	(81)
	<b>Net profit for the period</b>	<b>106</b>	<b>139</b>	<b>262</b>
	Other comprehensive income	-	-	-
	Tax on other comprehensive income	-	-	-
	<b>Other comprehensive income after tax</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Comprehensive income for the period</b>	<b>106</b>	<b>139</b>	<b>262</b>

\*) Previously, net interest income from derivatives was reported under interest income in the interim report. Now, net interest income from derivatives is reported gross under income and expenses respectively, applying the same principle as in the annual report.

## BALANCE SHEET

NOTE	DKK MILLION	AT 30 JUNE 2019	AT 30 JUNE 2018	AT 31 DEC 2018
	ASSETS			
	Due from credit institutions and central banks	1,701	1,092	1,360
4, 5	Loans and other receivables at amortised cost	38,048	35,297	36,735
	Bonds at fair value	22,162	21,482	22,470
	Shares, etc.	3	11	3
	Land and buildings			
	Owner-occupied property	89	89	89
	Other tangible assets	8	8	9
	Current tax assets	-	-	-
	Deferred tax assets	48	43	74
	Other assets	1,743	1,705	1,609
	<b>Total assets</b>	<b>63,802</b>	<b>59,727</b>	<b>62,349</b>
	LIABILITIES AND EQUITY			
	<b>Liabilities</b>			
	Due to credit institutions and central banks	8,906	5,725	8,522
8	Issued bonds at amortised cost	44,549	42,461	43,549
	Current tax liabilities	29	-	27
	Other liabilities	1,175	2,437	1,016
	<b>Total liabilities</b>	<b>54,659</b>	<b>50,622</b>	<b>53,114</b>
	<b>Provisions</b>			
	Other provisions	13	-	6
	<b>Total provisions</b>	<b>13</b>	<b>-</b>	<b>6</b>
9	<b>Equity</b>			
	Share capital	333	333	333
	Tied-up reserve capital	8,343	8,343	8,343
	Revaluation reserves	29	29	29
	Retained earnings	424	400	523
	<b>Total equity</b>	<b>9,130</b>	<b>9,105</b>	<b>9,229</b>
	<b>Total liabilities and equity</b>	<b>63,802</b>	<b>59,727</b>	<b>62,349</b>
	<b>Off-balance sheet items</b>			
	Contingent liabilities	140	155	148
	Other contingent liabilities	3,506	4,443	3,953
	<b>Total off-balance sheet items</b>	<b>3,646</b>	<b>4,598</b>	<b>4,101</b>

## STATEMENT OF CHANGES IN EQUITY

DKK million	Share capital	Tied-up reserve capital	Revaluation reserves	Distributable reserves	Retained earnings	Total
<b>Equity at 1 January 2018</b>	<b>333</b>	<b>8,343</b>	<b>29</b>	<b>364</b>	<b>237</b>	<b>9,307</b>
Initial impact at 1 January 2018 (IFRS 9), net of tax	-	-	-	-103	-	-103
Dividends paid for the financial year 2017	-	-	-	-	-237	-237
Amount for distribution	-	-	-	57	205	262
<b>Equity at 31 December 2018</b>	<b>333</b>	<b>8,343</b>	<b>29</b>	<b>318</b>	<b>205</b>	<b>9,229</b>
Dividends paid for the financial year 2018	-	-	-	-	(205)	(205)
Comprehensive income for the period	-	-	-	106	-	106
<b>Equity at 30 June 2019</b>	<b>333</b>	<b>8,343</b>	<b>29</b>	<b>424</b>	<b>-</b>	<b>9,130</b>

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**NOTE 1 ACCOUNTING POLICIES**

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

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

The accounting policies are unchanged from the policies applied in the Annual Report 2018. The Annual Report 2018 provides a more detailed description of the accounting policies, including the definitions of the ratios used, which are calculated in accordance with the definitions laid down in the Executive Order on Financial Reports.

The preparation of the interim financial statements is based on Management's estimates and judgements of future events that may significantly affect the carrying amounts of assets and liabilities. As was the case in the Annual Report 2018, the amounts most influenced by critical estimates in the Interim Report are the fair value of financial instruments as well as measurement and impairment of loans.

	1ST HALF 2019	1ST HALF 2018	FULL YEAR 2018
<b>KEY FIGURES, DKK MILLION</b>			
<b>NOTE 2</b>			
Net interest income from lending	236	234	477
Net interest income from investment activities	54	90	163
Total net interest income	290	324	640
Net interest and fee income	305	339	672
Market value adjustments	(80)	(69)	(135)
Staff costs and administrative expenses	(84)	(90)	(158)
Loan impairment charges	(3)	3	(35)
Profit before tax	138	183	343
Net profit for the period	106	139	262
Loans	38,048	35,297	36,735
Bonds	22,162	21,482	22,470
Equity	9,130	9,105	9,229
Total assets	63,802	59,727	62,349

	1ST HALF 2019	1ST HALF 2018	FULL YEAR 2018
<b>RATIOS</b>			
Common equity tier 1 capital ratio	17.9	19.2	19.0
Tier 1 capital ratio	17.9	19.2	19.0
Total capital ratio	17.9	19.2	19.0
Return on equity before tax (%)	1.5	2.0	3.7
Return on equity after tax (%)	1.2	1.5	2.8
Income/cost ratio *)	2.6	3.1	2.8
Income/cost ratio (excluding loan impairment charges)	2.6	3.0	3.4
Foreign exchange position (%)	3.4	3.1	4.8
Gearing of loans (loans / equity)	4.2	3.9	4.0
Growth in lending for the period (%)	3.6	2.3	6.5
Loan impairment charges for the period as % of gross lending	0.0	0.0	0.1
Total allowance account as % of gross lending	5.9	6.9	6.4
Rate of return on assets (%)	0.2	0.2	0.4

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 inclusive of loan impairment charges. The list of key figures also includes a income/cost ratio in which the impairment charges are not included.

	DKK MILLION	1ST HALF 2019	1ST HALF 2018	FULL YEAR 2018
<b>NOTE 3</b>	<b>MARKET VALUE ADJUSTMENTS</b>			
	Market value adjustment of bonds	131	(45)	(122)
	Market value adjustment of shares	-	-	(7)
	Exchange rate adjustments	3	(1)	8
	Market value adjustment of derivatives	(214)	(24)	(13)
	<b>Total market value adjustments</b>	<b>(80)</b>	<b>(69)</b>	<b>(135)</b>

		AT 30 JUNE 2019	AT 30 JUNE 2018	AT 31 DEC 2018
<b>NOTE 4</b>	<b>LOANS AT AMORTISED COST</b>			
	At 1 January	36,735	34,492	34,492
	Additions	4,199	2,322	8,441
	Ordinary repayments and redemptions	(2,204)	(2,277)	(4,418)
	Extraordinary repayments	(710)	(297)	(2,850)
	Net change concerning revolving credit facilities	(73)	138	(281)
	Exchange rate adjustment of loans	(41)	868	1,301
	Initial impact at 1 January 2018 (IFRS 9)	-	-	(132)
	Change in amortised cost for the period	(6)	(3)	(34)
	Depreciation, amortisation and impairment for the period	147	54	215
	<b>At the end of the period</b>	<b>38,048</b>	<b>35,297</b>	<b>36,735</b>
	Gross loans at exchange rates at the balance sheet date	40,408	37,930	39,243
	Loan impairment charges	(2,361)	(2,633)	(2,508)
	<b>Total loans</b>	<b>38,048</b>	<b>35,297</b>	<b>36,735</b>
	<b>Total loans</b>			
	Loans at fair value	38,785	36,092	37,389
	Loans at amortised cost	38,048	35,297	36,735

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

<b>NOTE 5</b>	<b>NON-PERFORMING LOANS</b>			
	<b>Impaired loans (rating category 11)</b>			
	Loans subject to forbearance or otherwise impaired, gross	3,784	4,324	3,655
	Loan impairment charges	(1,200)	(1,785)	(1,206)
	<b>Impaired loans, net</b>	<b>2,584</b>	<b>2,539</b>	<b>2,449</b>
	<b>Defaulted loans (rating category 12)</b>			
	Loans in default, gross	1,507	1,281	1,716
	Loan impairment charges	(936)	(456)	(1,032)
	<b>Defaulted loans, net</b>	<b>571</b>	<b>825</b>	<b>684</b>
	<b>Non-performing loans, gross (NPL)</b>	<b>5,290</b>	<b>5,605</b>	<b>5,372</b>
	<b>Non-performing loans, net (Net NPL)</b>	<b>3,154</b>	<b>3,364</b>	<b>3,133</b>

Note 7 provides detailed information about LTV intervals for the total loan book and for non-performing loans.

DKK MILLION	AT 30 JUNE 2019	AT 30 JUNE 2018	AT 31 DEC 2018
<b>NOTE 6</b>			
<b>LOAN IMPAIRMENT CHARGES</b>			
<b>The following impairment charges/loss allowance were made on loans/loan commitments</b>			
Individual impairment charges	2,361	2,537	2,508
Collective impairment charges	-	-	-
Loss allowance for loan commitments	13	96	6
<b>Total</b>	<b>2,374</b>	<b>2,633</b>	<b>2,514</b>
<b>As a percentage of loans and guarantees</b>			
Individual impairment charges	5.8	6.7	6.4
Collective impairment charges	-	-	-
<b>Total *)</b>	<b>5.8</b>	<b>6.7</b>	<b>6.4</b>
<b>Breakdown of total allowance account</b>			
Loan impairment charges	2,361	2,537	2,508
Loss allowance for loan commitments	13	96	6
<b>Total</b>	<b>2,374</b>	<b>2,633</b>	<b>2,514</b>
<b>Reconciliation of total allowance account</b>			
At 1 January	2,514	2,591	2,591
Initial impact at 1 January 2018	-	132	132
New impairment charges/loss allowances	531	395	699
Reversal of loan impairment charges/loss allowances	(521)	(355)	(610)
Gross write-offs debited to the allowance account	(150)	(130)	(298)
<b>Total</b>	<b>2,374</b>	<b>2,633</b>	<b>2,514</b>
<b>Loan impairment charges for the period</b>			
New impairment charges/loss allowance	(531)	(395)	(699)
Reversal of impairment charges/loss allowance	521	355	610
Reclassification of interest	7	8	8
Recovery on loans previously written off	0	36	46
<b>Loan impairment charges</b>	<b>(3)</b>	<b>3</b>	<b>(35)</b>

\*) Only loan impairment charges are included.

<b>NOTE 7</b>			
<b>CREDIT RISK</b>			
<b>Reconciliation of loans and guarantees (loan book)</b>			
Balance sheet			
Loans at amortised cost	38,048	35,297	36,735
Other receivables	206	169	200
Loan impairment charges	2,361	2,537	2,508
<b>Total balance sheet items</b>	<b>40,614</b>	<b>38,003</b>	<b>39,443</b>
Off-balance sheet items			
Guarantees	140	155	148
<b>Total off-balance sheet items</b>	<b>140</b>	<b>155</b>	<b>148</b>
<b>Total loans and guarantees</b>	<b>40,754</b>	<b>38,158</b>	<b>39,591</b>
<b>Reconciliation of financial exposure</b>			
Due from credit institutions and central banks	1,699	1,086	1,360
Bonds at fair value	22,573	21,482	22,470
Shares, etc.	3	11	3
Derivatives	1,407	1,348	1,288
<b>Total financial exposure</b>	<b>25,682</b>	<b>23,927</b>	<b>25,122</b>

#### 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.

DKK MILLION

**NOTE 7** Loan book before loan impairment charges broken down by rating category  
**CONTINUED**

RATING	LOANS AND GUARANTEES 30 JUNE 2019	LOANS AND GUARANTEES 30 JUNE 2018	LOANS AND GUARANTEES 31 DEC 2018
1 - 2	-	-	-
3 - 4	7,577	8,505	7,022
5 - 6	14,259	11,636	13,772
7 - 8	12,760	9,676	11,913
9 - 10	868	2,736	1,513
11	3,784	4,324	3,655
12	1,507	1,281	1,716
<b>Total</b>	<b>40,754</b>	<b>38,158</b>	<b>39,591</b>

**STAGES FOR CHANGES IN CREDIT RISK**

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

RATING	STAGE 1	STAGE 2	STAGE 3	LOANS AND GUARANTEES 30 JUNE 2019
1	-	-	-	-
2	-	-	-	-
3	3,935	-	-	3,935
4	3,642	-	-	3,642
5	2,098	-	-	2,098
6	12,161	-	-	12,161
7	7,026	229	-	7,254
8	5,304	202	-	5,506
9	349	441	-	790
10	-	78	-	78
11 (impaired)	-	-	3,784	3,784
12 (default)	-	-	1,507	1,507
<b>Total</b>	<b>34,515</b>	<b>949</b>	<b>5,290</b>	<b>40,754</b>

Changes in total allowance account broken down by IRFS 9 stage

	STAGE 1	STAGE 2	STAGE 3	TOTAL
At 1 January	197	79	2,238	2,514
Transferred to stage 1 during the period	-	-	-	-
Transferred to stage 2 during the period	-	-	-	-
Transferred to stage 3 during the period	-	(37)	37	0
New impairment charges/loss allowances	63	-	468	531
Reversal of impairment charges/loss allowances	(47)	(17)	(457)	(521)
Gross write-offs for the period	-	-	(150)	(150)
<b>Total allowance account at 30 June 2019</b>	<b>213</b>	<b>25</b>	<b>2,137</b>	<b>2,374</b>

Of which:

- Loan impairment charges	200	25	2,136	2,361
- Loss allowances for loan commitments	12	-	1	13

**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.

**NOTE 7  
CONTINUED**

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.

**Credit risk mitigation**

All new loans are granted against a first lien 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 4% since end of 2018.

**Loan book after loan impairment charges broken down by LTV interval**

LTV INTERVAL	SHARE OF LOANS 30 JUNE 2019	SHARE OF LOANS 30 JUNE 2018	SHARE OF LOANS 31 DEC 2018
0 - 20 %	40%	39%	41%
20 - 40 %	36%	35%	37%
40 - 60 %	22%	23%	20%
60 - 80 %	3%	3%	2%
80 - 90 %	0%	0%	0%
90 - 100 %	0%	0%	0%
Over 100 %	0%	0%	0%

The table above shows that at 30 June 2019 97% (end-2018: 98%) of all loans are secured within 60% of the market value of the mortgage, and 100% (end-2018: 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 54% (end-2018: 52%).

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

LTV INTERVAL	SHARE OF LOANS 30 JUNE 2019	SHARE OF LOANS 30 JUNE 2018	SHARE OF LOANS 31 DEC 2018
0 - 20 %	36%	37%	36%
20 - 40 %	35%	34%	35%
40 - 60 %	25%	25%	24%
60 - 80 %	3%	4%	5%
80 - 90 %	0%	0%	0%
90 - 100 %	0%	0%	0%
Over 100 %	0%	0%	0%

The table above shows that at 30 June 2019 97% (end-2018: 95%) of non-performing loans are secured within 60% of the market value of the mortgage, and 100% (end-2018: 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 57% (end-2018: 58%).

DKK MILLION	AT 30 JUNE 2019	AT 30 JUNE 2018	AT 31 DEC 2018
<b>NOTE 8</b>			
<b>ISSUED BONDS AT AMORTISED COST</b>			
At 1 January	43,549	42,467	42,467
Additions in connection with pre-issuance	6,907	5,249	9,256
Amortisation of cost	(13)	(25)	(68)
Adjustment for hedge accounting	251	(127)	93
Exchange rate adjustment	9	42	70
Own bonds	-	-	-
Ordinary and extraordinary redemptions	(6,155)	(5,147)	(8,271)
<b>At the end of the period</b>	<b>44,549</b>	<b>42,461</b>	<b>43,549</b>
<b>Specification of issued bonds</b>			
<b>Bonds issued in DKK</b>			
Bullet bonds	39,517	40,188	41,798
Amortising CIRR bonds	450	565	508
<b>Total Danish bonds</b>	<b>39,967</b>	<b>40,754</b>	<b>42,306</b>
<b>Bonds issued in foreign currency</b>			
Bullet bonds	3,763	-	-
Amortising CIRR bonds, at period-end exchange rates	818	1,707	1,244
<b>Total bonds issued in foreign currency</b>	<b>4,582</b>	<b>1,707</b>	<b>1,244</b>
<b>Total issued bonds</b>	<b>44,549</b>	<b>42,461</b>	<b>43,549</b>
<b>NOTE 9</b>			
<b>EQUITY</b>			
<b>Share capital</b>			
A shares	300	300	300
B shares	33	33	33
<b>Total share capital</b>	<b>333</b>	<b>333</b>	<b>333</b>
Tied-up reserve capital	8,343	8,343	8,343
Revaluation reserves	29	29	29
Retained earnings	424	400	318
Proposed dividend for the financial year	-	-	205
<b>Total equity</b>	<b>9,130</b>	<b>9,105</b>	<b>9,229</b>

The share capital is divided into the following denominations:

A shares	300,000,000 shares of DKK 1.00 each
B shares	33,333,334 shares of DKK 1.00 each

Each A share of DKK 1.00 entitles the holder to 10 votes.

Each B share of DKK 1.00 entitles the holder to 1 vote.

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.

The tied-up reserve capital 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.

DKK MILLION	AT 30 JUNE 2019	AT 30 JUNE 2018	AT 31 DEC 2018
<b>NOTE 10 CAPITAL ADEQUACY</b>			
<b>Common equity tier 1 capital</b>			
Share capital A-shares	300	300	300
Share capital B-shares	33	33	33
Tied-up reserve capital	8,343	8,343	8,343
Retained earnings	424	400	318
Proposed dividends for the financial year	0	0	205
Revaluation reserves	29	29	29
<b>Total common equity tier 1 capital before deductions</b>	<b>9,130</b>	<b>9,105</b>	<b>9,229</b>
<b>Deductions from common equity tier 1 capital</b>			
Proposed dividends for the financial year	-	-	205
Retained earnings	106	139	-
Additional capital charge pursuant to the Executive Order on a Ship Finance Institute	0	-	-
Prudent valuation pursuant to article 105 of the CRR	26	26	25
Deductions pursuant to transitional rules regarding B share capital *)	33	26	27
<b>Total deductions from common equity tier 1 capital</b>	<b>165</b>	<b>191</b>	<b>257</b>
<b>Common equity tier 1 capital after deductions</b>	<b>8,965</b>	<b>8,914</b>	<b>8,972</b>
<b>Own funds after deductions</b>	<b>8,965</b>	<b>8,914</b>	<b>8,972</b>
<b>Risk exposure amount</b>			
Assets outside the trading book	39,163	36,233	37,752
Off-balance sheet items	1,893	2,396	2,125
Counterparty risk outside the trading book	1,820	1,492	1,454
Market risk	5,904	4,761	4,528
Operational risk	1,376	1,497	1,374
<b>Total risk exposure amount</b>	<b>50,156</b>	<b>46,379</b>	<b>47,233</b>
<b>Common equity tier 1 capital ratio</b>	<b>17.9</b>	<b>19.2</b>	<b>19.0</b>
<b>Tier 1 capital ratio</b>	<b>17.9</b>	<b>19.2</b>	<b>19.0</b>
<b>Total capital ratio</b>	<b>17.9</b>	<b>19.2</b>	<b>19.0</b>
<b>The risk exposure amount for market risk consists of:</b>			
Position risk related to debt instruments	5,594	4,463	4,089
Position risk related to shares	7	22	7
Total currency position	303	276	432
<b>Total risk-weighted items involving market risk</b>	<b>5,904</b>	<b>4,761</b>	<b>4,528</b>

\*) Recognised at 0% pursuant to transitional rules of CRR art. 484 at 30 June 2019 (January 1 to December 31 2018 recognised at 20%).



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**NOTE 11 RELATED PARTIES**

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

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

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

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

Related-party transactions concerning loans and loan offers totalled a nominal amount of DKK 990 million at 30 June 2019 (at 31 December 2018: DKK 929 million).

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

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

**NOTE 12 SUPPLEMENTARY NOTES WITHOUT REFERENCE**

Reference is made to the description of financial risk and policies for financial risk management provided in the risk management sections in the Annual Report 2018, as no significant changes are deemed to have occurred as at 30 June 2019.