



**DANISH  
SHIP FINANCE**

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# Interim report – first half year 2017

## **FINANCIAL PERFORMANCE – DANISH SHIP FINANCE A/S**

At 30 June 2017, Danish Ship Finance A/S had loans of DKK 34,670 million, total assets of DKK 56,939 million and equity of DKK 9,110 million.

Net interest and fee income for the period amounted to DKK 356 million, and the profit for the period after tax amounted to DKK 145 million.

The tier 1 capital ratio was 19.3% at 30 June 2017, and the solvency need capital ratio was 9.7%. The combined capital buffer requirement at 30 June 2017 was calculated at 1.5%. The solvency need capital ratio, including the combined capital buffer requirement, was 11.2%, resulting in a solvency need buffer of 8.1 percentage points.

The liquidity position is still satisfactory. Through bond issues and the existence of a liquid portfolio of bonds, the company has secured ample liquidity coverage for all existing loans and loan offers until expiry.

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**KEY FIGURES FOR DANISH SHIP FINANCE A/S**

KEY FIGURES, DKK MILLION	1ST HALF	1ST HALF	YEAR
	2017	2016	2016
Net interest income from lending	271	294	589
Net interest income from finance activities	76	108	228
Total net interest income	347	403	817
Net interest and fee income	356	420	849
Market value adjustments	10	49	124
Staff costs and administrative expenses	-75	-60	-120
Loan impairment charges etc.	-103	-341	-610
Net profit before tax	188	67	241
Net profit for the period	145	52	188
Loans	34,670	40,030	39,811
Bonds	17,076	21,580	19,730
Equity	9,110	10,017	9,164
Total assets	56,939	65,758	62,621

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**RATIOS**

RATIOS	1ST HALF	1ST HALF	YEAR
	2017	2016	2016
Net interest and fee income from lending (DKKm)	280	312	621
Return on equity after tax (%)	1.6	0.5	1.9
Return on finance activities (%) *)	1.8	1.3	3.0
Tier 1 capital after deductions (DKKm)	8,832	9,817	8,781
Common equity tier 1 capital ratio	19.3	18.8	17.2
Solvency need capital ratio incl. capital buffer	11.2	9.3	10.7
Cost/income ratio (%) **)	20.7	12.9	11.9
Equity as a % of lending	26.3	25.0	23.0
Net write-offs on loans as a % of lending	0.1	0.1	0.2
Allowance account as a % of loans	6.9	5.3	5.9
Weighted Loan-To-Value ratio after loan impairment charges	62	63	66
Proportion of loans covered within 60% of market value (%)	90	91	88

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\*) *Return on finance activities is calculated exclusive of return from shares and currency.*

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

Unless otherwise indicated, the ratios are calculated in accordance with Appendix 5 of the Danish FSA's instructions for financial reporting in credit institutions and investment companies, etc.

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## **MANAGEMENT'S REVIEW**

The Board of Directors of Danish Ship Finance A/S has today considered the interim report for the first half of 2017.

Danish Ship Finance presents its financial statements in accordance with the rules set out in the Danish FSA's executive order on financial reports by credit institutions and investment companies, etc. ("Executive order on financial reporting").

As in previous years, the interim report is unaudited and has not been reviewed.

### **INCOME STATEMENT**

Net earnings from lending including fee income fell in the first half of 2017 to DKK 280 million from DKK 312 million in the first half of 2016. The decline in total interest and fee income was primarily due to a decrease in loans. The average exchange rate of the USD relative to DKK was slightly higher than in the same period of 2016, which partly offset the lower interest and fee income.

Interest and dividend earnings from finance activities fell to DKK 76 million in the first half of 2017 from DKK 108 million in the first half of 2016 as a result of the very low level of interest rates.

Market value adjustments of securities and foreign exchange for the first half of 2017 amounted to a net income of DKK 10 million compared with a net income of DKK 49 million in the first half of 2016. Market value adjustments for the first half of 2017 include an expense of just under DKK 129 million relating to a loss on the buyback of issued bonds for a nominal value of just under DKK 9 billion. In connection with – and for the funding of – these buybacks, new bonds with longer maturities have been issued. The loss occurred because market prices were higher than the corresponding prices in the financial statements, which are stated at amortised cost. A large proportion of the loss will reduce interest expenses in the coming years.

Loan impairment charges for the first half of 2017 amounted to a net expense of DKK 103 million compared with an expense of DKK 341 million in the same period of last year. The higher loan impairment charges in the first half of 2016 was primarily ascribable to the offshore segment. The impairment charges are consistent with the company's usual practice.

Write-offs amounted to DKK 49 million, net, in the first half of 2017, against DKK 50 million in the first half of 2016 and DKK 89 million in the full-year 2016.

The profit for the period after tax amounted to DKK 145 million compared with a profit of DKK 52 million in the first half of 2016. The profit for the first half of 2016 was adversely affected by high impairment charges on the offshore segment.

### **BALANCE SHEET AND CAPITAL STRUCTURE**

Total assets amounted to DKK 56,939 million at 30 June 2017, compared with DKK 62,621 million at 31 December 2016.

In the first half of 2017, total loans fell by DKK 5,141 million from DKK 39,811 million at 31 December 2016 to DKK 34,670 million at 30 June 2017, or a reduction of 12.9%. The US dollar depreciation reduced lending by DKK 2,297 million. During the first half of 2017, there was an inflow of new loans of DKK 1,003 million and ordinary and extraordinary loan instalments of DKK 3,780 million.

The total allowance account rose from DKK 2,516 million at year-end 2016 to DKK 2,591 million at 30 June 2017.

Issued bonds were reduced by DKK 638 million in the first half of 2017, from DKK 42,352 million at 31 December 2016 to DKK 41,714 million at 30 June 2017. During the first half of 2017, Danish Ship Finance issued bonds with a nominal value of DKK 11.1 billion. Expiry and buybacks of bonds amounted to DKK 11.7 billion. The effect is an increase of the average maturity of outstanding bonds.

The bond portfolio amounted to DKK 17,076 million at 30 June 2017, against DKK 19,730 million at 31 December 2016. The securities portfolio consists primarily of Danish mortgage bonds, while a small proportion has been invested in Danish government bonds. The bond portfolio relates to the company's investment of its equity, allowance account, placing of funds net yet used for lending and repo activities.

At 30 June 2017, the capital ratio was calculated at 19.3%, which is an increase of 2.1 percentage points relative to 31 December 2016. The profit for the period has not been recognised in the company's equity.

#### **IMPACT OF US DOLLAR ON THE INCOME STATEMENT**

The average exchange rate of the USD vis-à-vis DKK for the first half of 2017 was approximately 684 against 671 in the first half of 2016. Other things being equal, this had a positive impact on net interest and fee income of DKK 7 million.

The USD exchange rate fell 7.6% from 705.28 at year-end 2016 to 651.65 at 30 June 2017. Other things being equal, this had a positive impact on loan impairment charges in the amount of DKK 71 million.

The net profit after tax was increased by DKK 60 million from the change.

#### **EVENTS AFTER 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**

There are some bright spots on the horizon for the shipping industry. First of all, the global order book as a percentage of the operating fleet has dropped to below 10%. In some segments, the order book remains very high, including large container vessels, but overall the situation has improved. Secondly, the market is generally quite upbeat about the prospects for economic growth in the coming years. Lastly, the implementation of new environmental requirements for vessels is widely

expected to lead to the scrapping of older vessels on a greater scale than would otherwise have been the case.

However, the slightly positive outlook is dimmed by the excess supply of tonnage currently weighing on most vessel segments. Consequently, if the market is to return to a period of even acceptable earnings, it is pivotal that the inflow of new orders is kept to a minimum in the next few years.

The tanker market witnessed a downward trend in the first half of 2017, partly as a result of OPEC's decision to marginally cut oil production, partly due to the large inflow of newbuildings to an already well-supplied market. The dry bulk market has continued the slightly positive trend since bottoming out in the spring of 2016. However, the market is by no means stable and could quickly lose momentum. The container market has experienced an increase in box rates but is facing a challenging period as the inflow of very large vessels in particular is set to continue for the next 18-24 months. There are a few signs of recovery in the offshore segment, but full vessel employment remains a distant prospect. With the summer season drawing to a close, many vessels will soon be laid up again. A large inflow of vessels to the LPG market during the past two years has squeezed rates to a low level.

Competition in the market remained fairly constant relative to the past few years. A small group of shipping banks have retained capacity for lending, and they are all focused on the stronger shipowners that have made it through the shipping crisis. The phasing in of already adopted and upcoming banking regulation should, other things being, point to higher borrowing costs for shipowners. However, with competition remaining quite strong, prices have not changed to any noticeable extent in recent years. Many of Asia's export credit institutions are still quite competitive in the market for financing newbuildings from the countries of their origin.

#### **OUTLOOK FOR THE SECOND HALF OF 2017**

Measured in lending currencies, Danish Ship Finance expects a small loan portfolio increase in the second half of 2017. Earnings on new loans are expected to be on a level with average earnings on existing loans.

The company continues to expect a lower net profit for the year before loan impairment charges than in 2016. As expected, lending measured in Danish kroner will on average be lower than in 2016, adversely affecting the company's earnings. This development was amplified by the depreciation of the US dollar in the first six months of 2017.

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

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

## **STATEMENT BY THE EXECUTIVE BOARD AND THE BOARD OF DIRECTORS**

The Board of Directors and the Executive Board have today considered and adopted the interim report for the period 1 January – 30 June 2017 for Danish Ship Finance A/S (Danmarks Skibskredit A/S).

The interim report has been prepared in accordance with the Danish Financial Business Act, including the executive order on financial reports presented by credit institutions and investment companies, etc. (“executive order on financial reporting”). In addition, the interim report is presented 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 and liabilities and financial position at 30 June 2017 and of the results of the company’s operations for the period 1 January – 30 June 2017.

In our opinion, the management's review includes a fair review of developments in activities and financial position of the company and fairly describes significant risk and uncertainty factors that may affect the company.

Copenhagen, 30 August 2017

### **EXECUTIVE BOARD**

Erik Ingvar Lassen  
Chief Executive Officer

Per Schnack  
Executive Vice President

### **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 Søgård

## INCOME STATEMENT

NOTE	DKK MILLION	1ST HALF 2017	1ST HALF 2016	YEAR 2016
	Interest income	631	786	1,831
	Interest expenses	-284	-383	-1,015
	<b>Net interest income</b>	<b>347</b>	<b>403</b>	<b>817</b>
	Dividends on shares, etc.	-	-	-
	Fee and commission income	9	17	32
	Fees and commissions expenses	-	-	-
	<b>Net interest and fee income</b>	<b>356</b>	<b>420</b>	<b>849</b>
3	Market value adjustments	10	49	124
	Other operating income	0	-	-
	Staff costs and administrative expenses	-75	-60	-120
	Depreciation and impairment on property, plant and equipment	-1	-1	-2
6	Loan impairment charges	-103	-341	-610
	<b>Net profit before tax</b>	<b>188</b>	<b>67</b>	<b>241</b>
	Tax	-42	-15	-54
	<b>Net profit for the period</b>	<b>145</b>	<b>52</b>	<b>188</b>
	Other comprehensive income	-	-	15
	Tax on other comprehensive income	-	-	-3
	<b>Other comprehensive income after tax</b>	<b>0</b>	<b>0</b>	<b>12</b>
	<b>Comprehensive income for the period</b>	<b>145</b>	<b>52</b>	<b>200</b>



## BALANCE SHEET

NOTE	DKK MILLION	AT 30 JUNE 2017	AT 30 JUNE 2016	AT 31 DECEMBER 2016
	<b>ASSETS</b>			
	Due from credit institutions and central banks	2,728	1,756	1,125
4, 5	Loans at amortised cost	34,670	40,030	39,811
	Bonds at fair value	17,076	21,580	19,730
	Shares, etc.	14	16	14
	Land and buildings			
	Domicile property	79	64	79
	Other tangible assets	8	9	9
	Current tax assets	202	204	149
	Deferred tax assets	58	143	100
	Other assets	2,104	1,957	1,603
	<b>Total assets</b>	<b>56,939</b>	<b>65,758</b>	<b>62,621</b>
	<b>LIABILITIES AND EQUITY</b>			
	<b>Liabilities</b>			
	Due to credit institutions and central banks	2,047	4,575	5,675
7	Issued bonds at amortised cost	41,714	46,143	42,352
	Current tax liabilities	0	-	-
	Other liabilities	4,067	5,023	5,430
	<b>Total liabilities</b>	<b>47,829</b>	<b>55,741</b>	<b>53,457</b>
8	<b>Equity</b>			
	Share capital	333	333	333
	Tied-up reserve capital	8,343	8,343	8,343
	Revaluation reserves	21	10	21
	Distributable reserves	412	1,331	466
	<b>Total equity</b>	<b>9,110</b>	<b>10,017</b>	<b>9,164</b>
	<b>Total liabilities and equity</b>	<b>56,939</b>	<b>65,758</b>	<b>62,621</b>
	<b>Off-balance sheet items</b>			
	Contingent liabilities	171	294	221
	Other binding agreements	1,540	1,889	1,710
	<b>Total off-balance sheet items</b>	<b>1,711</b>	<b>2,182</b>	<b>1,931</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 2016</b>	<b>333</b>	<b>8,343</b>	<b>10</b>	<b>1,279</b>	<b>413</b>	<b>10,378</b>
Dividends paid for the financial year 2015	-	-	-	-	-413	-413
Extraordinarily dividends paid	-	-	-	-1,000	-	-1,000
Amount for distribution	-	-	12	-11	199	200
<b>Equity at 31 December 2016</b>	<b>333</b>	<b>8,343</b>	<b>21</b>	<b>267</b>	<b>199</b>	<b>9,164</b>
Dividends paid for the financial year 2016	-	-	-	-	-199	-199
Comprehensive income for the period	-	-	-	145	-	145
<b>Equity at 30 June 2017</b>	<b>333</b>	<b>8,343</b>	<b>21</b>	<b>412</b>	<b>-</b>	<b>9,110</b>

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**NOTE 1 ACCOUNTING POLICIES**

The interim financial statements have been prepared in accordance with the Danish Financial Business Act, including the Danish FSA's executive order on financial reports presented by credit institutions and investment companies, etc. ("executive order on financial reporting").

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

The accounting policies are unchanged from the policies applied in the financial statements for 2016. The annual report for 2016 contains a more detailed description of the accounting policies applied, including the definitions of the ratios used, which are calculated in accordance with the definitions in the executive order on financial reporting.

Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the interim report. As in the preparation of the annual report for 2016, the estimates that are deemed critical to the financial statements are fair value of financial instruments and valuation and loan impairment charges.

**New executive order on financial reporting**

Effective 1 January 2018, the new international financial reporting standard IFRS 9 enters into force, and on the basis thereof, the Danish executive order on financial reporting is currently being updated. Draft amendments have been submitted for consultation in the financial sector, and the final wording of the provisions of the executive order on financial reporting is expected later this year.

While the company does not prepare its annual report in accordance with IFRS, the expected new rules of the executive order on financial reporting will affect the company's impairment model. Consequently, the company is in the process of revising and adapting its impairment model to the new rules, and first-time adoption of the new rules is expected to lead to a small increase in loan impairment charges. Based on information currently available and the loan portfolio at 30 June 2017, the company expects a first-time effect in the range of DKK 100-250 million.

	1ST HALF 2017	1ST HALF 2016	YEAR 2016
<b>KEY FIGURES, DKK MILLION</b>			
<b>NOTE 2</b>			
Net interest income from lending	271	294	589
Net interest income from finance activities	76	108	228
Total net interest income	347	403	817
Net interest and fee income	356	420	849
Market value adjustments	10	49	124
Staff costs and administrative expenses	-75	-60	-120
Loan impairment charges etc.	-103	-341	-610
Net profit before tax	188	67	241
Net profit for the period	145	52	188
Loans	34,670	40,030	39,811
Bonds	17,076	21,580	19,730
Equity	9,110	10,017	9,164
Total assets	56,939	65,758	62,621

	1ST HALF 2017	1ST HALF 2016	YEAR 2016
<b>RATIOS</b>			
Common equity tier 1 capital ratio	19.3	18.8	17.2
Tier 1 capital ratio	19.3	18.8	17.2
Total capital ratio	19.3	18.8	17.2
Return on equity before tax (%)	2.1	0.7	2.5
Return on equity after tax (%)	1.6	0.5	1.9
Income/cost ratio (DKK) *)	2.0	1.2	1.3
Income/cost ratio (ex. impairment charges)	4.8	7.7	8.0
Foreign exchange position (%)	7.3	5.2	4.5
Gearing of loans	3.8	4.0	4.3
Growth in lending for the period (%)	-12.9	-7.3	-7.8
Impairment ratio for the period	0.3	0.8	1.4
Accumulated impairment ratio	6.9	5.3	5.9
Rate of return on assets (%)	0.3	0.1	0.3

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

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

DKK MILLION		1ST HALF 2017	1ST HALF 2016	YEAR 2016
<b>NOTE 3</b>	<b>MARKET VALUE ADJUSTMENTS</b>			
	Market value adjustment of bonds	-107	582	487
	Market value adjustment of shares	0	-3	-6
	Exchange rate adjustments	-11	-5	4
	Market value adjustment of financial instruments	128	-524	-361
	<b>Total market value adjustments</b>	<b>10</b>	<b>49</b>	<b>124</b>
<b>NOTE 4</b>	<b>LOANS AT AMORTISED COST</b>	<b>AT 30 JUNE 2017</b>	<b>AT 30 JUNE 2016</b>	<b>AT 31 DECEMBER 2016</b>
	At 1 January	39,811	43,171	43,171
	Additions	1,003	2,265	4,560
	Ordinary repayments and redemptions	-2,979	-3,039	-5,589
	Extraordinary prepayments	-801	-1,295	-2,843
	Net change concerning revolving credit facilities	-7	-122	-174
	Exchange rate adjustment of loans	-2,297	-649	1,236
	Change in amortised cost for the period	15	7	11
	Depreciation, amortisation and impairment for the period	-75	-307	-559
	<b>At the end of the period</b>	<b>34,670</b>	<b>40,030</b>	<b>39,811</b>
<b>NOTE 5</b>	<b>LOANS AT AMORTISED COST</b>			
	Gross loans at exchange rates at the balance sheet date	37,261	42,295	42,328
	Accumulated loan impairment charges	-2,591	-2,265	-2,516
	<b>Total loans</b>	<b>34,670</b>	<b>40,030</b>	<b>39,811</b>
	<b>Total loans</b>			
	Loans at fair value	35,314	40,351	40,340
	Loans at amortised cost	34,670	40,030	39,811
	Loans at fair value is an approximation based on amortised cost with the addition of the value of fixed-rate loans.			
	<b>Loans subject to individual impairment charges</b>			
	Value of loans with objective evidence of impairment.			
	Loans with more lenient repayment terms, incl. forbearance	5,658	4,113	6,389
	Loan impairment charges	-1,953	-1,055	-1,819
	<b>Total loans with more lenient repayment terms, incl. forbearance</b>	<b>3,705</b>	<b>3,058</b>	<b>4,570</b>
	Other loans with objective evidence of impairment	980	1,702	608
	Loan impairment charges	-285	-470	-157
	<b>Total other loans with objective evidence of impairment</b>	<b>695</b>	<b>1,232</b>	<b>451</b>
	<b>Total loans and receivables subject to individual impairment charges</b>	<b>4,400</b>	<b>4,290</b>	<b>5,021</b>

Reference is made to note 12 setting out LTV ranges for the entire loan portfolio and for loans subject to individual impairment charges.

DKK MILLION	AT 30 JUNE 2017	AT 30 JUNE 2016	AT 31 DECEMBER 2016
<b>NOTE 6</b>			
<b>LOAN IMPAIRMENT CHARGES</b>			
<b>The following impairment charges were made on loans</b>			
Individual impairment charges	2,238	1,526	1,977
Collective impairment charges	353	739	540
<b>Total loan impairment charges</b>	<b>2,591</b>	<b>2,265</b>	<b>2,516</b>
<b>As a percentage of loans and impairment charges and guarantee commitments</b>			
Individual impairment charges	6.0	3.6	4.6
Collective impairment charges	0.9	1.7	1.3
<b>Allowance account as a percentage of loans and guarantees</b>	<b>6.9</b>	<b>5.3</b>	<b>5.9</b>
<b>Distribution of loan impairment charges</b>			
Amount set off against loans	2,591	2,265	2,516
<b>Accumulated loan impairment charges</b>	<b>2,591</b>	<b>2,265</b>	<b>2,516</b>
<b>Movements in loan impairment charges</b>			
At 1 January	2,516	1,958	1,958
Additions	316	710	1,214
Reversal of loan impairment charges from previous years	-177	-353	-560
Write-offs covered by loan impairment charges from previous years	-64	-50	-95
<b>Total loan impairment charges</b>	<b>2,591</b>	<b>2,265</b>	<b>2,516</b>
<b>Loan impairment charges</b>			
New impairment charges	-316	-710	-1,214
Reversed impairment charges	177	353	560
Reclassification of interest	21	16	38
Received on claims previously written off	15	0	6
<b>Loan impairment charges</b>	<b>-103</b>	<b>-341</b>	<b>-610</b>
<b>NOTE 7</b>			
<b>ISSUED BONDS AT AMORTISED COST</b>			
At 1 January	42,352	45,067	45,067
Additions in conjunction with block issues	11,035	3,920	6,337
Amortisation of cost	-6	16	28
Adjustment for hedge accounting	22	24	-163
Exchange rate adjustment	-251	-97	99
Own bonds	-150	465	465
Ordinary and extraordinary redemptions	-11,288	-3,251	-9,481
<b>At the end of the period</b>	<b>41,714</b>	<b>46,143</b>	<b>42,352</b>
<b>Specification of issued bonds</b>			
<b>Bonds issued in DKK</b>			
Bullet bonds	38,167	40,186	37,818
Amortising CIRR bonds	681	896	739
<b>Total Danish bonds</b>	<b>38,848</b>	<b>41,082</b>	<b>38,557</b>
<b>Bonds issued in foreign currency</b>			
Amortising CIRR bonds, at period-end exchange rates	2,866	5,062	3,795
<b>Total bonds issued in foreign currency</b>	<b>2,866</b>	<b>5,062</b>	<b>3,795</b>
<b>Total issued bonds</b>	<b>41,714</b>	<b>46,143</b>	<b>42,352</b>

DKK MILLION	AT 30 JUNE 2017	AT 30 JUNE 2016	AT 31 DECEMBER 2016
<b>NOTE 8 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	21	10	21
Distributable reserves	412	1,331	267
Proposed dividend for the financial year	-	-	199
<b>Total equity</b>	<b>9,110</b>	<b>10,017</b>	<b>9,164</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.			
<b>NOTE 9 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
Revaluation reserves	21	10	25
Distributable reserves	412	1,331	463
<b>Total Common equity tier 1 capital</b>	<b>9,110</b>	<b>10,017</b>	<b>9,164</b>
<b>Deductions in common equity tier 1 capital</b>			
Proposed dividend	0	0	199
Retained earnings	145	52	-
Additional straining relative to the Executive Order on a Ship Finance Institute	86	104	142
Prudent valuation pursuant to article 105 of CRR	26	30	28
Deductions pursuant to transitional rules regarding B share capital *)	20	13	13
<b>Total deductions in common equity tier 1 capital</b>	<b>277</b>	<b>199</b>	<b>383</b>
<b>Common equity tier 1 capital after deductions</b>	<b>8,832</b>	<b>9,817</b>	<b>8,781</b>
<b>Tier 1 capital after deductions</b>	<b>8,832</b>	<b>9,817</b>	<b>8,781</b>
<b>Weighted items</b>			
Weighted items not included in the trading portfolio	37,068	42,849	42,153
Weighted off-balance sheet items	940	1,236	1,075
Weighted items involving counterparty risk outside the trading portfolio	1,319	1,377	1,659
Weighted items involving market risk	4,607	5,200	4,383
Weighted items involving operational risk	1,725	1,687	1,725
<b>Total weighted items</b>	<b>45,659</b>	<b>52,348</b>	<b>50,995</b>
<b>Common equity tier 1 capital ratio</b>	<b>19.3</b>	<b>18.8</b>	<b>17.2</b>
<b>Tier 1 capital ratio</b>	<b>19.3</b>	<b>18.8</b>	<b>17.2</b>
<b>Total capital ratio</b>	<b>19.3</b>	<b>18.8</b>	<b>17.2</b>
<b>Weighted items with market risk, consist of:</b>			
Items with position risk: Debt instruments	3,937	4,660	3,959
Items with position risk: Shares	27	32	27
Total currency position	642	509	397
<b>Total weighted items with market risk</b>	<b>4,607</b>	<b>5,200</b>	<b>4,383</b>

\*) Recognised at 40% pursuant to transitional rules of CRR art. 484 at 30 June 2017 (January 1 to December 31 2016 recognised at 60%).



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**NOTE 10 RELATED PARTIES**

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

From 15 November 2016, related parties also comprise Danmarks Skibskredit Holding A/S, which holds 86.2% of the company's shares and more than 20% of the voting rights in the company.

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

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

Related party transactions concerning loans and loan offers amounted to DKK 1,081 million, nominal value, at 30 June 2017 (31 December 2016: DKK 0).

Related party transactions also comprise the settlement of management services from Danmarks Skibskredit Holding A/S and dividends to Danmarks Skibskredit Holding A/S.

Other than the above, no related party transactions have taken place.

Other related-party transactions until 15 November 2016 involved deposits and debt, transactions with financial instruments in the form of swap agreements, forward exchange transactions, forward interest and currency agreements and forward securities transactions etc. made on an arm's length basis. In special cases, however, the terms and conditions are made in accordance with shipyard subsidy schemes or international rules on government participation in the financing of newbuildings.

DKK MILLION	AT 30 JUNE 2017	AT 30 JUNE 2016	AT 31 DECEMBER 2016
<b>NOTE 11 MARKET RISK SENSITIVITY</b>			
<b>Interest rate risk</b>			
The company has substantial equity, which 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 technically lead to:	-173	-105	-114
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:	133	43	84
<b>Exchange rate risk</b>			
Most of the company's loans are denominated in USD. Most of the ship mortgages provided as collateral for the loan are also denominated in USD. When calculating the mortgage value of the ship mortgages for determining the level of impairment, a deduction is made relative to the market value of the vessel. See note 1 Accounting policies. 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 on 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 rate would result in higher earnings from lending and vice versa if the USD/DKK rate falls.			
An appreciation of the USD exchange rate vis-à-vis DKK			
Change in profit for the year and equity	-38	-85	-13
Percentage change in capital ratio	-1.9	-1.8	-1.6
A depreciation of the USD exchange rate vis-à-vis DKK			
Change in profit for the year and equity	8	2	-8
Percentage change in capital ratio	2.3	2.2	1.9
The impact on the net profit for the year and equity from a change in the exchange rate of USD assumes a permanent change of DKK 1 for an entire financial year. The impact comprises the change in the value of ongoing net net interest and fee income as well as the change in the need for impairment charges due to the change in the exchange rate of USD.			
The impact on solvency on a change in the exchange rate of USD will occur immediately after the exchange rate change, as most of the loans, guarantees and loan offers are made in that currency.			

DKK MILLION	AT 30 JUNE 2017	AT 30 JUNE 2016	AT 31 DECEMBER 2016
<b>NOTE 12 CREDIT RISK IN THE LOAN PORTFOLIO</b>			
Exposures before loan impairment charges broken down by classification intervals, measured in terms of nominal residual debt (DKKm).			
CLASSIFICATION	LOANS AND GUARANTEES 30 JUNE 2017	LOANS AND GUARANTEES 30 JUNE 2016	LOANS AND GUARANTEES 31 DEC. 2016
1 - 2	0	0	0
3 - 4	7,786	9,484	8,942
5 - 6	10,671	10,771	12,950
7 - 8	9,665	15,520	9,997
9 - 10	2,809	1,153	3,813
11	5,788	5,601	6,411
12	851	214	586
<b>Total</b>	<b>37,570</b>	<b>42,743</b>	<b>42,699</b>

Classifications 11 and 12 are loans with OEL.

#### Description of collateral

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

#### Percentage distribution of loans and guarantees after impairment calculated in the LTV intervals, measured in terms of nominal residual debt.

LOAN-TO-VALUE INTERVAL	SHARE OF LOANS 30 JUNE 2017	SHARE OF LOANS 30 JUNE 2016	SHARE OF LOANS 31 DEC. 2016
0 - 20 %	34%	34%	32%
20 - 40 %	32%	32%	31%
40 - 60 %	24%	25%	25%
60 - 80 %	9%	8%	11%
80 - 90 %	1%	1%	1%
90 - 100 %	0%	0%	0%
Over 100 %	0%	0%	0%

It appears from the table above that 90% (88% in 2016) of the loan amounts is secured through mortgages within 60% of the most recently calculated market value of the mortgage, and 99% (99% in 2016) of the loans are within 80% of the most recently calculated market value of the mortgage.

The weighted loan-to-value ratio on the loan portfolio was 62% (66% in 2016) after impairment charges.

The market value of the ships in the loan portfolio has aggregately decreased by 9.9% since the end of December 2016 measured in DKK and declined by 2.5% in USD.

#### Credit quality on loans neither subject to default or impairment

All loans have been reviewed to identify any evidence of impairment, and the company has made the impairment charges it considered necessary.

The credit quality of loans that are subsequently not subject to impairment or arrears, is considered strong.

#### Arrears

There are no loans in arrears on which the company has not made impairment charges.

#### Percentage distribution of loans and guarantees subject to individual charges, cf. note 6.

The distribution is made after impairment charges calculated in the LTV ranges (by nominal outstanding debt).

LOAN-TO-VALUE INTERVAL	SHARE OF LOANS 30 JUNE 2017	SHARE OF LOANS 30 JUNE 2016	SHARE OF LOANS 31 DEC. 2016
0 - 20 %	36%	35%	34%
20 - 40 %	36%	35%	33%
40 - 60 %	25%	25%	27%
60 - 80 %	3%	5%	6%
80 - 90 %	0%	0%	0%
90 - 100 %	0%	0%	0%
Over 100 %	0%	0%	0%

It appears from the table above that 97% (94% in 2016) of the loan amounts is secured through mortgages within 60% of the most recently market value of the mortgage, and 100% (100% in 2016) of the loans are within 80% of the most recently calculated market value of the mortgage.

The weighted loan-to-value ratio on loans subject to individual charges was 56% after impairment charges (61% in 2016).

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**NOTE 13**    **SUPPLEMENTARY NOTES WITHOUT REFERENCE**

The list of figures and ratios is set out in the management's review, to which reference is made.

The description of financial risks and policies for financial risk management is set out in the risk management section of the annual report for 2016, to which reference is made.