CVR NO. 27 49 26 49

Danish Ship Finance

Risk Report 2018

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Introduction

The Risk Report is presented for the Danish Ship Finance Holding A/S group on a consolidated basis (referred to as the "Group") as well as the subsidiary Danish Ship Finance A/S on a standalone basis (referred to as "DSF").

The Risk Report describes the various risks to which the Group and DSF are exposed and the associated risk capital requirements. The report also includes an account of the composition of the capital base and risk and capital management methodologies.

In addition to this report, the Annual Report contains information about risks and risk management. Reporting pursuant to the statutory disclosure requirements is conducted annually in conjunction with the presentation of financial statements. The Group regularly assesses whether there is a need for publication more frequently than annually. Additionally, an internal capital adequacy assessment is published quarterly.

As there is no audit requirement, the Risk Report 2018 is presented in unaudited form.

Additional Pillar 3 disclosures required under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) and the Danish Executive Order on Calculation of Risk Exposure, Own Funds and Solvency Need can be downloaded from www.shipfinance.dk.

Legal framework

DSF is governed by its own dedicated legislation in the form of the Act on a Ship Finance Institute ("the Act") and the Executive Order on a Ship Finance Institute ("the Executive Order").

DSF is also governed by:

- The Executive Order on the Issue of Bonds, the Balance Principle and Risk Management ("the Bond Executive Order")
- The Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need
- The Executive Order on Governance for Credit Institutions ("the Executive Order on Governance")
- The Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. ("the Executive Order on Financial Reports")

Pursuant to the Act and the Executive Order, the Group is governed by parts of the Danish Financial Business Act and the Regulation on prudential requirements for credit institutions and investment firms (CRR) via "the Executive Order".

The Group is supervised by the Danish Financial Supervisory Authority (Danish FSA).

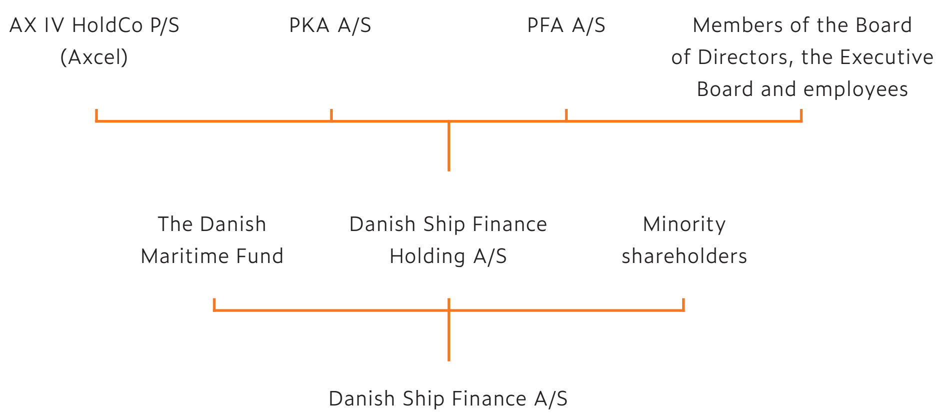
Corporate structure of Danish Ship Finance

DSF is owned by a consortium consisting of the two Danish pension funds PFA and PKA and the Danish private equity fund Axcel. In November 2016, the consortium acquired a controlling interest (86.6%) in DSF through the subsequently renamed holding company Danish Ship Finance Holding A/S ("DSH").

This followed the establishment, in 2005, of DSF through the conversion of the original entity, Danmarks Skibskreditfond, into a limited liability company based on the Framework Agreement of 17 January 2005 between Danmarks Skibskreditfond, the Danish Ministry of Economic and Business Affairs and the Central Bank of Denmark (Danmarks Nationalbank). The objective of the conversion was to modernise the framework for DSFs operations, including a partial alignment to the rules applicable to other financial businesses, especially mortgage lenders.

As part of the conversion and to comply with Danish law, a foundation, the Danish Maritime Fund, was established to support the development of the Danish maritime industry. The Fund was vested with 10% of the shares in DSF in the form of B shares. The B shares have limited voting rights. The Fund additionally received an entitlement to a preferred dividend of 15% of DSF's annual after tax profit and certain residual rights in case DSF would be dissolved.

The ownership structure is displayed in the following chart:



Allocation of responsibilities

The Group has a two-tier management structure with a Board of Directors and an Executive Board. The Board of Directors lays down overall policies, while the Executive Board is responsible for the day-today management of the Group. The management structure reflects statutory requirements for listed Danish companies and the provisions laid down in the Danish Financial Business Act.

The Board of Directors is responsible for ensuring that the Group has an appropriate organisational structure and that risk policies and limits are established for all important risk categories, including handling and monitoring of such risks. The Board of Directors have laid down guidelines for the Executive

Board, specifying clearly the areas of responsibility and scope of action for management. In addition, new credit facilities above a certain limit must be submitted to the Board of Directors for approval.

The Board of Directors has appointed a Chief Risk Officer with the responsibility for monitoring and reporting on the design and risk management processes for the Group. The Executive Board has established a Risk Management function with the purpose of identifying, analysing, monitoring all risks not related to the loan book. The Credit department is among other tasks responsible for monitoring and reporting on credit risk from lending activities and on financial counterparties.

The Head of Compliance is responsible for compliance with applicable legislation, market standards and internal rules, and ensuring that the Group applies effective techniques and procedures suitable

Board committees

The Board of Directors has set up two committees: The Audit Committee and the Remuneration Committee. These committees are responsible for preparatory work and assist the Board of Directors in decision-making.

The Audit Committee is responsible for overseeing accounting and audit matters and for preparing accounting and audit-related topics for consideration by the Board of Directors. The Audit Committee consists of four members of the Board of Directors. The Chairman of the Board of Directors is not a member of the Audit Committee.

The Remuneration Committee undertakes preparatory work and assists the Board of Directors in preparing the Group's remuneration policy. The remuneration policy is adopted at the general meeting. The total remuneration of the Board of Directors, the Executive Board and employees whose activities are deemed to have a material impact on the risk profile is specified in Annex 8.

The Executive Board has set up a Credit Committee, which is responsible for reviewing loan applications.

Internal audit

The Group is not required to have, and currently does not have, an internal audit function. In accordance with applicable legislation, the Board of Directors, including the Audit Committee, regularly assesses the need for an internal audit function.

THE RISK PROFILE OF DANISH SHIP FINANCE

Today, DSF is a highly specialised institution in the ship finance industry with a vision to be 'the obvious choice in ship finance'. DSF is a leading domestic and international provider of ship financing, among the 20 largest lenders to the shipping industry globally.

DSF only provides financing secured by first lien mortgages on vessels. On a limited scale, DSF may also finance clients' payment of instalments to shipyards. All loans are extended out of the operating company, DSF. The holding company, DSH, has no business activities apart from its ownership of DSF.

DSF funds its lending activity through the issuance of ship mortgage bonds. The bonds are listed on Nasdaq Copenhagen and have been assigned "A" rating of (with a negative outlook) by Standard & Poor's Global Ratings.

RISK FRAMEWORK AND POLICIES

Prudent risk management is pivotal to the company's business model. The Group maintains strong capital and liquidity buffers and has stringent requirements for the day-to-day management and monitoring of risks and a strong culture of risk awareness and decision making for the long term. The primary risk to the Group is credit risk including counterparty risk. To a lesser extent the Group is exposed to market, liquidity and operational risk.

Capital target

The Board of Directors requires the Group to maintain sufficient own funds for the lending activity in DSF to continue, even in the event of large cyclical fluctuations in the shipping industry and difficult business conditions.

Credit and counterparty risk

Credit risk is the risk of losses arising from clients or financial counterparties failing to meet their payment obligations. Clients are shipowners and financial counterparties are financial institutions with credit exposure with the Group.

The limits applicable to credit risk management are set out in the credit policy and the counterparty risk policy. The policies build on the provisions of the company's own Act and the Executive Order, stipulating, among other things, that the Board of Directors must lay down risk diversification rules. The counterparty risk policy sets out limits for credit exposure to individual financial counterparties. Country limits are also included in the policy.

When granting loans to new or existing clients, the creditworthiness of the client, the characteristics of the financed vessel, the terms of the loan and the loan's contribution to credit diversification are among the factors considered.

In its credit risk management activities, DSF distinguishes between credit risk relating to lending to clients and credit risk relating to transactions with financial counterparties. The Credit Department has the day-to-day responsibility for the credit policy, the counterparty risk policy, credit risk monitoring, periodic risk calculations and reporting of credit risk.

Market risk

Market risk is the risk of losses due to factors that affect the overall performance of the financial market. The main market risk factors are rising interest rates and changes in the USD/DKK exchange rate.

Market risk is governed by limits laid down in the Bond Executive Order and the Executive Order. Limits specified in the Group's internal policy further mitigate market risk.

The overall objective is to safeguard the Group's capital adequacy, to make sure that interest rate risk and foreign exchange risks are managed either by hedging or through controlled open positions, and to achieve an adequate financial return within the risk targets defined.

Liquidity risk

Liquidity risk is the risk that the Group is not able to fulfil its payment obligations when due. The risk primarily arises from a maturity mismatch between the Group's lending and collateral commitments and the profile of available funds.

Liquidity risk is prudently managed under the specific balance principle in accordance with the Bond Executive Order. In addition, the liquidity risk policy defines risk limits to ensure adequate liquidity at all times.

Liquidity is managed with the objective of ensuring continued access to funding on adequate terms and to avoid any situation where lack of funding could prevent the Group from pursuing its business model. Ultimately, the aim of the liquidity management framework is to ensure that the Group is consistently able to meet its payment obligations even under stressed market conditions.

Operational risk

Operational risk is the risk arising from breakdowns in internal procedures, people and systems.

Operational risk is governed by the operational risk policy issued by the Board of Directors. The policy sets out the overall framework for identifying, evaluating and managing operational risk and is supplemented with operating procedures and internal controls.

On an ongoing basis, the Group registers losses and potential loss events deemed to be attributable to operational risk. The registration is used as a basis for assessing the adequacy of controls, processes, operating procedures, etc. If required, these can be adjusted to increase the resilience to operational risks.

REPORTING

The Board of Directors is provided with reports on a regular basis to ensure that its members possess the necessary information concerning risk levels and trends. Based on these reports, the Board of Directors assesses the overall policies, framework and principles for risk and capital management.

OVERVIEW OF SIGNIFICANT RISK REPORTS

Report	Frequency	Applicable legislation
Compliance reporting	Annually	The Executive Order on Governance for Credit Institutions
Report from the Chief Risk Officer	Annually	The Executive Order on Governance for Credit Institutions
Financial reporting	Quarterly	The Executive Order on Financial Reports
Internal financial reporting	Monthly/Quarterly	The Executive Order on Governance for Credit Institutions
Credit reporting	Quarterly	The Executive Order on Governance for Credit Institutions
Statement to be used for risk assessment	Annually	The Executive Order on Governance for Credit Institutions
Recovery plan	Annually	The Danish Financial Business Act
Stress test	Quarterly	The Executive Order on Governance for Credit Institutions
Loan impairment review	Semi-annually	The Executive Order on Governance for Credit Institutions
Annual asset review	Annually	The Executive Order on Governance for Credit Institutions

Capital management and available own funds

The Board of Directors and the Executive Board must ensure that the Group maintains adequate own funds. Adequate own funds are the minimum amount of capital required, in the view of the Board of Directors and the Executive Board, to ensure only a very low risk of the Group becoming distressed during the following 12-month period, in which case bondholders could be exposed to a potential loss.

The total capital ratio is deemed to be adequate to meet the above-mentioned target. As of 31 December 2018, the Group's total capital ratio was 17.0%. The total capital ratio for DSF stand-alone (the risk-bearing entity) was 19.0%.

CALCULATION OF TOTAL CAPITAL RATIO

	GROUP		DSF	
DKK million / %	**2018**	**2017**	**2018**	**2017**
Own funds	8,142	7,669	8,972	8,930
Total risk exposure amount	47,751	45,978	47,233	45,312
Total capital ratio	17.0	16.7	19.0	19.7

AVAILABLE OWN FUNDS

The Group's total capital less deductions ("own funds") amounted to DKK 8,142 million at 31 December 2018, against DKK 7,669 million in 2017. In DSF, own funds amounted to DKK 8,972 million against DKK 8,930 million in 2017.

The Group's own funds consist of Common Equity Tier 1 (CET1) capital in the form of share capital and tied-up reserve capital in DSF, retained earnings from previous years, and a Tier 2 subordinated debt instrument in DSH.

DEFINITIONS

Own funds
Own funds can be composed of three different types of capital: Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Own funds are subordinated to the claims of ordinary creditors in the event of bankruptcy or other forms of financial restructuring.

Common Equity Tier 1 capital
A firm's Common Equity Tier 1 (CET1) capital is the aggregate of the A and B share capital, other reserves and retained earnings after certain statutory supplements and deductions.

Additional Tier 1 capital
Additional Tier 1 (AT1) capital consists of loans that form part of Tier 1 capital and is senior to shareholders' equity.

Tier 2 capital
The Tier 2 capital consists of subordinated debt subject to certain restrictions. Tier 2 capital is senior to AT1 capital.

Total capital ratio
The ratio of own funds to the total risk exposure amount is referred to as the total capital ratio.

The development in available own funds is determined primarily by net profit for the year and the dividend policies of the Group companies DSH and DSF.

DSH has issued Tier 2 capital on terms and conditions that meet the requirements for inclusion in Group own funds as Tier 2 instruments under the CRR. The Group Tier 2 capital was provided by the pension fund PFA and pension funds under management by PKA. These pension funds are shareholders of DSH. Annex 2 provides a more detailed description of the terms and conditions of the Tier 2 capital.

The tied-up reserve capital may only be used to cover losses that cannot be covered by the amounts available for dividend distribution. In the event the tied-up reserve capital is used to cover losses, the tied-up reserve capital must to the greatest possible extent be restored by a priority claim on profit for the subsequent years. Hence, no dividends may be paid, and no distributions made in connection with capital reductions until the tied-up reserve capital has been restored to the original nominal amount.

The tied-up reserve capital was established in the process of converting DSF from a foundation into a limited liability company and the amount has remained unchanged at DKK 8,343 million.

The Danish FSA has ruled that the tied-up reserve capital shall be included in the determination of the Group's consolidated capital at an amount corresponding to the tied-up reserve capital's proportionate share of the capital requirement.

The share of the tied-up capital that may be included is calculated according to the following formula:

$$\text{Share} = \frac{\text{Tied-up reserve capital}}{\text{Total CET1 capital}} * (\text{Capital requirement} * \text{Total exposure})$$

CALCULATION OF AVAILABLE OWN FUNDS

	GROUP		DSF	
DKK million	**2018**	**2017**	**2018**	**2017**
Common Equity Tier 1 capital				
Share capital	1,224	1,220	333	333
Tied-up reserve capital	4,784	4,375	8,343	8,343
Retained earnings	192	239	523	601
Revaluation reserve	–	–	29	29
Total Common Equity Tier 1 capital	**6,199**	**5,833**	**9,229**	**9,307**
Deduction from Common Equity Tier 1 capital				
Proposed dividends	–	–	205	237
Deferred tax assets	–	–	–	–
Position of own shares	1	2	–	–
Additional capital charge pursuant to the Executive Order	–	94	–	94
Prudent valuation of trading portfolio	25	26	25	26
Deductions pursuant to transitional rules	–	–	26	20
Total deductions from Common Equity Tier 1 capital	**26**	**122**	**256**	**377**
Common Equity Tier 1 capital less statutory deductions	**6,172**	**5,711**	**8,972**	**8,930**
Tier 2 capital	1,968	1,957	–	–
Own funds	**8,142**	**7,669**	**8,972**	**8,930**

PILLAR 1 + 2 REQUIREMENTS

The Pillar 1 own funds requirement is a regulatory requirement for financial institutions. Own funds must represent at least 8% of an institution's total risk exposure (risk weighted assets). Non-compliance with the own funds requirement will lead to withdrawal of the institution's licence.

Pillar 2 capital covers risks not covered under Pillar 1.

The additional Pillar 2 capital adequacy requirement is calculated according to the instructions laid down in the FSA's guidelines. The requirement is calculated on the basis of a credit institution's individual risk profile and is specific to the institution.

The Group applies the standardised approach to calculate the total risk exposure amount and the own funds requirement for credit and market risks. When using the standardised approach, the risk weights are pre-defined. In addition, the Group applies the basic indicator approach to calculate the risk exposure amount for operational risk.

Credit risk

In its guidelines, the Danish FSA divides credit risk into three sub-groups; credit risk exposure to large clients in financial difficulty, other credit risks and credit risk concentration.

The standardised approach is used to calculate the own funds requirement for credit risk. According to the standardised approach, all loans generally carry a weight of at least 100%. In addition, the value of the ship mortgages cannot be deducted, and for capital adequacy purposes loans are thus treated as unsecured loans.

- Pursuant to the Executive Order, the following loans or shares of loans each financing shipowners installment under a shipbuilding contract carry a weight of more than 100%:
- Pursuant to section 24(3) of the Executive Order, construction loans carry a weight of 200% if total construction loans do not exceed 125% of the excess capital coverage. If total construction loans exceed 125%, the excess amount must be deducted from Tier 1 capital. Construction loans are secured through the client's liability, assignment and subrogation in the construction contract and assignment of the shipyard's collateral for payments made according to the shipbuilding contract.
- Under certain conditions, DSF may grant loans exceeding 70% of the value against other collateral and/or against additional reservations of its own funds. The maximum deduction is determined in DKK at the date of approval.
- Where the client either has an external rating corresponding to credit quality steps 5 and 6 or is unrated and is domiciled in a country where the country risk calls for a higher weighting, the loan will have a weighting of 150%.
- Pursuant to the definition in Article 178 of the CRR, loans in default (equivalent to internal DSF ratings 11 and 12) have a weight of 150%.

At 31 December 2018, DSF held no construction loans in the portfolio.

CREDIT RISK EXPOSURE BY RISK WEIGHTS

DKK million	GROUP Credit risk exposure (weighted)	GROUP Own funds requirement
RISK WEIGHT	**2018**	**2018**
0	-	-
10	249	20
20	139	11
50	2,466	197
100	36,788	2,943
150	1,411	113
200	-	-
250	186	15
Total credit risk exposure	**41,240**	**3,299**

The table shows that the majority of risk exposures have a weight of 100%.

Counterparty risk on derivatives and calculation of capital

The Group applies the mark-to-market method to calculate derivative exposures.

Using the mark-to-market method to determine the exposure value for counterparty risk involves the following:

- Contracts are calculated at fair value to obtain the current replacement cost for all contracts with a positive value.
- To obtain a figure for the potential future credit exposure, the notional principal of the contracts or the underlying values are multiplied by percentages determined by the Danish FSA.
- The sum of the current replacement cost and the potential future credit exposure represents the counterparty risk.

In the ordinary monitoring of counterparty credit risk, the Group takes into consideration the calculated exposure value to ensure that this value does not exceed the approved credit limit for the counterparty in question.

COUNTERPARTY RISK

DKK million	**GROUP** Exposure (weighted) **2018**
Netting of exposure value:	
Gross positive 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
Total counterparty risk exposure value calculated according to the mark-to-market 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

Credit valuation adjustment (CVA)

Pursuant to the CRR, institutions shall calculate a credit valuation adjustment (CVA) charge. The CVA charge is a separate capital requirement for OTC derivatives to cover the risk of loss due to value adjustment caused by a deterioration of a counterparty's credit quality.

The Group has decided to use the standardised approach for CVA, which allows the use of risk mitigation techniques such as netting and collateral.

The counterparty risk on financial derivatives is reduced through netting agreements as well as through margin calls and collateral provided in accordance with standard documentation from the International Swaps and Derivatives Association (ISDA) and the International Capital Market Association (ICMA). Bilateral collateral agreements (CSAs) have been signed with the largest financial counterparties, which means that collateral is received or posted automatically if the positive market values exceed a specified minimum threshold.

The CVA charge for the Group amounted to DKK 612 million at 31 December 2018.

CVA CHARGE

DKK million	**GROUP** Exposure (unweighted) **2018**	**GROUP** Exposure (weighted) **2018**	**GROUP** Own funds requirement **2018**
Standardised approach	1,445	612	49

Collateral and guarantees

The Group receives the following types of financial collateral and guarantees (in DSF):

- Deposit funds
- Securities (debt instruments, investment fund units), primarily listed
- Government and credit institution guarantees

FUNDED CREDIT PROTECTION

	GROUP	
	Exposure (weighted)	
DKK million	**2018**	**2017**
Deposits in cash or cash assimilated instruments	1	10
Debt securities issued by central governments or central banks	-	-
Debt securities issued by institutions	22	-
Equities	-	-
Total financial collateral	**23**	**10**

The Group does not use any unfunded credit protection.

DSF has operating procedures in place for the management and valuation of collateral. These procedures form an integral part of the regular risk monitoring process.

DSF uses the simple method for valuing financial collateral in its credit risk mitigation. This means that the capital charge on a credit exposure can be reduced by means of collateralisation. The CRR specifies the financial collateral eligible for credit risk mitigation purposes.

In accordance with the rules of the CRR, DSF uses financial collateral and guarantees to hedge its credit and counterparty risk. The table above shows the level of protection in each exposure category, i.e. the fully adjusted size of the collateral within each exposure category.

Market risk

The standardised approach is used to calculate the own funds requirement for market risk. Positions involving market risk are instruments in the trading book and positions involving foreign exchange risk outside the trading book.

RISK EXPOSURE AMOUNT AND OWN FUNDS REQUIREMENT FOR MARKET RISK

DKK million	**Group** Exposure (weighted) **2018**	**Group** Own funds requirement **2018**
Debt instruments, specific risk		
Total specific risk *)	1,617	129
Debt instruments, general risk		
Total general risk	2,472	198
Shares, etc.		
Total shares, etc.	7	1
Foreign currency positions		
Total long foreign currency positions	432	35
Total amounts for market risk	**4,528**	**362**

*) *Specific risk for debt instruments is calculated for all debt instruments in the trading book, including unweighted and weighted amounts for repo transactions.*

Operational risk

The basic indicator approach is used to calculate the own funds requirement for operational risk. The risk exposure amount for operational risk is thus calculated at 15% of a three-year average of net interest income and non-interest related net income.

RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK

DSF DKK million	2018	2017	2016	AVERAGE
Accounting items				
Interest income	1,070	1,176	1,514	1,253
Interest expenses	(435)	(540)	(698)	(557)
Dividends on equity investments	-	-	-	-
Fee and commission income	32	20	32	28
Fee and commission expenses	-	-	-	-
Market value adjustments	(135)	37	124	9
Sum of accounting items	**533**	**693**	**972**	**733**
Risk exposure amount (weighted) under the basic indicator approach	**1,374**	**1,497**		

An assessment of the own funds requirement for operational risk is performed quarterly. If the own funds requirement is deemed to be higher than the required level, the Group adjusts its own funds reservation accordingly.

Total Pillar 1 requirement

The following table details the risk exposure amounts and own funds requirements for each exposure category.

RISK EXPOSURE AMOUNT

	Group Risk exposure amount (weighted)		Group Own funds requirement		DSF Risk exposure amount (weighted)		DSF Own funds requirement	
DKK million	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Credit risk								
- Central governments or central banks	186	303	15	24	86	145	7	12
- Regional governments or local authorities	-	-	-	-	-	-	-	-
- Public sector entities	-	-	-	-	-	-	-	-
- Institutions	608	558	49	45	571	557	46	45
- Corporates	36,484	33,842	2,919	2,707	36,100	33,334	2,888	2,667
- Covered bonds and mortgage bonds	271	512	22	41	271	512	22	41
- Exposures in default	3,296	3,725	264	298	3,296	3,725	264	298
- High-risk exposures	-	-	-	-	-	-	-	-
- Exposures with short-term credit assessment	-	-	-	-	-	-	-	-
- Equity exposures	-	-	-	-	-	-	-	-
- Other items	395	354	32	28	395	354	32	28
Total credit risk	**41,240**	**39,294**	**3,301**	**3,143**	**40,719**	**38,627**	**3,259**	**3,091**
Of which, Counterparty risk	760	518	61	41	690	515	55	41
Market risk								
- Debt instruments	4,089	3,632	327	290	4,089	3,632	327	290
- Shares, etc.	7	21	1	2	7	21	1	2
- Foreign exchange risk	432	965	35	77	432	965	35	77
- Commodity risk	-	-	-	-	-	-	-	-
Total market risk	**4,528**	**4,618**	**362**	**369**	**4,528**	**4,618**	**362**	**369**
Credit valuation adjustment (CVA)	**612**	**569**	**49**	**46**	**612**	**569**	**49**	**46**
Total operational risk	**1,374**	**1,497**	**110**	**120**	**1,374**	**1,497**	**110**	**120**
Total risk exposure amount	**47,754**	**45,978**	**3,820**	**3,679**	**47,233**	**45,311**	**3,780**	**3,625**

PILLAR 2 REQUIREMENTS

Own funds requirements for specific risk areas

This review describes the risk areas and general considerations that the Group takes account of when calculating adequate own funds. The results of the calculations are shown in the table "Internal Capital Adequacy Requirement and Adequate Own Funds" on page 26.

Based on predefined risk areas and other risk elements deemed relevant, the calculation of adequate own funds builds on the following eight risk areas:

1. Credit risk including counterparty risk
2. Market risk
3. Liquidity risk
4. Operational and control risk
5. Leverage risk
6. Earnings
7. Growth in lending
8. Other risks

A capital requirement deemed adequate to cover the underlying risks is fixed for each risk area and it is determined whether the risk type is covered by the Pillar 1 requirement or if additional adequate own funds are required under Pillar 2. Institutions must consider whether other elements of risk must be considered when calculating adequate own funds under Pillar 2. Additionally, the Group's operating results are stress-tested to demonstrate, among other things, whether additional capital will be required within the next 12 months.

Credit risk. In its guidelines, the Danish FSA divides credit risk into three sub-groups; credit risk exposure to large clients in financial difficulty, other credit risks and credit risk concentration.

Credit risk exposure to large clients in financial difficulty

For large clients in financial difficulty, a conservative loss estimate should be made for each loan. A large client in financial difficulty is defined as a client whose total credit risk exposure accounts for more than 2% of own funds and is either credit impaired in Stage 3 or in Weak Stage 2 due to significant signs of weakness since initial recognition, without being credit impaired (ratings 1 and 2c on the Danish FSA rating scale).

A detailed description of the Danish FSA rating steps is provided in Appendix 7 of the Danish FSA's instructions for financial reports for credit instructions, etc.

A large client is thus defined as a client with a credit exposure of more than DKK 179 million (DKK 8,972 million * 2%). Danish FSA rating steps 1 and 2c are applicable to clients with a rating between 9 and 12 on the Group's internal 12-point rating scale (12 being the weakest and in default).

Pursuant to the guideline method for calculating capital charges for large clients in financial difficulty, the Group's Pillar 2 add-on amounted to DKK 65 million at 31 December 2018.

Other credit risk

Other credit risk primarily covers "other credit risks in the loan portfolio" and "other credit risk associated with financial counterparties".

In its assessment of "other credit risk in the loan portfolio", the Group considers areas laid down in the guidelines on adequate own funds and the internal capital adequacy requirement for credit institutions and sensitivity analyses based on scenarios and their importance for the need to make loan impairment charges.

Based on these assessments and sensitivity analyses, the Group concludes that "other credit risks in the loan portfolio" is covered by the Pillar 1 requirement.

The assessment of "other credit risk associated with financial counterparties" is based on an evaluation of the financial standing of the financial counterparties. The principal risks relate to the investment of the trading book, the majority of which is placed in Danish covered bonds.

The financial standing of financial counterparties and, by extension, the credit risk associated with the investment of the trading book, and interest rate and exchange rate hedging etc., are monitored continuously, including an assessment of the capital required to hedge the exposures. Furthermore, bilateral collateral agreements (CSAs) have been signed with financial counterparties to reduce the counterparty credit risk.

Based on the current financial standing of its financial counterparties, the Group concludes that the Pillar 1 requirement adequately covers the capital requirement concerning "other credit risk associated with financial counterparties".

Credit risk concentration

Concentration risk is calculated with respect to single name concentration and sector concentration. Pursuant to the Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need, the capital requirement for an institution with high-risk diversification is generally lower than for an institution with a high-risk concentration.

In its guidelines, the Danish FSA notes that Danish mortgage lenders have a unique profile due to the nature of their core business. Against this background, the assessment of sector concentration does not apply to mortgage lenders as per the guidelines.

However, the guidelines stipulate that institutions exempt from these rules must consider the extent to which they have concentration risk that should be addressed and for which capital should be allocated. Based on the sensitivity analyses used in the assessment of "other credit risk in the loan portfolio", the Group finds that there is no material risk of loss as a result of sector concentration not covered by the Pillar 1 requirement.

With respect to single-name concentration, the institution must consider any imbalances in the distribution of exposure sizes in its loan portfolio, irrespective of credit quality. The Group applies the calculation method stipulated in the guidelines with adjustments approved by the FSA. The Pillar 2 add-on for client concentrations has been calculated at DKK 36 million.

Market risk. The specific balance principle limits the risk that the Group may assume. Limits specified in the Group's internal policies further mitigate the risk.

Spread risk arises from rising spreads between individual bonds and the general level of near-risk-free interest rates. The Pillar 2 add-on for spread risk in 2018 has been calculated at DKK 378 million.

Liquidity risk. The specific balance principle limits the risk that the Group may assume. Limits specified in the Group's internal policies further mitigate the risk.

Liquidity risks are limited due to the long-term nature of the Group's funding base. However, collateral obligations to derivative counterparties do impose liquidity demands on the Group. These are carefully managed and evaluated through risk-management tools including stress tests.

Mortgage banks and similar institutions are exempt from Pillar 2 add-ons with respect to liquidity risk. The Group also assesses its liquidity risks based on the guidelines and concludes that the market risk is covered by the Pillar 1 requirement.

Operational and control risk. The capital requirement for operational risk under Pillar 1 amounts to DKK 10 million.

Due to the activities related to owning and operating DSF and establishing procedures for governance, management and regulatory reporting etc., an additional amount of DKK 10 million has been reserved.

Leverage. The leverage ratio is calculated as Tier 1 capital relative to the institution's total exposure value (unweighted). At 31 December 2018, the leverage ratio was calculated at 8.9% at the Group level and 12.8% at the DSF level.

Pursuant to Article 451(1) of the CRR, institutions must disclose whether they use Tier 1 capital to measure capital for leverage ratio purposes, cf. Article 499(1)(a) of the CRR, and whether the leverage ratio is calculated at the end of the quarter.

According to the Basel Committee, the leverage ratio should not be lower than 3%. Therefore, there is no need for the Group to increase the internal capital adequacy requirement to reduce leverage.

Further information on the leverage ratio is provided in Annex 9.

Earnings. Mortgage lenders with core earnings representing less than 0.1% of loans and guarantees before loan impairment charges and market value adjustments must consider whether this gives rise to an increase in the internal capital adequacy requirement under Pillar 2. Core earnings relative to loans and guarantees amounted to 1.3% for 2018.

In addition to the level of earnings, earnings stability also forms part of internal capital adequacy assessment. The Group's earnings capacity should be assessed in relation to its dividend policy and access to capital. The results of the stress test on operating profit show that the Group will, even in a severe stress scenario, not require additional capital within the next 12 months.

The Group finds that the Pillar 1 requirement is sufficient to cover risks relating to earnings.

Growth in lending. The Danish FSA defines total year-on-year lending growth of 10% or more as potentially exposing an institution to higher-than-normal credit risk. Consequently, institutions with lending growth at this level or above must allocate additional capital. The annual growth rate in lending was 6.5% from 2017-2018.

The Group finds that the Pillar 1 requirement is sufficient to cover risks relating to growth in lending.

Other risks. Institutions must assess whether there is a need for a Pillar 2 add-on in respect of reputational risk, strategic risk, group risk and external risk.

No external risks have been identified that may challenge the business model. Therefore, no additional capital has been allocated to cover external risks.

COMBINED CAPITAL BUFFER REQUIREMENT

The combined buffer requirement is in addition to the capital adequacy requirements described above. Institutions must have sufficient regulatory capital available to cover the sum of the Pillar 1 and Pillar 2 requirements and the combined capital buffer requirement. If a credit institution does not meet this total capital requirement, it will only be permitted to make distributions, disburse variable pay and make payments relating to AT1 capital instruments if certain conditions are met.

Additional to the individual capital requirement, certain buffer requirements apply pursuant to the Danish Financial Business Act. The combined capital buffer requirement means the total capital required to meet a regulatory capital conservation buffer requirement, with the addition of a company-specific countercyclical capital buffer and a systemic risk buffer.

In 2018, the capital conservation buffer was 1.875% of the total risk exposure amount. When fully phased in at 1 January 2019, the capital conservation buffer requirement will be 2.5% of the total risk exposure amount.

All EU member states must implement a systemic risk buffer applying to domestic exposures. The requirement may apply to an entire sector or to individual sub-sectors. The systemic risk buffer is aimed at preventing and mitigating long-term, non-cyclical systemic or macroprudential risk not covered by the CRR. The systemic risk buffer rate was set at 0% in Denmark in 2018.

The institution-specific countercyclical capital buffer may be applied if lending growth results in higher macroprudential risk. This buffer may be between 0% and 2.5% of the total risk exposure amount.

Based on the geographical distribution of credit risk exposures, the capital requirement for the countercyclical capital buffer was calculated at DKK 148 million at 31 December 2018. The capital requirement pertains to exposures to Norway, Sweden, Iceland and the United Kingdom, which have set the following countercyclical capital buffer rates:

- Sweden 2.00%
- Norway 2.00%
- Iceland 1.25%
- United Kingdom 1.00%

INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER, DSF

DKK million / %	2018	2017
Total risk exposure amount	47,233	45,312
Institution-specific countercyclical buffer requirement	148	105
Institution-specific countercyclical buffer requirement, %	0.3	0.2

PILLARS 1+2 PLUS COMBINED CAPITAL BUFFERS
The Group must hold own funds which are at least equal to the sum of the own funds requirements associated with each of the above risk types.

ADEQUATE OWN FUNDS AND INTERNAL CAPITAL ADEQUACY REQUIREMENT

DKK million / %	GROUP 2018	DSF 2018
Total risk exposure amount	**47,751**	**47,233**
Pillar 1 requirement (8% of total risk exposure amount)	**3,820**	**3,779**
Earnings	–	–
Growth in lending	–	–
Credit risk		
– Credit risk exposure to large clients in financial difficulty	65	65
– Other types of credit risk	–	–
– Concentration risk	36	36
Market and liquidity risk	378	378
Operational and control risk	10	–
Leverage risk	–	–
Other risks	–	–
Total adequate own funds	**4,309**	**4,258**
Internal capital adequacy requirement, %	**9.0**	**9.0**
Capital conservation buffer, %	1.9	1.9
Countercyclical capital buffer requirement, %	0.3	0.3
Internal capital adequacy requirement, including combined capital buffer requirement, %	**11.2**	**11.2**

LEVERAGE RATIO

The leverage ratio is defined as the relationship between Tier 1 capital and the balance sheet total (incl. off-balance sheet items). The ratio does not factor in any collateral.

The intention is to reduce the risk of excessive leverage and to allow for the potential uncertainty in the determination of capital requirements resulting from the internal models or the standardised approach.

All risks and the Tier 1 capital are in the operating company, DSF. The leverage ratio in DSF is 12.8% and in Group's the leverage ratio is 8.9%.

The significantly lower ratio in the Group is due to the calculation method prescribed by the Danish FSA whereby the tied-up reserve capital must 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. For further information, please refer to 'Own funds'.

According to the Danish FSA, the Company should have policies that specify a total leverage ratio target when the leverage ratio is under 10%. The Group does not have such policies due to the above-mentioned reason regarding the consolidation of the tied-up reserve capital.

Credit risk management

The credit policy contains specific guidelines for the ongoing management of credit risk relating to the lending activities carried out in DSF. The Group follows predefined procedures for its ongoing credit risk management, the most important of which are described below.

LOAN-TO-VALUE LIMITS AND ADDITIONAL CAPITAL CHARGE

The Group may grant loans up to 70% of the value of the mortgaged vessel(s).

However, the Group may, on certain conditions, grant loans above the 70% loan-to-value ("LTV") limit against supplementary collateral and/or subject to an additional capital charge. The additional capital charge is maximised to an amount in DKK determined on the date of the granting of the loan or at disbursement of the loan at the latest.

The additional capital charge takes the form of a deduction from the Group's Tier 1 capital. The deduction equals the part of the loan that exceeds 70% of the value of the mortgaged vessel(s) at the time of calculation, but not exceeding the maximum defined.

The calculation of the additional capital charge is based on an evaluation made or approved by the Group based on independent broker assessments of the market value of the mortgage.

In 2018, the Group did not grant any new loans with initial LTV ratios above 70% or loans for the financing of clients' payments of instalments to shipyards. This was also applicable in 2017, apart from one exception relating to a loan granted to increase the probability of full recovery on a work-out case.

LARGE CREDIT EXPOSURES

The Group is exempt from the EU's Credit Institutions Directive and related legislation. The most important consequence of this is that the Group is not subject to a limitation in respect of large clients, cf. the CRR rules on large exposures. This means that, unlike other financial institutions, the Group is not bound by any statutory maximum limits on lending to individual clients. Instead, the Board of Directors must lay down rules concerning risk diversification for the Group, including for its lending operations.

In respect of the management of large exposures, the Group has defined guidelines for the extent to which and the assumptions on which the Group assumes large exposures, including any exposure exceeding the 25% limit of eligible capital. At the end of 2018, credit exposure to only one client exceeded said threshold.

RISK MITIGATION

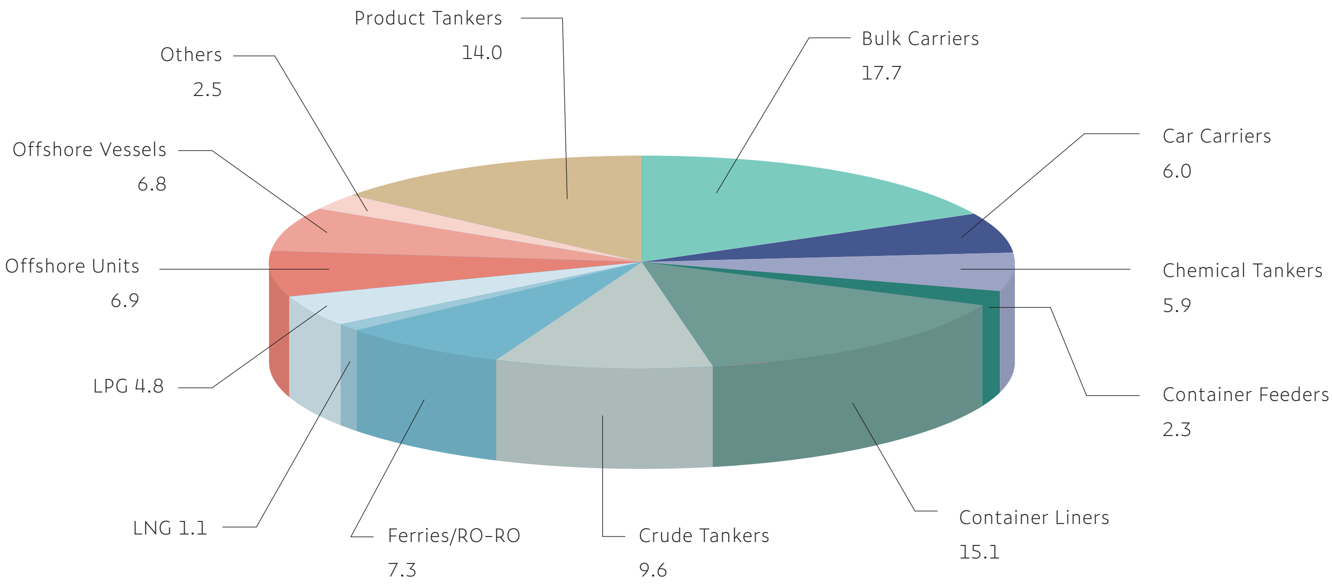
In addition to first lien mortgages on the financed vessels and assignment of each vessel's primary insurances, the composition of the loan book adheres to a set of diversification rules. The purpose of the diversification rules is to ensure adequate diversification by vessel type, client and country risk.

VESSEL TYPE DIVERSIFICATION

Adequate loan book diversification must be in place regarding vessel type. No single vessel type may be provided security for more than 50% of the Group's gross lending. Within each vessel type, no segment may be the basis for security amounting to more than 33% of the Group's loan book.

Loan book broken down by mortgaged vessels

%



CLIENT DIVERSIFICATION

The composition of clients must be adequately diversified in the loan book. The diversification rule is related to the objects clause in the Articles of Association of DSF:

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

With respect to large credit exposures, the Group aims at diversifying the credit risk in terms of vessel types financed at the account of individual clients.

In respect of financing as defined in the second sentence of the objects clause, credit exposure to a non-Danish client may not, as set out above, at the consolidated level, exceed 25% of DSF's eligible capital.

CHANGES IN THE FIVE LARGEST CREDIT EXPOSURES BEFORE LOAN IMPAIRMENT CHARGES

DKK million	2018	2017
Five largest credit exposures	13,757	12,390
Loans and guarantees	39,591	37,412

At the end of 2018, the five largest credit exposures were secured by mortgages on 126 vessels comprising 10 vessel types.

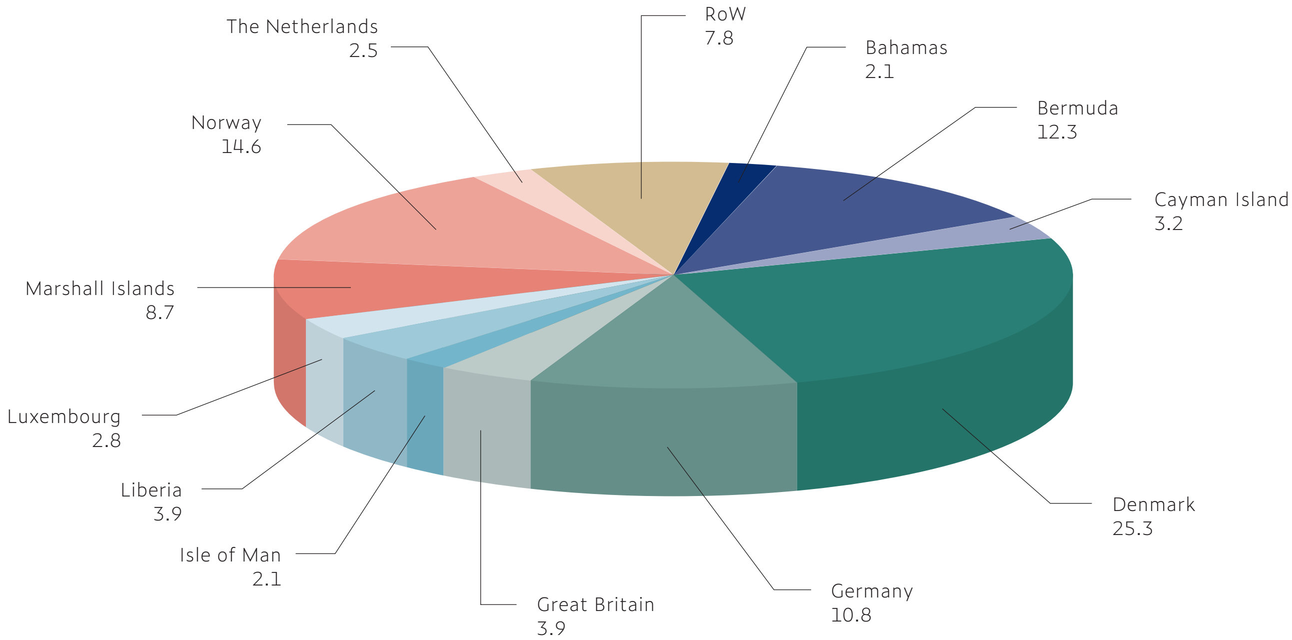
Credit exposure to one client is substantially larger than the rest and represented more than 20% of the loan book. This credit exposure was secured by mortgages on 60 vessels broken down by three different vessel types representing Container Liners, Product Tankers and Offshore Units.

COUNTRY RISK DIVERSIFICATION

The loan book must be adequately diversified by country. The country risk is calculated by using the clients' legal registration (home country) or, in the case of guarantees, the guarantor's home country. Lending to clients in most EU countries, Norway, Switzerland and the US is not subject to any restrictions, but for lending to clients in other countries, the Group has set an overall limit per country of up to 25% of the loan book.

Debtor distribution by country of ultimate risk

%



Countries accounting for a share of 2% or more of the loan book are shown separately. Other countries are grouped into the rest of the world ("RoW").

The Group intends to use the Regulatory Technical Standards ("RTS") on the method for the identification of the geographical location of the relevant credit exposures from 2019 and onwards. The regulation stipulates that the operational head office should be applied as the determining factor instead of a client's legal registration.

LOAN DOCUMENTATION

The lending operations involve the use of extensive loan and security documentation. The purpose of the loan documentation is to set out the contractual terms of the loan and the rights and obligations of both parties. Such rights of the Group and a corresponding obligation on the part of the client includes the repayment of principal as well as payment of interest, costs, tax (if relevant) and other indemnities etc.

In the event that the client defaults on its representations, warranties or undertakings (payment or otherwise) and work-out proceedings are failing, the loan documentation provides for legal remedies of the Group to reduce its exposure to the client. This could, inter alia, result in enforcement of the security securing the relevant defaulted loan agreement as well as a demand under the related guarantees, if any.

Ultimately, in the event that the client defaults on its payment obligations pursuant to the loan documentation and such default is continuing, the first priority ship mortgage gives the Group the right to apply for the issue of a warrant of arrest by way of levy of execution against the mortgaged vessel with the local enforcement court. The execution lien gives the Group the right to apply for a forced sale of the mortgaged vessel with the enforcement court or in a private sale, if permitted pursuant to the relevant arrest jurisdiction and apply the auction/sales proceeds against the defaulted loan. Such enforcement action takes time and is costly. The use will vary depending on the choice of arrest jurisdiction.

The majority of the Group's loan and security documentation use "one-sided exclusive jurisdictions clauses", which allows the Group to take up proceedings in any court of competent jurisdiction against the client to ensure that any legal disputes must be resolved in an orderly fashion and in a jurisdiction favourable to the Group.

MITIGATION OF COLLATERAL RISK ON MORTGAGED VESSELS

Insurance of mortgaged vessels

All vessels mortgaged as security for a credit exposure must be insured. Insurances are taken out by the client and assigned to DSF.

Generally, the following primary insurances are required:

- Hull and machinery insurance, which covers damage to or total loss of the vessel.
- P&I (protection & indemnity) insurance, which covers oil pollution caused by the financed vessel and damage to equipment and injuries of seamen. This insurance is also a third-party liability insurance covering collision of the other vessel.
- War risk insurance, which covers damage to the vessel, potential total loss and retention, etc. caused by war or war-like conditions.

In addition, most credit exposures are covered by a mortgagees' interest insurance and mortgagee additional perils pollution insurance. These insurances cover the lender's risk in various situations where the primary insurances do not cover, for example if the vessel was not seaworthy at the time of the claim.

Market value of mortgaged vessels

The Group obtains a valuation on each vessel at least semi-annually. The valuation is generally carried out by an external broker, which determines a price for the financed vessels based on supply and demand. The Group may in some cases assess the value itself, based on, for example, a specific independent market price or external valuations of similar vessels.

Among other things, market valuations of vessels are used to determine the LTV ratios of the Group's loans and for control purposes when reassessing the collateral value of mortgaged vessels (after haircuts) as part of the Group's semi-annual loan impairment review.

Inspection of mortgaged vessels

As a supplement to the semi-annual market valuations, physical inspections of the financed vessels are made on a spot-check basis. An inspection may be performed both during the loan maturity period or prior to a loan offer being submitted.

Prudent collateral value of mortgaged vessels

The Group has prudent methodologies in place for calculating the collateral value of mortgaged vessels ("Sx value"). The Sx value of a vessel is the minimum expected realisation value after costs in a low market.

The Sx value is calculated by discounting the expected earnings per day in a low market for each of the relevant vessel types. The calculation is based on fixed low earnings throughout the estimated residual life of the vessel and an expected sale of the vessel within 12 months. The interest rate originally agreed on the loan is used as the discount rate. Estimated selling costs are deducted from the value.

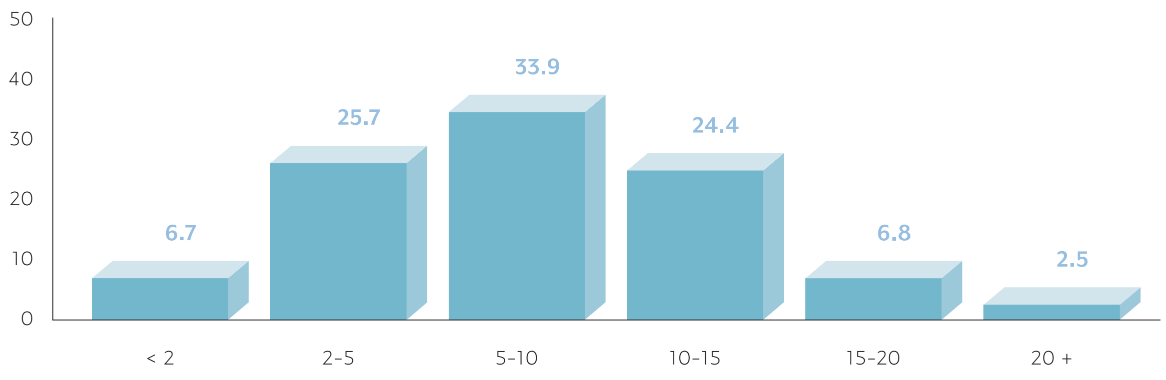
The estimated earnings per day of a mortgaged vessel are expected to gradually fall throughout the residual life of the vessel due to increasing maintenance costs and decreasing operational performance etc. The value of earnings per day in a low market is thus adjusted by an adjustment factor over the estimated life of the vessel.

This method for calculating the collateral value of the mortgaged vessels represented an average haircut of approximately 45% (ranging from 30% to 60% depending on the vessel type) at the end of 2018. The method is monitored on an ongoing basis and is recalibrated when deemed necessary.

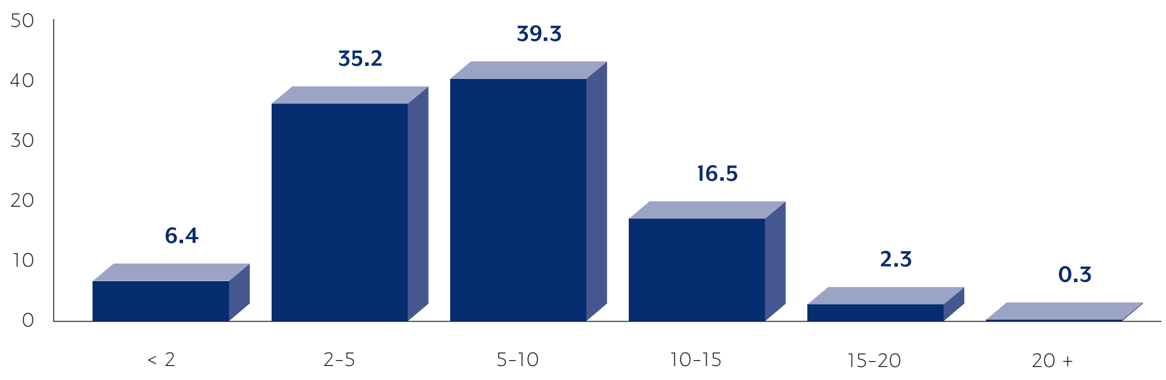
A client's unsecured credit exposure is calculated as the total credit exposure less (i) the Sx value of mortgaged vessel(s) and (ii) the value of any other collateral. This means that although an outstanding loan amount may be within the market value of the financed vessel, part of the loan may still be labelled as "unsecured" for the purpose of calculating loan impairment charges.

Age distribution of mortgaged vessels
The below charts display the age distribution of all mortgaged vessels as well as the age distribution of the largest vessel types in the current loan book.

Age distribution of total ship portfolio
%

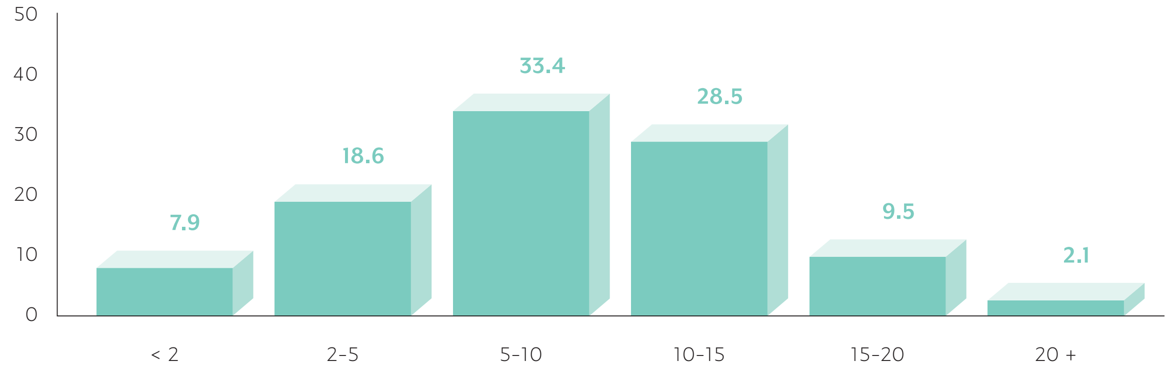


Bulk carriers
%



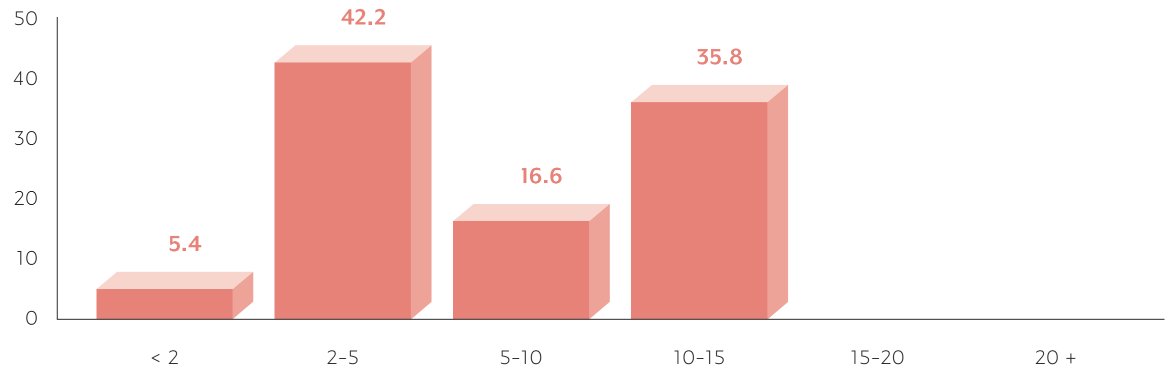
Chemical tankers / Crude tankers / Product tankers

%



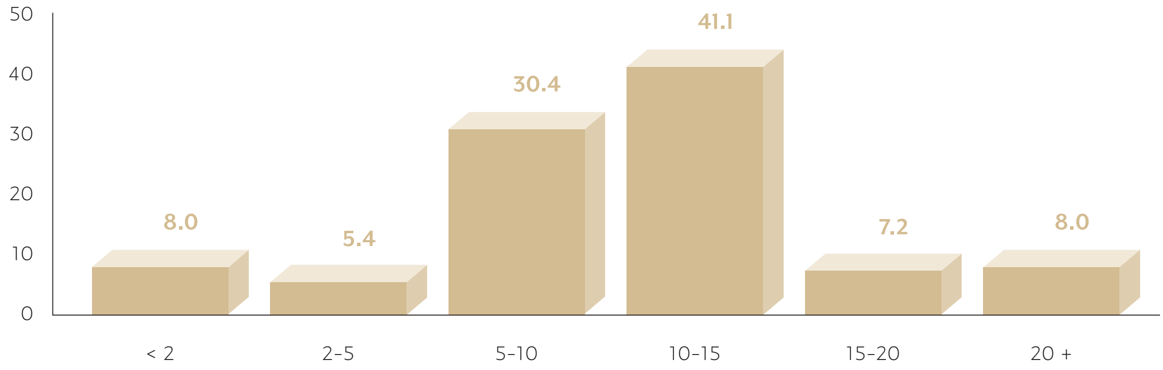
Container liners

%



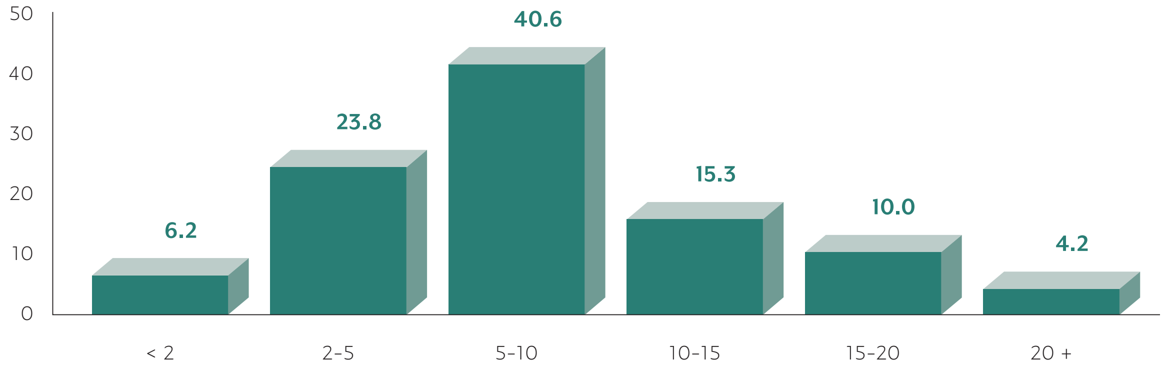
Ferries / RO-RO

%



Others

%



LOAN BOOK DEVELOPMENTS

At 31 December 2018, the loan book comprised total loans and guarantees of DKK 39,591 million compared to DKK 37,412 million the year before.

The table below shows the loan book after loan impairment charges, broken down by LTV interval.

LTV INTERVAL %	SHARE OF LOANS 2018	2017
0-20	41	37
20-40	37	34
40-60	20	24
60-80	2	5
80-90	-	-
90-100	-	-
Over 100	-	-

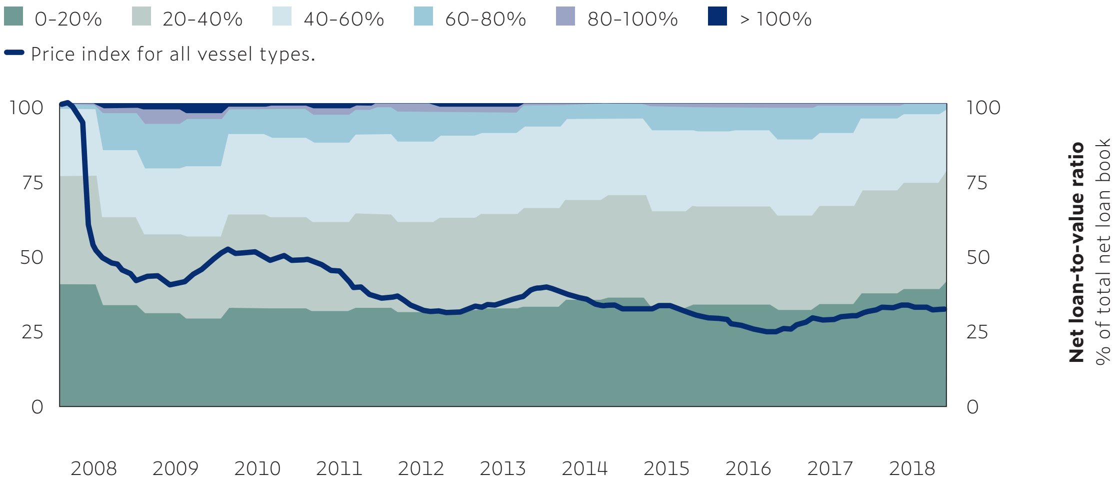
The loan book after loan impairment charges is on average secured by mortgages within 52% of the market valuation of vessels at the end of 2018.

The chart on the following page displays a breakdown of the loan book into LTV intervals, by the proportion of loans placed within a given interval over a ten-year period.

It is noteworthy that even major declines in vessel prices have not materially adversely affected the collateral coverage on the loan book. This is due to the positive effect of regular loan repayments and the benefit of minimum value clauses ("MVC") in a significant number of loan agreements, i.e. the right for the Group to demand partial prepayment and/or additional collateral, if the market value of the mortgaged vessels falls below an agreed threshold.

Loan-to-value ratio vs price index for all vessel types

%



Source: Clarksons, Danish Ship Finance

The LTV interval are shown together with the developments in vessel prices based on a price index obtained from Clarksons for all vessel types (the solid line).

NON-PERFORMING LOANS

Non-performing loans ("NPL") encompass all credit impaired and defaulted loans. This includes loans for which no loan impairment charges have been recognised, for example because adequate collateral has been provided.

At 31 December 2018, gross NPL amounted to DKK 5,372 million, down from DKK 5,893 million the year before. NPL after deductions of loan impairment charges ("Net NPL") were down from DKK 3,513 million at the end of 2017 to DKK 3,133 million at the end of 2018. The development in key NPL figures is displayed below.

NPL

DKK million	Loan book	Gross NPL	NPL share of loan book (%)	Net NPL
2018	39,591	5,372	13.6	3,133
2017	37,412	5,893	15.8	3,513

A loan is considered credit impaired if one of the following events occurs, and hence is assigned an internal rating of 11:

- The client is experiencing significant financial difficulty
- The credit exposure has lenient repayment terms, which could include forbearance measures, which-the Group, for reasons relating to the financial difficulty, would not otherwise have granted

A loan is in default if the client is subject to one of the following events, and hence is assigned an internal rating of 12:

- Bankruptcy or another in-court restructuring
- Arrears/past due for 90 days or more, unless the problem is short term and the amount concerned is limited in comparison to the clients' financial situation, or if this is due to errors or technical problems.
- A loss is deemed inevitable
- Non-accrual interest
- Foreclosure

Forbearance measures

The Group focuses on having a credit risk management framework that ensures consistency between the credit risk profile, credit risk appetite and current legislation, and on having a robust capital structure. Risk management should ensure financial solutions that are viable in the short, medium and long term.

Forbearance plans may be adopted to assist clients in temporary financial difficulty. Given the cyclical nature of shipping, temporary forbearance measures are common in ship finance.

Concessions granted to clients include temporary partial payment deferrals, interest-only schedules and term extensions. Forbearance plans are granted solely in accordance with the credit policy with the aim of reducing the long-term risk of credit losses. At 31 December 2018, forbearance measures had been granted for a limited number of loans.

Loan impairment charges

At 1 January 2018, the International Financial Reporting Standard 9 (IFRS 9) was implemented, providing a new set of rules for classification and impairment of financial assets, including loans.

The main principles of IFRS 9 have, particularly in Annex 10, been implemented in the Executive Order on Financial Reports, which contains the overall rules and guidelines for calculating loan impairment charges for expected credit losses.

Due to the new rules and approach, the Group no longer makes collective impairment charges, and the allowance account related to collective impairment charges has been dissolved and replaced by individual loan impairment charges at 1 January 2018.

The rules and principles for providing loan impairment charges have changed from an approach based on incurred credit losses to an approach based on expected credit losses ("ECL"), which is a more forward-looking approach.

Under the new impairment rules, the Group recognises 12-month ECL on initial recognition of loans. If a loan is subject to either significantly increased credit risk, significant signs of weakness or credit impairment since initial recognition, lifetime ECL are recognised.

Semi-annually, all credit exposures are reviewed in order to reassess the applicable stage of loans and the size of loan impairment charges. In addition, defaulted credit exposures are reviewed for partial or full write-off if a loan loss is considered unavoidable.

As part of this process and when obtaining new relevant information, loans are reviewed to evaluate whether the existing internal rating still provides the best estimate of the credit risk of the client and the loan. Where this is considered not to be the case, the client and the loan is reclassified accordingly.

Individual loan impairment charges are made based on the Group's ECL impairment model. The size of ECL for individual credit exposures is based on calculation of ECL as described below. In a 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.

Loan impairment charges for 2018 amounted to a net expense of DKK 35 million (0.1% of gross lending), down from DKK 163 million (0.4% of gross lending) the year before.

Stage recognition

All credit exposures provided by the Group are subject to stage recognition in stage 1, 2 or 3 based on the principles set out in the below table. The subsequent calculation of loan impairment charges in the form of ECL includes, depending on the stage of the loan in question, either the 12-month PD or the lifetime PD.

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 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.

STAGE RECOGNITION, PD & ECL

Stage	Recognition	ECL
Stage 1	No increase in credit risk since initial recognition	12-month PD
Stage 2	The credit risk has increased significantly since initial recognition and/or are showing significant signs of weakness	Lifetime PD
Stage 3	Credit impaired and/or defaulted loans (NPL)	Lifetime PD

The development in the internal rating since initial recognition and the related stage development are monitored by way of a stage migration matrix. The actual stage depends on the state of the established credit risk.

Stage migration matrix

DSF

IFRS 9 Stage Migration Matrix

Development in credit risk since initial recognition													
Current DSF Rating		1	2	3	4	5	6	7	8	9	10	11	12
Initial DSF Rating	**FSA Rating**	3	3	2A	2A	2A	2A	2B	2B	2C	2C	1	1
1	3	1	1	1	1	2	2	2	2	2	2	3	3
2	3	1	1	1	1	2	2	2	2	2	2	3	3
3	2A	1	1	1	1	1	1	2	2	2	2	3	3
4	2A	1	1	1	1	1	1	2	2	2	2	3	3
5	2A	1	1	1	1	1	1	2	2	2	2	3	3
6	2A	1	1	1	1	1	1	2	2	2	2	3	3
7	2B	1	1	1	1	1	1	1	1	2	2	3	3
8	2B	1	1	1	1	1	1	1	1	2	2	3	3
9	2C	1	1	1	1	1	1	1	1	1	2	3	3
10	2C	1	1	1	1	1	1	1	1	1	1	3	3
11	1	1	1	1	1	1	1	1	1	2	2	3	3
12	1	1	1	1	1	1	1	1	1	2	2	3	3
Note 1	Internal Rating = Internal rating applied by DSF. FT Rating = Credit risk rating applied by the Danish FSA.												
Note 2	Stage 1 (Internal Ratings 1-4 with low credit risk and limited increase in credit risk since initial recognition) Stage 2 (Significant increase in credit risk and/or significant signs of weakness) Stage 3 (Credit-impaired)												
Note 3	Migration between stages. Downgrades to be read in the white boxes from left to right. Upgrades to be read in the grey boxes from right to left. Examples: Downgrade of Internal Rating from 7 to 8 = Stage 1 (FT Rating 2B). Downgrade of Internal Rating from 6 to 7 = significant increase in credit risk = move from Stage 1 to Stage 2 (change of FT Rating 2A to 2B). Upgrade of Internal Rating from 8 to 6 = reduced credit risk, remain in Stage 1 (FT Rating from 2B to 2A). Upgrade of Internal Rating from 10 to 8 = reduced credit risk, remain in Stage 1 (FT Rating from 2C to 2B)												

The internal rating determined by the Group is mapped to the credit risk rating determined by the Danish FSA and external ratings determined by the external credit rating agencies (Moody's and Standard & Poor's) as set out in the below rating scale mapping.

Rating scale mapping

Rating Scale			
	External Rating		
Internal Rating	Moody's	Standard & Poor's	Danish FSA
1	Aaa / Aa	AAA / AA	3
2	A	A	
3	Baa	BBB	2A
4			
5	Ba	BB	
6			
7	B	B	2B
8			
9	Caa	CCC	2C
10			
11	Ca-C	CC-C	1
12	D	D	

If the internal rating determined by the Group is 1 to 4 based on the mapping, the client or financial counterparty is considered to have low credit risk, as such rating is equivalent to an investment grade rating determined by external credit rating agencies.

ECL impairment model

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") for each shipping segment.

ECL = PD * EAD * LGD * MEF

Scenario testing is involved as part of the ECL calculation, including MEF, which is based on the following scenarios:

- Base Case Scenario
- Worst Case Scenario
- Best Case Scenario

Below, the calculation of MEF is described in more detail.

Macroeconomic factor

MEF is based on a semi-annual assessment made by the Group's in-house Research Department.

The model consists of the following eight market indicators, which are considered for each of the vessel types financed by the Group.

1. Actual earnings
2. Falling trend in vessel values
3. Temporary supported earnings
4. Balance between earnings and vessel values
5. Balanced vessel growth
6. Future earnings estimates
7. Economic life (of vessels)
8. Structural changes (for the vessel type)

As set out above scenario testing is made based on three scenarios, the probability and a MEF effect. Based on this a score of 0-1 per market indicator is provided and accumulated, with an aggregate score close to eight indicating elevated risk.

For each client the PD is adjusted with the MEF in order to reflect the outlook for the segment to which the client is primarily exposed. The PD for each client can thus be below, at or above the standard PD.

Write-off policy

A credit exposure is written off, in whole or in part, when the Group has exhausted all practical recovery and restructuring efforts and has concluded that there is no reasonable expectation of full recovery. A corresponding amount is then written off.

Measures indicating that there is no reasonable expectation of full recovery include:

- Ceassation of enforcement activity
- The value of the collateral is such that there are no reasonable expectations of recovering the loan in full

The Group may write off credit exposures that are still subject to enforcement activity. Amounts which are legally owed in full, but which have been partially written off, are still subject to recovery initiatives.

Net write-offs amounted to DKK 252 million in 2018 compared to DKK 98 million in 2017. Write-offs remained at a manageable level, although the level is elevated relative to previous years.

Total allowance account

The total allowance account amounted to DKK 2,514 million at 31 December 2018, down from DKK 2,591 million the year before. This includes the DKK 132 million initial effect of the implementation of the new IFRS 9 impairment rules at 1 January 2018.

The following table displays key figures related to the total allowance account:

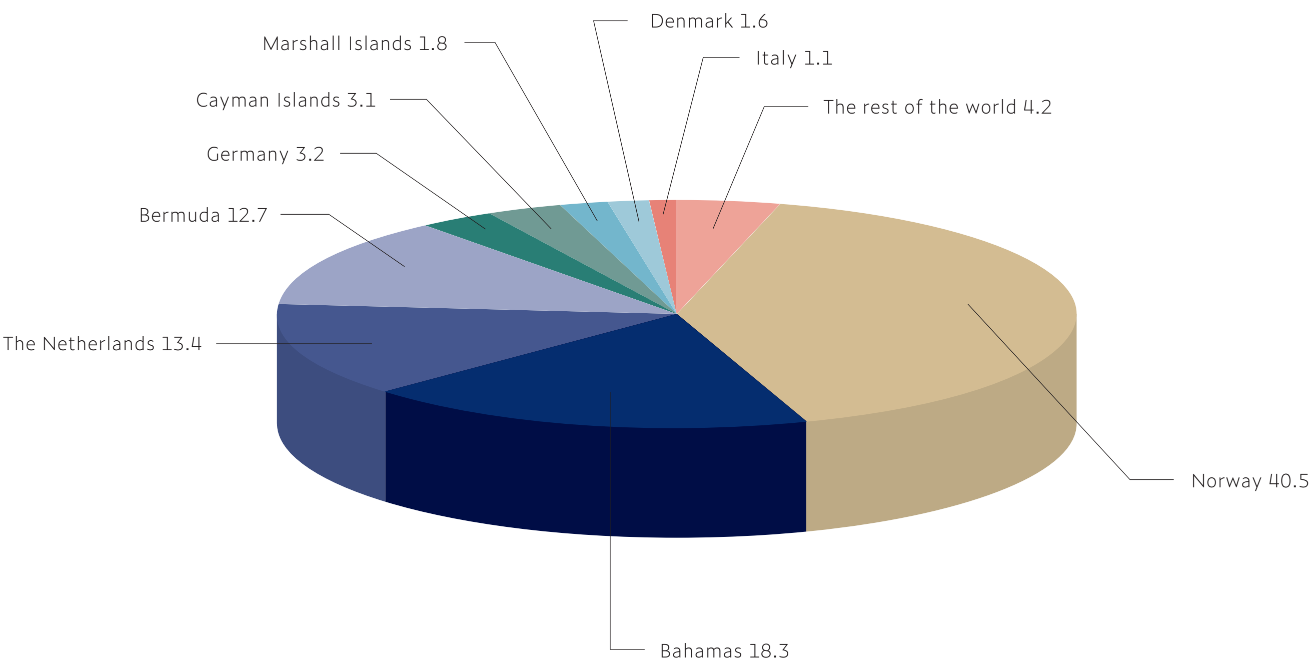
KEY FIGURES

DKK million	Loan book (year-end)	Total allowance account (year-end)	Net write-offs for the year	Loan impairment charges for the year (bps)
2018	39,591	2,514	252	9
2017	37,412	2,591	99	44

At 31 December 2018, the geographical distribution of the total allowance account was as displayed below:

Geographical distribution of total allowance account

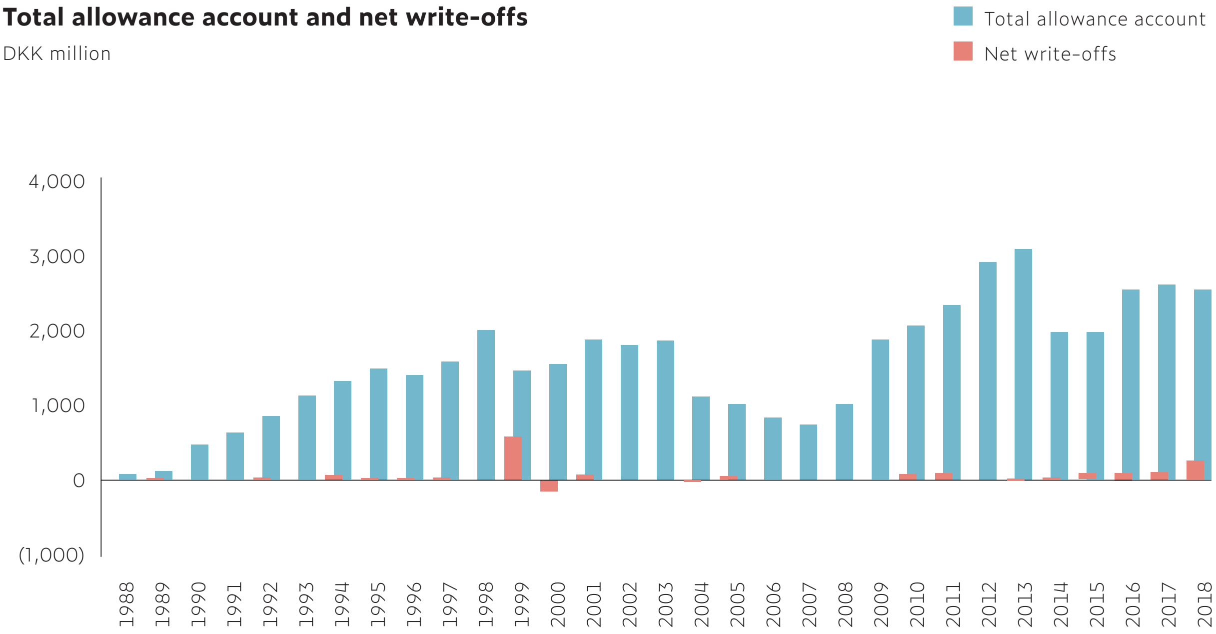
%



The development in the total allowance account and net write-offs for the period 1988 to 2018 is displayed in the below chart:

Total allowance account and net write-offs

DKK million



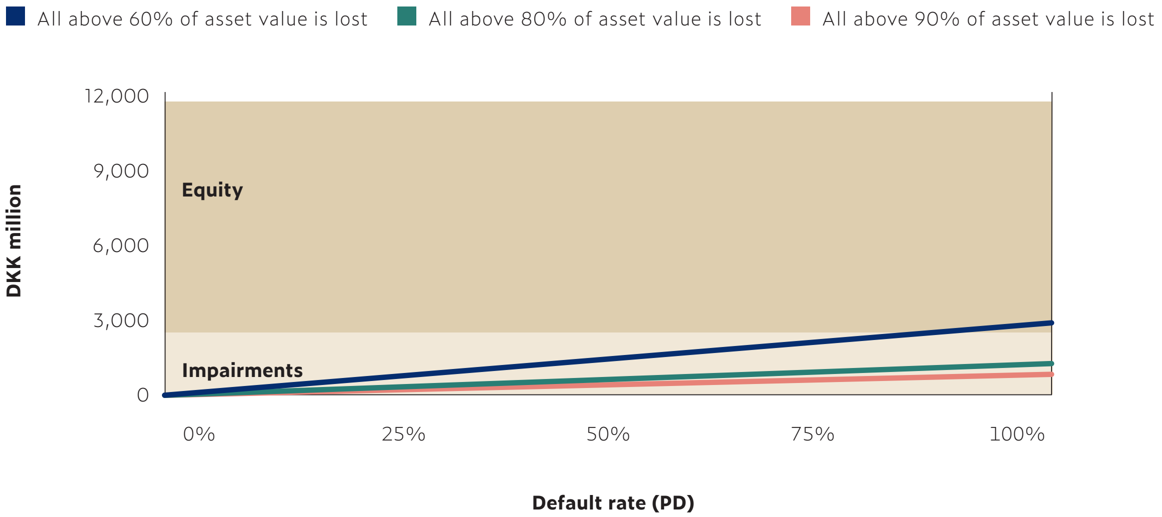
Loan losses at given default rates

The graph below illustrates the Group's strong ability to absorb loan losses in the rather unlikely scenario where all or a certain percentage of the clients default, and the mortgaged vessels are subsequently sold.

In the extreme event of all clients defaulting, the loan impairment charges and equity are more than sufficient to cover shortfalls, if the mortgaged vessels are sold with haircuts to current market values of 10-40%.

Loan losses at given default rates

DKK million/%



DEVELOPMENT IN THE TOTAL ALLOWANCE ACCOUNT

DKK million	CLIENTS 2018	CLIENTS 2017	FINANCIAL COUNTERPARTIES 2018	FINANCIAL COUNTERPARTIES 2017
Individual loan impairment charges				
Individual loan impairment charges at 1 January	2,380	1,977	-	-
Collective loan Impairment charges at 1 January	211	540	-	-
Initial impact at 1 January 2018 (IFRS 9)	132	-	-	-
New loan impairment charges/loss allowances during the year	699	748	-	-
Reversal of loan impairment charges made in previous years	(610)	(550)	-	-
Gross write-offs debited to the allowance account	(298)	(124)	-	-
Total allowance account at 31 December	**2,514**	**2,591**	**-**	**-**

FINANCIAL COUNTERPARTIES

Credit exposure to financial counterparties, which may be credit institutions, export guarantee agencies and insurance companies, is entered into according to the counterparty risk policy. The policy sets out a number of criteria, including that financial counterparties shall have an investment grade rating from ECAIs recognised by the Group. Furthermore, the Group endeavors to deal with financial counterparties that are global systemically important banks (G-SIBs) or systemically important financial institutions (SIFIs).

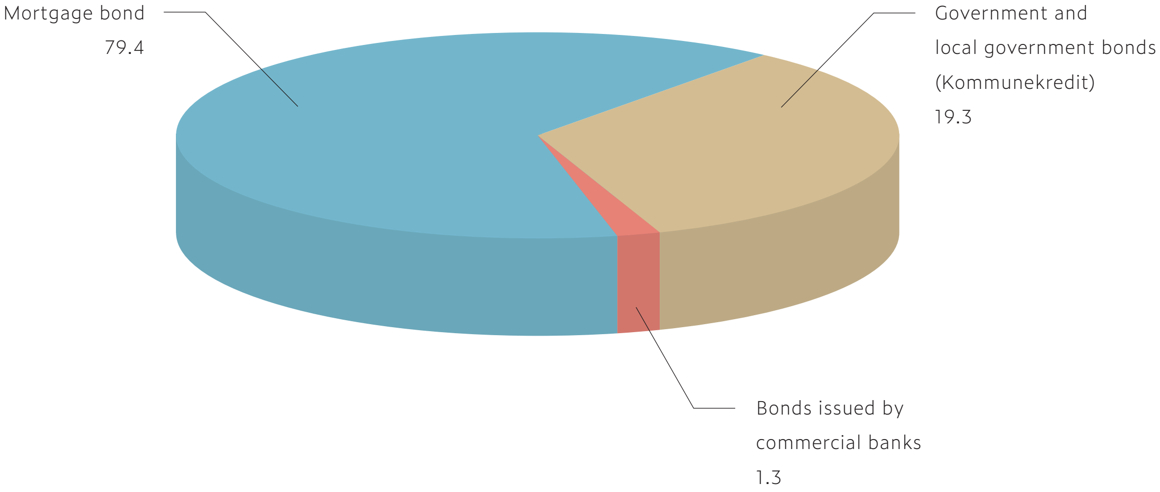
The counterparty risk policy quantifies and defines the principles for credit exposure to be granted to individual financial counterparties. The counterparty risk policy is also used in the management of market risk and liquidity risk and sets out limits to be made available to financial counterparties.

The Group carries out transactions with financial counterparties when investing both its own funds and excess liquidity from issued bonds. These transactions involve cash deposits, securities and financial instruments.

The Group's securities portfolio represents a significant share of the assets. The securities portfolio comprises government and covered bonds, money market deposits and interest-sensitive financial instruments.

Distribution of securities portfolio

%



Contractual framework

A financial contract may entail risk of loss if it has a positive market value and the financial counterparty cannot perform its part of the contract. This type of risk also includes settlement risk.

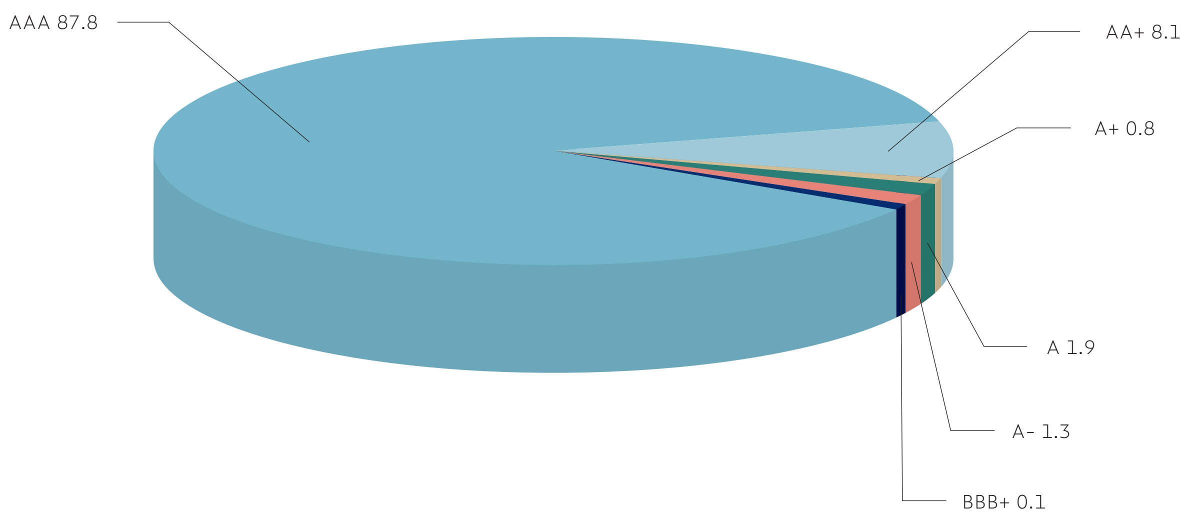
The contractual framework for transactions with financial counterparties is based primarily on market standards such as ISDA and GMRA agreements, which allow netting in the event of default of the financial counterparty. Furthermore, the Group has agreements on market value adjustments or collateral (CSAs) for derivates trading with various financial counterparties.

The Group is subject to the European regulation on OTC derivatives, central counterparties and trade repositories (known as "EMIR"). EMIR stipulates an obligation to clear certain types of derivatives via a central counterparty. This obligation applies to financial counterparties and non-financial counterparties that exceed the clearing threshold.

EMIR defines financial counterparties as credit institutions approved pursuant to the Credit Institutions Directive. The Group is exempt from this Directive and is characterised as a non-financial counterparty (NFC). Non-financial counterparties only have a central clearing obligation if they exceed certain threshold trading volumes. As the Group's trading volumes do not exceed these clearing thresholds, the Group is not under an obligation to perform central clearing.

Exposure on financial counterparties by credit rating

%



Ongoing monitoring

The credit exposure to financial counterparties is continuously monitored, to ensure that the financial counterparty consistently complies with the Group's requirements and to ensure compliance with approved lines. The ongoing monitoring is carried out independently of the executing entities.

EXTERNAL CREDIT ASSESSMENT (ECAI)

The Group uses Standard & Poor's Global Ratings (S&P) as its external credit assessment institution (ECAI).

The credit rating categories used by S&P are converted into credit quality steps by using the Danish FSA's conversion table.

The table below shows the Danish FSA's conversion of S&P's credit rating categories to credit quality steps for exposures to corporates, institutions, central governments and central banks.

Credit quality step	S&P's credit rating category	Exposures to corporates	Exposures to institutions with terms to maturity > three months	Exposures to central governments or central banks
1	AAA to AA-	20%	20%	0%
2	A+ to A-	50%	50%	20%
3	BBB+ to BBB-	100%	50%	50%
4	BB+ to BB-	100%	100%	100%
5	B+ to B-	150%	100%	100%
6	CCC+ and below	150%	150%	150%

Market risk management

The market risk policy contains specific guidelines for the ongoing management of risk relating to market risk. The policy lays down clear and measurable limits on interest rate and foreign exchange risk and builds on the Bond Executive Order and other provisions. The Group's market risk limits are in some cases more stringent than such external provisions.

The most significant market risk is associated with the securities portfolio, as the Group is governed by the limits of the Bond Executive Order, which includes restrictions on interest rate, foreign exchange and liquidity risk between the bond issues (funding) and the loans.

The Group's Treasury Department has the day-to-day responsibility for trading within the limits laid down in the market risk policy, while responsibility for the monitoring and reporting of adherence to the limits on market risk lies with the Risk Management Department. Market risk is monitored daily and is reported to the Board of Directors quarterly. If the limits defined in the market risk policy are breached, the Executive Board must be informed immediately and the Board of Directors not later than at the next board meeting.

Interest rate risk

Interest rate risk is the risk that the Group will incur a loss due to a change in interest rates. Rising interest rates have an adverse impact on the market value of the securities bond portfolio.

The Group manages the interest rate risk between funding and lending below the applicable threshold by applying conservative principles, but a small loss or a gain may arise due to changes in interest rates.

Due to the balance principle, the Group has only moderate exposure to interest rate risk outside the trading book. At 31 December 2018, the interest rate exposure outside the trading book was calculated at DKK 79 million, against DKK 90 million in 2017.

The Bond Executive Order also stipulates that the interest rate risk on assets, liabilities and off-balance sheet items must not exceed 8% of own funds. Using the Danish FSA guidelines for calculating interest rate risk in the trading book, the interest rate exposure was DKK 122 million at 31 December 2018, corresponding to 1,37% of own funds, against DKK 225 million in 2017.

Furthermore, the interest rate risk is adjusted using a minimum and a maximum for the option-adjusted duration. The maximum option-adjusted duration of the securities portfolio, including financial instruments, is currently restricted to four years. The option-adjusted duration was calculated at approximately 0.4 years at 31 December 2018.

Foreign exchange risk

The market risk policy does not allow foreign exchange risk arising from a mismatch between funding and lending except for inevitable, limited foreign exchange risks resulting from ongoing liquidity management transactions. The Group has set maximum limits for future mismatches between USD and DKK in the market risk policy. If USD funding is not obtainable in the market at a future point in time, the Group will incur a currency mismatch. The currency mismatch will in this case be within the limits set by the regulation.

Exchange rate indicator 1 at 31 December 2018: DKK 432 million, equal to 4.8 % of own funds.

Exchange rate indicator 1 corresponds to the Group's total net exposure to foreign currency in total balance sheet items, calculated according to the Danish FSA guidelines.

Equity risk

Apart from small holdings of sector shares and shares received in connection with the reconstruction of credit exposures, the Group has no equity interests in other companies.

Derivatives

The Group uses derivatives according to the market risk policy which specifies the types of derivatives the Group may use and for what purposes. Financial instruments may be applied to hedge risks between funding and lending and related to investment activities.

Liquidity risk management

The liquidity risk policy determines the Group's overall liquidity risks and funding structure. It contains specific guidelines for the ongoing management. The purpose of the Group's liquidity management framework is to ensure that the Group is consistently able to meet its payment obligations. Liquidity management is carried out to avoid a lack of funding preventing the Group from meeting its obligations, or from supporting planned lending activities, and to ensure that the Group's funding costs do not become disproportionately high.

BALANCE PRINCIPLE

The specific balance principle laid down in the Bond Executive Order permits a future liquidity deficit between issued bonds and loans provided of up to 100% of own funds.

The deficit occurs if future payments related to bonds issued by Danish Ship Finance, other funding and financial instruments exceed future incoming payments on loans, financial instruments and positions.

In its internal policies, the Group has defined strict requirements for any liquidity deficits between issued bonds and loans provided. The Group prefunds all loan commitments well in advance of disbursement.

FUNDING

Bonds are typically issued in DKK, whereas most of the loans are typically disbursed in USD. The Group sources USD for funding of USD loans disbursed via basis swaps.

The opportunities for sourcing USD liquidity rely on an efficient capital market. The Group's ability to convert DKK funding into USD entails a risk of higher financing costs or a loss of business opportunities in case of market disruption.

The liquidity policy sets limits for USD liquidity requirements over time.

MANAGEMENT, MONITORING AND REPORTING

The Group's liquidity management is anchored in the Internal Liquidity Adequacy Assessment Process (ILAAP), which is a review aimed at identifying liquidity risk exposures and determining liquidity targets.

ENCUMBERED ASSETS

Liquidity is sourced primarily through issuance of ship mortgage bonds on Nasdaq Copenhagen, and the Group is thus part of the OTC market. Due to this set-up, some assets are subject to encumbrance, cf. the European Banking Authority's (EBA) guidelines on disclosure of encumbered and unencumbered assets.

The primary sources of asset encumbrance are:

- Issuance of ship mortgage bonds
- CSA collateral

Total encumbered assets account for 83% of total assets plus collateral received that may be subject to encumbrance. Asset encumbrance means pledging an asset on entering into any form of transaction to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

The information disclosed on encumbered assets and collateral received is based on data at 31 December 2018 rather than median values for 2018.

Encumbered assets are specified in Annex 7.

According to the Regulatory Technical Standards on disclosure of encumbered and unencumbered assets issued by the EBA in March 2017, credit institutions with less than EUR 30,000 million total assets or an encumbrance level below 15% are exempted from the disclosure requirements for high quality liquid assets (HQLA) and extremely high-quality liquid assets (EHQLA), and thus these are not specified in Annex 7.

STRESS TESTING

In addition to the above, a liquidity stress test is performed based on a scenario with the following components:

- A rising USD exchange rate
- Increasing interest rates
- Widening credit spreads
- Higher write-offs

The stress test is used to obtain an overview of the liquidity profile in a stressed scenario and the results of the liquidity stress test may be used to manage and adjust internal limits. Furthermore, the stress test is used to obtain an overview of the liquidity profile in a stressed scenario.

CONTINGENCY PLANS

In accordance with the Executive Order on Management, the Group has prepared a liquidity contingency plan, containing a catalogue of possible initiatives with which to strengthen the liquidity position in a critical situation.

The liquidity contingency plan would take effect if predefined triggers are activated.

LIQUIDITY RISK PROFILE

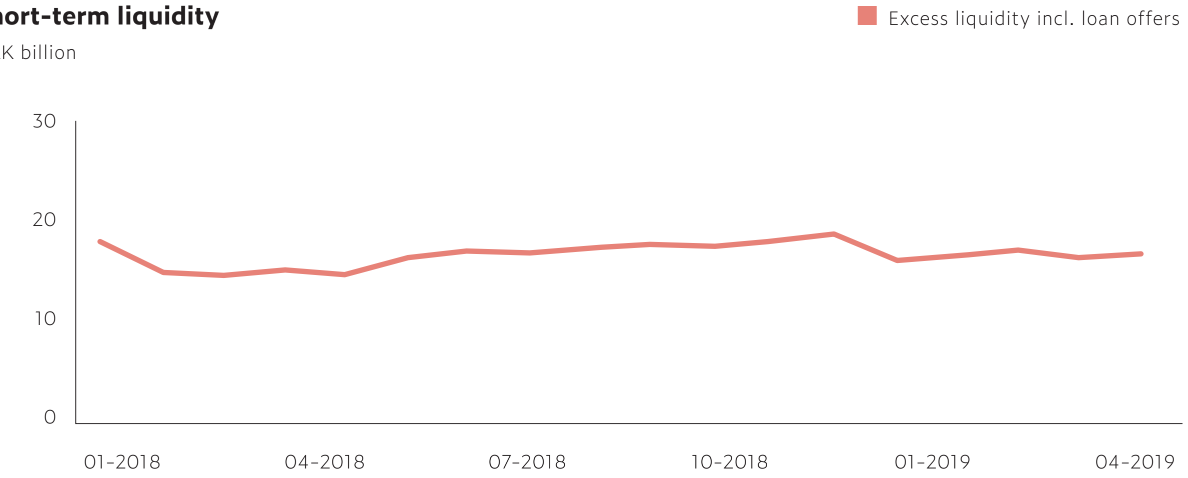
Through bond issues and the existence of a liquid portfolio of bonds, the Group ensures sufficient liquidity coverage for all existing loans and loan offers until expiry. The Group is therefore not directly exposed to refinancing risk. A potential downgrade of the Group's external rating would not change its robust liquidity situation but could lead to higher funding costs for new loans.

The charts below show:

- Short-term excess liquidity including the market value of the securities portfolio
- Liquidity mismatch between funding and lending.

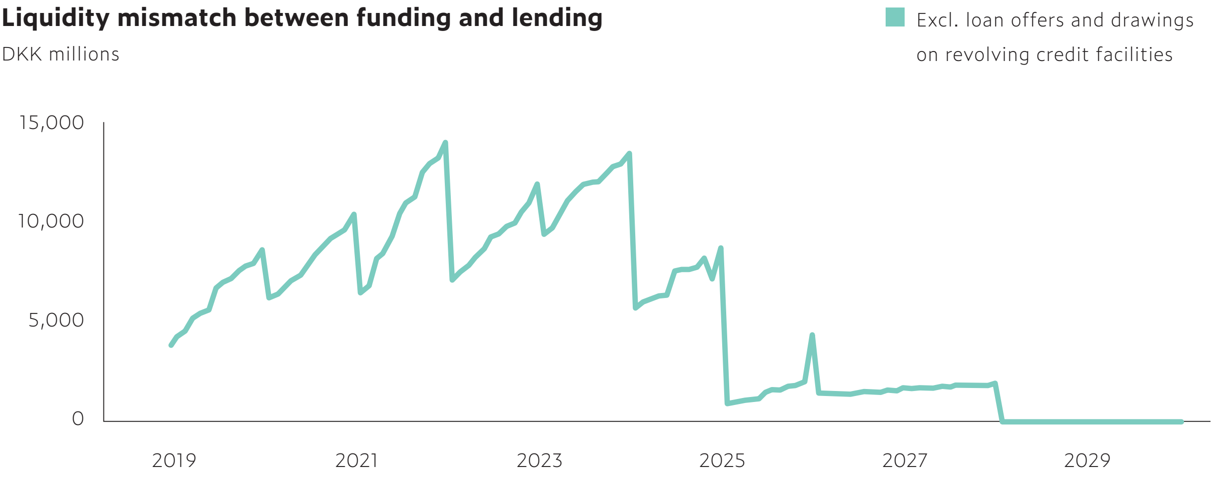
Short-term liquidity

DKK billion



Liquidity mismatch between funding and lending

DKK millions



Refinancing risk is limited as the average maturity of issued bonds exceeds the average maturity of loans outstanding.

LIQUIDITY COVERAGE RATIO

According to the CRR, liquidity is required to ensure that a credit institution has an adequate stock of unencumbered High Quality Liquid Assets (HQLA) consisting of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30-calendar day liquidity stress scenario.

$$\text{Liquidity Coverage Ratio} = \frac{\text{HQLA}}{\text{Net liquidity outflow over 30-day stress period}} \geq 100\%$$

The LCR at 31 December 2018 was 357%.

The securities portfolio represents a significant part of the liquid assets. The securities portfolio comprises government and covered bonds, money market transactions and interest sensitive financial instruments.

LCR DISCLOSURE TEMPLATE, ON QUANTITATIVE INFORMATION OF LCR

Group/DSF DKK million		Total unweighted value	Total weighted value
Quarter ending on 31 December 2018			
Number of data points used in the calculation of averages			
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)		12,835
CASH-OUTFLOWS			
2	Retail deposits and deposits from small business customers, of which:	-	-
3	Stable deposits	-	-
4	Less stable deposits	-	-
5	Unsecured wholesale funding	1,577	1,577
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	-	-
8	Unsecured debt	1,577	1,577
9	Secured wholesale funding		283
10	Additional requirements	1,582	962
11	Outflows related to derivative exposures and other collateral requirements	1,582	920
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	420	42
14	Other contractual funding obligations	519	9
15	Other contingent funding obligations	931	931
16	TOTAL CASH OUTFLOWS		3,761
CASH-INFLOWS			
17	Secured lending (eg reverse repos)	1,226	82
18	Inflows from fully performing exposures	2,370	1,363
19	Other cash inflows	1,942	514
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		-
EU-19b	(Excess inflows from a related specialised credit institution)		-
20	**TOTAL CASH INFLOWS**	-	1,960
EU-20a	Fully exempt inflows	-	-
EU-20b	Inflows Subject to 90% Cap	-	-
EU-20c	Inflows Subject to 75% Cap	5,539	1,960
21	Liquidity buffer		6,440
22	Total net cash outflows		1,802
23	Liquidity Coverage ratio (%)		357%

Operational risk management

The Group's operational risk policy stipulates that operational risks should be kept low relative to the other types of risk of the Group. Operational risks are assessed on the basis of the expected probability of a given event occurring and the potential loss resulting from such event.

Given its nature and characteristics, operational risk is best mitigated and managed through the day-to-day business conduct. The responsibility for the day-to-day management of operational risks is decentralised and lies with the individual business areas. Operational risk management activities are coordinated by Risk Management to ensure coherence, consistency and effectiveness across the Group.

It is the Group's policy to promote a culture where openness about and awareness of operational risk are natural elements of the everyday work of all staff members, and to ensure that the Executive Board and the Board of Directors are briefed regularly on key risk areas.

As part of operational risk management, operational risk events are systematically recorded, categorised and reported. Operational errors are divided into three main groups by value:

- Small errors (<DKK 25,000)
- Medium errors (DKK 25,000 – DKK 5 million)
- Large errors (>DKK 5 million)

Small errors are reported to the relevant head of department. Medium-sized and large errors are reported to the Executive Board, and the Board of Directors shall be notified of large errors.

The recording of operational risk events must include information about the type of product, process and risk concerned.

Compliance

Operational risk includes compliance risk, which is subject to separate guidelines. This area is managed by the compliance function headed by the Head of Compliance. Compliance risk is reported to the Board of Directors and the Executive Board.

The compliance function is an independent function which serves to assess and report on any non-compliance with applicable legislation, practice and market standards in the Group. This helps mitigate the risk of sanctions being imposed on the Group, a risk of loss of reputation or that the Group or its clients suffer material financial losses.

The compliance function applies a risk-based approach to identifying areas to review.

Money-laundering risk

In relation to anti-money laundering (AML), the Group has laid down specific policies, business procedures and controls, and client transactions are monitored on a continuous basis. Furthermore, necessary efforts have been made to enhance the processes for obtaining proof of client identity and the quality thereof. The prevention of money-laundering and terrorist financing is a high-priority area.

The AML function is charged with ensuring that the Group complies with the Danish Act on Measures to Prevent Money Laundering and Financing of Terrorism, the EU Funds Transfer Regulation and EU anti-terrorism regulations. The AML function is anchored in the Legal & Compliance Department and reports directly to the Executive Board and the Board of Directors.

IT security

Information and information systems are vital, and IT security is therefore essential to the Group's credibility and continued existence. The IT security function reports to the Executive Board and Board of Directors.

The work of the IT security function is based on a defined security and risk level aimed at ensuring that the Group's day-to-day business and activities are consistently supported by a secure and reliable IT infrastructure. The IT security function is responsible for complying with the adopted IT security level and IT contingency plan. The IT security function contributes to ensuring and controlling that the Group's IT activities to the best possible extent are protected against internal and external threats. The IT security function is thus charged with ensuring compliance with legislative requirements and the Group's own requirements.

The Group's activity in the area of IT security is based on regulatory requirements as well as considerations for day-to-day operations. Operations must be secure and stable, a requirement ensured through automation and ongoing capacity adjustments. The Group's IT security efforts include the preparation of contingency plans and recovery procedures and periodic testing of such measures aimed to ensure continued operation at a satisfactory level in the case of extraordinary events.

Management declaration

The Board of Directors of DSF and DSH approved the Risk Report for 2018 on 25 February 2019.

The Boards of Directors find that the Group's risk management procedures are adequate and provide assurance that the risk management systems in place are adequate in relation to the Group's risk profile and strategy.

The Boards of Directors also finds that the Group's overall risk profile in relation to its business strategy, business model and key figures provides a relevant and comprehensive picture of the Group's risk governance, including how the risk profile and the risk tolerance defined by the Board of Directors affect each other.

The Board of Directors has made its assessment on the basis of its adopted business model, the latest strategy report, material and reports presented to the Board of Directors by the Executive Board, risk managers and compliance officers, internal controls and any supplementary information or reports obtained. A review of the business model and policies shows that the overall requirements set out in the model for specific risk areas are fully reflected in the more specific limits of the individual policies.

Focus is on the most creditworthy part of the shipping industry. The Group seeks to maximise earnings from lending by maintaining a satisfactory margin between the lending margins and the cost of funds. The own funds are invested in low risk government and covered bonds, and through active management of the bond portfolio returns exceeding the benchmark is the aim. The Group seeks to ensure it has an appropriate and robust capital base supporting its business model.

The maximum risk tolerance defined by the Board of Directors is managed via limits set out in the individual policies. Shown below are key figures that provide external market participants with an overview of the Group's and the DSF's risk management.

	Legislation	Group Compliance at 31 Dec. 2018	DSF Compliance at 31 Dec. 2018
Capital requirement			
Total capital ratio	>8%	17.0%	19.0%
Tier 1 capital ratio	>6%	12.9%	19.0%
Common Equity Tier 1 capital ratio	>4.5%	12.9%	19.0%
Pillar 2 requirement			
Internal capital adequacy requirement	<Total capital ratio	Excess coverage is 8.0%	Excess coverage is 10.0%
Combined buffer requirement	< Total capital ratio	Excess coverage is 5.8%	Excess coverage is 7.8%
Liquidity			
Liquidity coverage ratio (LCR)	>100%	357%	357%
Leverage			
Leverage ratio	>3% (Basel 3 recommendation)	8.9%	12.8%
Net write-offs			
Incurred loan losses	N/A	Net write-offs represent 0.6% of lending	Net write-offs represent 0.6% of lending

Copenhagen, 25 February 2019

Board of Directors

Eivind
Drachmann Kolding
(Chairman)

Peter
Nyegaard
(Vice Chairman)

Marcus
Freuchen Christensen

Anders
Damgaard*

Povl Christian
Lütken Frigast*

Thor Jørgen
Guttormsen

Jacob
Meldgaard

Michael
Nellemann Pedersen*

Christopher
Rex

Henrik
Sjøgreen

Henrik
Rohde Søgaard

** also signed in his capacity as board member of Danish Ship Finance Holding A/S*

Annex 1

Transitional own funds disclosure template

Disclosure according to Article 5 in Commission implementing regulation (EU) No 1423/2013

Common Equity Tier 1 capital: instruments and reserves (1)		31 December 2018 DKKm (Danish Ship Finance A/S)	31 December 2018 DKKm (Group)	(B) Regulation (EU) no 575/2013 article reference
1	Capital instruments and the related share premium accounts	307	1,224	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Instrument type 1	-	-	EBA list 26 (3)
	of which: Instrument type 2	-	-	EBA list 26 (3)
	of which: Instrument type 3	-	-	EBA list 26 (3)
2	Retained earnings	318	191	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	8,372	4,784	26 (1)
3a	Funds for general banking risk	-	-	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	-	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	-	-	84, 479, 480
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	-	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	8,997	6,198	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(25)	(25)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-	-	36 (1) (b), 37, 472 (4)
9	Empty set in the EU	-	-	

Common Equity Tier 1 capital: instruments and reserves (1)		31 December 2018 DKKm (Danish Ship Finance A/S)	31 December 2018 DKKm (Group)	(B) Regulation (EU) no 575/2013 article reference
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	-	36 (1) (c), 38, 472 (5)
11	Fair value reserves related to gains or losses on cash flow hedges	-	-	33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	-	36 (1) (d), 40, 159, 472 (6)
13	Any increase in equity that results from securitised assets (negative amount)	-	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-	33 (1) (b) (c)
15	Defined-benefit pension fund assets (negative amount)	-	-	36 (1) (e), 41, 472 (7)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	-	36 (1) (f), 42, 472 (8)
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negatvie amount)	-	-	36 (1) (g), 44, 472 (9)
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)
20	Empty set in the EU	-	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	-	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	-	-	"36 (1) (k) (ii)
243 (1) (b)				

Common Equity Tier 1 capital: instruments and reserves (1)		31 December 2018 DKKm (Danish Ship Finance A/S)	31 December 2018 DKKm (Group)	(B) Regulation (EU) no 575/2013 article reference
244 (1) (b)				
258"				
20d	of which: free deliveries (negative amount)	-	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)	-	-	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-	36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty set in the EU	-	-	
25	of which: deferred tax assets arising from temporary difference	-	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)	-	-	36 (1) (a), 472 (3)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-	36 (1) (l)
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-	-	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-	-	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	-	481
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	-	-	36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	8,972	6,173	
29	**Common Equity Tier 1 (CET1) capital**			
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	-	-	51, 52
31	of which: classified as equity under applicable accounting standards	-	-	

Common Equity Tier 1 capital: instruments and reserves (1)		31 December 2018 DKKm (Danish Ship Finance A/S)	31 December 2018 DKKm (Group)	(B) Regulation (EU) no 575/2013 article reference
32	of which: classified as liabilities under applicable accounting standards	-	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	-	486 (3)
	Public sector capital injections grandfathered until 1 january 2018	-	-	483 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	-	85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase-out	-	-	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-	-	
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	-	52 (1) (b), 56 (a), 57, 475 (2)
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	56 (b), 58, 475 (3)
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	56 (c), 59, 60, 79, 475 (4)
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	56 (d), 59, 79, 475 (4)
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	-	-	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	-	472, 473(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)

Common Equity Tier 1 capital: instruments and reserves (1)		31 December 2018 DKKm (Danish Ship Finance A/S)	31 December 2018 DKKm (Group)	(B) Regulation (EU) no 575/2013 article reference
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	-	477, 477 (3), 477 (4) (a)
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	-	-	467, 468, 481
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	-	
44	**Additional Tier 1 (AT1) capital**	-	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	8,972	6,173	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	-	1,968	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	-	486 (4)
	Public sector capital injections grandfathered until 1 january 2018	-	-	483 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	-	-	87, 88, 480
49	of which: instruments issued by subsidiaries subject to phase-out	-	-	486 (4)
50	Credit risk adjustments	-	-	62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustment**	-	1,968	
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-	63 (b) (i), 66 (a), 67, 477 (2)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	-	-	66 (b), 68, 477 (3)

Common Equity Tier 1 capital: instruments and reserves (1)		31 December 2018 DKKm (Danish Ship Finance A/S)	31 December 2018 DKKm (Group)	(B) Regulation (EU) no 575/2013 article reference
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	-	66 (c), 69, 70, 79, 477 (4)
54a	Of which new holdings not subject to transitional arrangements	-	-	
54b	Of which holdings existing befor 1 January 2013 and subject to transitional arrangements	-	-	
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	-	-	66 (d), 69, 79, 477 (4)
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	-	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	-	475, 475 (2) (a), 475 (3), 475 (4) (a)
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR	-	-	467, 468, 481
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-	
58	**Tier 2 (T2) capital**	-	1,968	
59	**Total capital (TC = T1 + T2)**	8,972	8,141	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	47,233	47,751	
	Of which:... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	-	-	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)

	Common Equity Tier 1 capital: instruments and reserves (1)	31 December 2018 DKKm (Danish Ship Finance A/S)	31 December 2018 DKKm (Group)	(B) Regulation (EU) no 575/2013 article reference
	Of which:...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	-	475, 475 (2) (b), 475 (2) ©, 475 (4) (b)
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	-	-	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
60	**Total risk-weighted assets**	47,233	47,751	
Capital ratios and buffers				
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	19.0%	12.9%	92 (2) (a), 465
62	**Tier 1 (as a percentage of total risk exposure amount**	19.0%	12.9%	92 (2) (b), 465
63	**Total capital (as a percentage of total risk exposure amount**	19.0%	17.0%	92 (2) (c)
64	**Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount) 1)**	11.2%	11.2%	CRD 128, 129, 140
65	**of which: capital conservation buffer requirement**	1.9%	1.9%	
66	**of which: countercyclical buffer requirement**	0.3%	0.3%	
67	**of which: systemic risk buffer requirement**	0.0%	0.0%	
67a	**of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer**	not yet implemented	not yet implemented	CRD 131
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) 2)**	7.8%	1.7%	CRD 128
69	[non-relevant in EU regulation]	N/A	N/A	
70	[non-relevant in EU regulation]	N/A	N/A	

Common Equity Tier 1 capital: instruments and reserves (1)		31 December 2018 DKKm (Danish Ship Finance A/S)	31 December 2018 DKKm (Group)	(B) Regulation (EU) no 575/2013 article reference
71	[non-relevant in EU regulation]	N/A	N/A	
Amounts below the thresholds for deduction (before risk-weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	-	-	"36 (1) (h), 45, 46, 472 (10)
56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)"				
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	-	-	36 (1) (i), 45, 48, 470, 472 (11)
74	Empty set in the EU	N/A	N/A	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	-	-	36 (1) (c), 38, 48, 470, 472 (5)
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	-	-	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	- Current cap on CET1 instruments subject to phase-out arrangements	27	-	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	N/A	484 (3), 486 (2) & (5)

Common Equity Tier 1 capital: instruments and reserves (1)		31 December 2018 DKKm (Danish Ship Finance A/S)	31 December 2018 DKKm (Group)	(B) Regulation (EU) no 575/2013 article reference
82	– Current cap on AT1 instruments subject to phase-out arrangements	-	-	484 (4), 486 (3) & (5)
83	– Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	484 (4), 486 (3) & (5)
84	– Current cap on T2 instruments subject to phase-out arrangements	-	-	484 (5), 486 (4) & (5)
85	– Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	484 (5), 486 (4) & (5)
(1) 'N/A' inserted if the question is not applicable				

1) CET1 capital requirement including buffer requirements.

2) CET1 capital ratio as reported, less minimum requirement of 4.5% (excluding buffer requirements) and less any CET1 items used to meet the Tier 1 and total capital requirements.

Annex 2

Subordinated debt

		DKK
Common Capital instruments' main features template (1)		**Tier 2**
1	Issuer	Danish Ship Finance Holding A/S
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	N/A
3	Governing law(s) of the instrument	Danish
	Regulatory treatment	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Floating Rate Convertible Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	2,000.00
9	Nominal amount of instrument	2,000,000,000.00
9a	Issue price	100.00
9b	Redemption price	100.00
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	Tuesday den 15. November 16
12	Perpeptual or dated	Dated
13	Original maturity date	Friday 15 May 17
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates, and redemption amount	Sunday 15 May 22
16	Subsequent call dates, if applicable	Any interest payment date after Call date up to maturity date
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating (Floored at 0 pct)
18	Coupon rate and any related index	CIBOR3M + 850 bps (spread)
19	Existence of a dividend stopper	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	No
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	Yes
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Convertible
24	If convertible, conversion trigger (s)	Common equity Tier-1 lower than 7%
25	If convertible, fully or partially	Fully

		DKK
Common Capital instruments' main features template (1)		**Tier 2**
26	If convertible, conversion rate	"Par value" of the ordinary share
27	If convertible, mandatory or optional conversion	Both
28	If convertible, specifiy instrument type convertible into	Ordinary shares
29	If convertible, specifiy issuer of instrument it converts into	Danish Ship Finance Holding A/S
30	Write-down features	No
31	If write-down, write-down trigger (s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Senior debt
36	Non-compliant transitioned features	No
37	If yes, specifiy non-compliant features	N/A

Annex 3

Capital requirements

Capital adequacy	DSF		Group	
	2018	2017	2018	2017
DKKm				
CET1 capital	8,972	8,930	6,173	5,711
Tier 1 capital	8,972	8,930	6,173	5,711
Total capital	8,972	8,930	8,141	7,669
Risk Exposure Amount	47,233	45,312	47,751	45,978
Capital requirements	5,291	4,880	5,354	4,952
Surplus of capital	3,681	4,050	2,787	2,717
CET1 capital ratio, %	19.0	19.7	12.9	12.4
Tier 1 capital ratio, %	19.0	19.7	12.9	12.4
Total capital ratio, %	19.0	19.7	17.0	16.7
Capital requirement Basel 1 floor	3,779	3,625	3,820	3,678
Total capital adjusted according to rules for Basel 1 floor	4,258	4,209	4,309	4,271
Surplus of capital according to Basel 1 floor	4,714	4,721	3,832	3,398

Annex 4

Capital requirements

Amount of specific countercyclical capital buffer in Danish Ship Finance as of 31 December 2018	
DKKm	**2018**
Institution-specific countercyclical buffer rate	0.31%
Total REA	47,233
Institution-specific countercyclical buffer	148

Geographical distribution of credit risk exposure for the calculation of the countercyclical capital buffer for Danish Ship Finance as of 31 December 2016		
%	**Share of relevant exposures**	**Country buffer rate**
Belgium	0.80%	0%
Bermuda	11.13%	0%
Bahamas	1.31%	0%
Switzerland	0.08%	0%
Cyprus	1.46%	0%
Germany	10.02%	0%
Denmark	31.01%	0%
United Kingdom	4.34%	1.00%
France	1.44%	0%
Isle of Man	2.08%	0%
Iceland	0.22%	1.25%
Italy	1.07%	0%
Cayman Island	2.81%	0%
Liberia	3.95%	0%
Luxembourg	3.35%	0%
Marshall Island	8.36%	0%
The Netherlands	1.77%	0%
Norway	12.25%	2.00%
Panama	0.38%	0%
Sweden	1.10%	2.00%
Singapore	0.20%	0%
Other countries	0.88%	0%
Institution-specific buffer rate	100%	0.31%

Annex 5

Capital requirements

Capital requirements	DSF	Group
DKKm	**2018**	**2018**
Capital requirement for credit risks, standardised approach	3,258	3,299
Capital requirement for credit risks, IRB	-	-
Capital requirement for credit risk, default fund contribution	-	-
Capital requirement for settlement risks	-	-
Capital requirement for market risks	362	362
Trading book	362	362
of which VaR and SVaR	-	-
of which risks outside VaR and SVaR	-	-
FX risk other operations	-	-
Capital requirement for credit value adjustment	49	49
Capital requirement for operational risks	110	110
Capital requirement	4,141	4,183
Risk exposure amount credit risks	40,719	41,240
Risk exposure amount settlement risks	-	-
Risk exposure amount market risks	4,528	4,528
Risk exposure amount credit value adjustment	612	612
Risk exposure amount operational risks	1,374	1,374
Risk exposure amount	47,233	47,754

Annex 6

Capital requirements

Risk Exposure Amount and Own funds requirement, 31 December 2018				
	DSF		Group	
DKKm	Risk exposure amount	Own funds require-ment	Risk exposure amount	Own funds require-ment
Credit risks, STD	40,719	3,258	41,240	3,299
Central government or central bank exposures	86	7	186	15
Regional governments or local authorities exposures	-	-	-	-
Public sector entities exposures	-	-	-	-
Multilateral development banks exposures	-	-	-	-
International organisation exposures	-	-	-	-
Institutional exposures	571	46	608	49
Corporate exposures	36,100	2,888	36,484	2,919
Retail exposures	-	-	-	-
Exposures secured by mortgages on immovable property	-	-	-	-
Exposures in default	3,296	264	3,296	264
Exposures associated with particularly high risk	-	-	-	-
Exposures in the form of covered bonds	271	22	271	22
Items representing securitisation positions	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings	-	-	-	-
Equity exposures	-	-	-	-
Other items	395	32	395	32
Credit risks, IRB	-	-	-	-
Institutional exposures	-	-	-	-
Corporate exposures	-	-	-	-
of which specialised lending	-	-	-	-
Securitisation	-	-	-	-
Exposures without counterparties	-	-	-	-
Credit risks, Default fund contribution	-	-	-	-
Settlement risks	-	-	-	-
Market risks	4,528	362	4,528	362

Risk Exposure Amount and Own funds requirement, 31 December 2018				
	DSF		Group	
DKKm	Risk exposure amount	Own funds require-ment	Risk exposure amount	Own funds require-ment
Trading book	4,528	362	4,528	362
of which VaR and SVaR	-	-	-	-
of which risks outside VaR and SVaR	-	-	-	-
FX risk other operations	-	-	-	-
Credit value adjustment	612	49	612	49
Operational risks	1,374	110	1,374	110
of which Basic indicator approach	1,374	110	1,374	110
of which Standardised approach	-	-	-	-
Total	47,233	3,779	47,751	3,820

Encumbered and unencumbered assets

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally elligible EHQLA and HQLA		of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting institution	52,632				9,718			
Equity instruments	-				3			
Debt securities	15,119		15,119		7,352		7,352	
of which: covered bonds	12,300		15,119		5,261		5,261	
of which: asset-backed securities								
of which: issued by general governments	2,819		2,819		2,091		2,091	
of which: issued by financial corporations								
of which: issued by non-financial corporations								
Other assets of which: ...	37,513				2,363			

Collateral recieved

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
			Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution	-		1,477	
Loans on demand			52	
Equity instruments				
Debt securities	-		1,425	
of which: covered bonds	-		1,425	
of which: asset-backed securities				
of which: issued by general governments	-		-	
of which: issued by financial corporations				
of which: issued by non-financial corporations				
Loans and advances other than loans on demand				
Other collateral received of which: ...				
Own debt securities issued other than own covered bonds or asset-backed securities				
Own covered bonds and asset-backed securities issued and not yet pledged				
Total assets, collateral received and own debt securities issued	52,632			

Source of encumbrance

	Matching liabilities, contingent liabilities or securities lent	"Assets, collateral received and own
Carrying amount of selected financial liabilities	43,047	51,882
of which: ...		

Annex 8

Remuneration

Remuneration

DKK'000	Customer area	Finance- and investment area	Other activities	
Total variable remuneration for the 2018 financial year by business area	5,356	3,835	4,189	

	Board of Directors	Executive Board	Control functions	Other material risk takers
Total amount for the 2018 financial year distributed on fixed and variable remuneration				
- Number of full-time employees	11	3	6	7
- Number of employees designated as material risk takers at 31 December 2018	11	3	-	7
- Fixed remuneration	2,750	11,142	5,153	10,754
- Variable remuneration	-	6,206	110	2,242
Distribution of variable remuneration in 2018				
- Cash	-	800	80	190
- Shares	-	-	-	-
- Share-based instrument	-	5,406	30	2,052
- Other	-	-	-	-
Variable remuneration earned in 2018 by disbursement form				
- Paid out	-	800	-	190
- Deferred	-	5,406	30	2,052

	Board of Directors	Executive Board	Control functions	Other material risk takers
Sign-on fees and severance payments in 2018				
– Sign-on fees paid	–	800	–	–
– No. of recipients	–	1	–	–
– Severance payments	–	–	–	–
– No. of recipients	–	–	–	–
Amount provided for severance payment in 201				
– Total amount	–	–	–	–
– Largest provision for severance payment	–	–	–	–
– No. of recipients	–	–	–	–
Outstanding deferred remuneration				
– Outstanding deferred remuneration regarding previous years	–	2,849	763	3,444
– Payment in 2018 of deferred remuneration from previous years	–	271	–	–
– Forfeited deferred remunerration in 2018	–	–	–	–
– Reduced	–	–	–	–
– Earned deferred remuneration in 2018	–	5,406	30	2,052
– Deferred remuneration at 31 Dec. 2018	–	7,984	793	5,497

No persons received a salary in excess of EUR 1 million in the financial year.

Annex 9

Leverage ratio

DSF

Summary reconciliation of accounting assets and leverage ratio exposures

DKKm	Applicable Amount
Total assets as per published financial statements	62,349
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-
Adjustments for derivative financial instruments	1,4
Adjustment for securities financing transactions (SFTs)	-
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	6,401
(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
Other adjustments	-
Leverage ratio total exposure measure	12.79

Group

Summary reconciliation of accounting assets and leverage ratio exposures

DKKm	Applicable Amount
Total assets as per published financial statements	62,782
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-
Adjustments for derivative financial instruments	1,33
Adjustment for securities financing transactions (SFTs)	-
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	6,038
(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
Other adjustments	1,148
Leverage ratio total exposure measure	8.90

DSF

Leverage ratio common disclosure

DKK million		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	60,948
	(Asset amounts deducted in determining Tier 1 capital)	-
	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	60,948
Derivative exposures		
	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	-
	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	1,4
	Exposure determined under Original Exposure Method	-
	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
	(Exempted CCP leg of client-cleared trade exposures)	-
	Adjusted effective notional amount of written credit derivatives	-

Group

Leverage ratio common disclosure

DKK million		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	61,452
	(Asset amounts deducted in determining Tier 1 capital)	-
	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	61,452
Derivative exposures		
	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	-
	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	1,33
	Exposure determined under Original Exposure Method	-
	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
	(Exempted CCP leg of client-cleared trade exposures)	-
	Adjusted effective notional amount of written credit derivatives	-

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Leverage ratio common disclosure

DKK million		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
	Total derivatives exposures (sum of lines 4 to 10)	1,4
SFT exposures		
	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
	Counterparty credit risk exposure for SFT assets	-
	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
	Agent transaction exposures	-
	(Exempted CCP leg of client-cleared SFT exposure)	-
	Total securities financing transaction exposures (sum of lines 12 to 15a)	-
Other off-balance sheet exposures		

Group

Leverage ratio common disclosure

DKK million		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
	Total derivatives exposures (sum of lines 4 to 10)	1,33
SFT exposures		
	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
	Counterparty credit risk exposure for SFT assets	-
	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
	Agent transaction exposures	-
	(Exempted CCP leg of client-cleared SFT exposure)	-
	Total securities financing transaction exposures (sum of lines 12 to 15a)	-
Other off-balance sheet exposures		

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Leverage ratio common disclosure

DKK million		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
	Off-balance sheet exposures at gross notional amount	6,401
	(Adjustments for conversion to credit equivalent amounts)	-
	Other off-balance sheet exposures (sum of lines 17 and 18)	6,401
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposure measure		
	Tier 1 capital	8,972
	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	67,349
Leverage ratio		
	Leverage ratio	12.79
Choice on transitional arrangements and amount of derecognised fiduciary items		
	Choice on transitional arrangements for the definition of the capital measure	-
	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

Group

Leverage ratio common disclosure

DKK million		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
	Off-balance sheet exposures at gross notional amount	6,038
	(Adjustments for conversion to credit equivalent amounts)	-
	Other off-balance sheet exposures (sum of lines 17 and 18)	6,038
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposure measure		
	Tier 1 capital	6,405
	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	67,49
Leverage ratio		
	Leverage ratio	8.90
Choice on transitional arrangements and amount of derecognised fiduciary items		
	Choice on transitional arrangements for the definition of the capital measure	-
	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

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Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	CRR leverage ratio exposures	
	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	60,948
	Trading book exposures	14,381
	Banking book exposures, of which:	46,568
	Covered bonds	2,493
	Exposures treated as sovereigns	1,17
	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
	Institutions	1,601
	Secured by mortgages of immovable properties	-
	Retail exposures	-
	Corporate	37,952
	Exposures in default	2,956
	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	395

Group

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	DKK million	CRR leverage ratio exposures
	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	61,452
	Trading book exposures	14
	Banking book exposures, of which:	47,452
	Covered bonds	2,493
	Exposures treated as sovereigns	1,21
	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	-
	Institutions	2,961
	Secured by mortgages of immovable properties	-
	Retail exposures	-
	Corporate	37,436
	Exposures in default	2,956
	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	395

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