DANISH SHIP FINANCE 2021

> Annual Report

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LETTER TO OUR STAKEHOLDERS

2021 proved to be a remarkable year. Whilst Covid-19 continued to inflict a heavy toll on societies, we experienced a return to a semblance of normality. On the back of resurgent shipping markets and renewed shipping sales and purchase activity, we posted solid lending growth across the board.

Some of our clients saw earnings reach unprecedented highs as shipping experienced strong demand while various supply chain constraints including Covid-19-induced port closures reduced supply. An exception was the subdued activity for Tankers in 2021.

Changes in global production and consumption patterns in 2021 put shipping and logistics in the spotlight and cemented shipping as a crucial facilitator of global growth and trade, with the industry's every move closely watched by observers globally.

The unique offering that Danish Ship Finance has built over the past 60 years sets a solid foundation for our success. The 2021 Prospera client survey placed Danish Ship Finance as the global number one in ship finance, acknowledging our strong sector knowledge and the competencies of our employees, as well as our ability to serve clients effectively on a global basis, albeit largely remotely in 2021.

The first pillar of our strategy remains to ensure attractive levels of profitability for our shareholders. We are pleased to report good progress on this front with net profits of DKK 254 million and expect to take another meaningful step in 2022.

The loan book amounted to a modest DKK 33.6 billion at the start of the year, on the back of reduced market activity

"The 2021 Prospera client survey placed Danish Ship Finance as the global number one in ship finance"

in 2020 and as unusually strong earnings encouraged several clients to prepay on outstanding loans. Loan demand returned at scale in late 2020 and continued to strengthen throughout 2021. We managed to increase the loan book to DKK 37.5 billion by year-end, which we consider a significant step, supporting our ambition of further growth and sustainably higher earnings. With a capital ratio of 20.1% and solid funding, we have ample strength to fulfil this ambition.

The credit quality of the loan book continued to be very strong. On top of this, we were able to attract new business with a stronger average credit quality than the existing book. Legacy issues in the Offshore sector are gradually being resolved, albeit slowly due to high complexity and still challenged, but improving, market conditions. These factors underlie a reversal of loan impairment charges of DKK 39 million.

The return on our own funds investments, however, continued to be challenged in 2021.

Shipping's transition towards carbon neutrality is already playing an increasing role in our work. We are taking this to the next level: from 2022, sustainability will form a second pillar of our strategy and we will commit ourselves even further to tackling shipping's green transition in partnership with our clients.

The transition to sustainable shipping is a fundamental shift for the industry and presents a unique opportunity for us to build a larger and more climate-friendly loan book: to meet the demand for carbon-neutral vessels, the industry requirements for newbuild vessel financing will increase over the next decade, as exceptionally large investments will be needed to bring about the transition. We stand ready to support the industry – "Financing the transition" will become part of our DNA.

Short- and long-term targets will define our progress. As early as 2022, we aim for at least 30% of new loans to have sustainability-linked pricing, typically tracking the carbon-reduction trajectory laid down by the IMO.

By 2025, we will only issue new loans to clients who are actively engaged in the transition to carbon neutrality.

By 2050, our loan book will contain only carbon-neutral vessels.

We are excited about developing opportunities for collaborating even more closely with our clients and stakeholders to deliver carbon neutrality in shipping, supporting a long-term viable industry.

We detail our ambitious ESG targets in the companion Sustainability Report.

We would like to take this opportunity to express our gratitude to our dedicated employees for their efforts to deliver the highest quality of service in a year when both travelling to meet clients and everyday work schedules remained severely restricted.

Eivind Kolding
Chairman

Erik I. Lassen
Chief Executive Officer

"We are now ready to take this to the next level: from 2022, sustainability will form a second pillar of our strategy and we will commit ourselves even further to tackling shipping's green transition in partnership with our clients."

DANISH SHIP FINANCE AT A GLANCE

Danish Ship Finance is a dedicated provider of financing to reputable shipowners, focused on supporting the shipping industry in its transition towards carbon neutrality, while generating attractive returns for our shareholders.

When founded in 1961, our mandate was to finance Danish-built vessels. As shipping evolved so did our business and in the late 1990s we began to expand our presence outside Denmark with select international clients, although our ties to the Danish shipping community remained a priority.

Today, while Danish clients still account for around one-third of our loan book, we are proud to be one of the largest dedicated lenders in ship financing and a top 20 shipping financier globally.

We strive to conduct our business in a proper and highly professional manner and to be a long-term partner to our clients and investors. In 2021 we obtained a global no. 1 Prospera ranking in ship finance and maintained a class-leading credit performance and a very robust capital and liquidity position.

Our ability to issue covered bonds on competitive terms remains a cornerstone of our business and we are proud of our solid investment grade 'A (Stable)' covered bond rating, which was confirmed by Standard & Poor's in 2021.

On average, our Senior Client Executives have more than 15 years of shipping experience

We have in-house shipping research, as well as technical survey, marine legal and marine insurance expertise

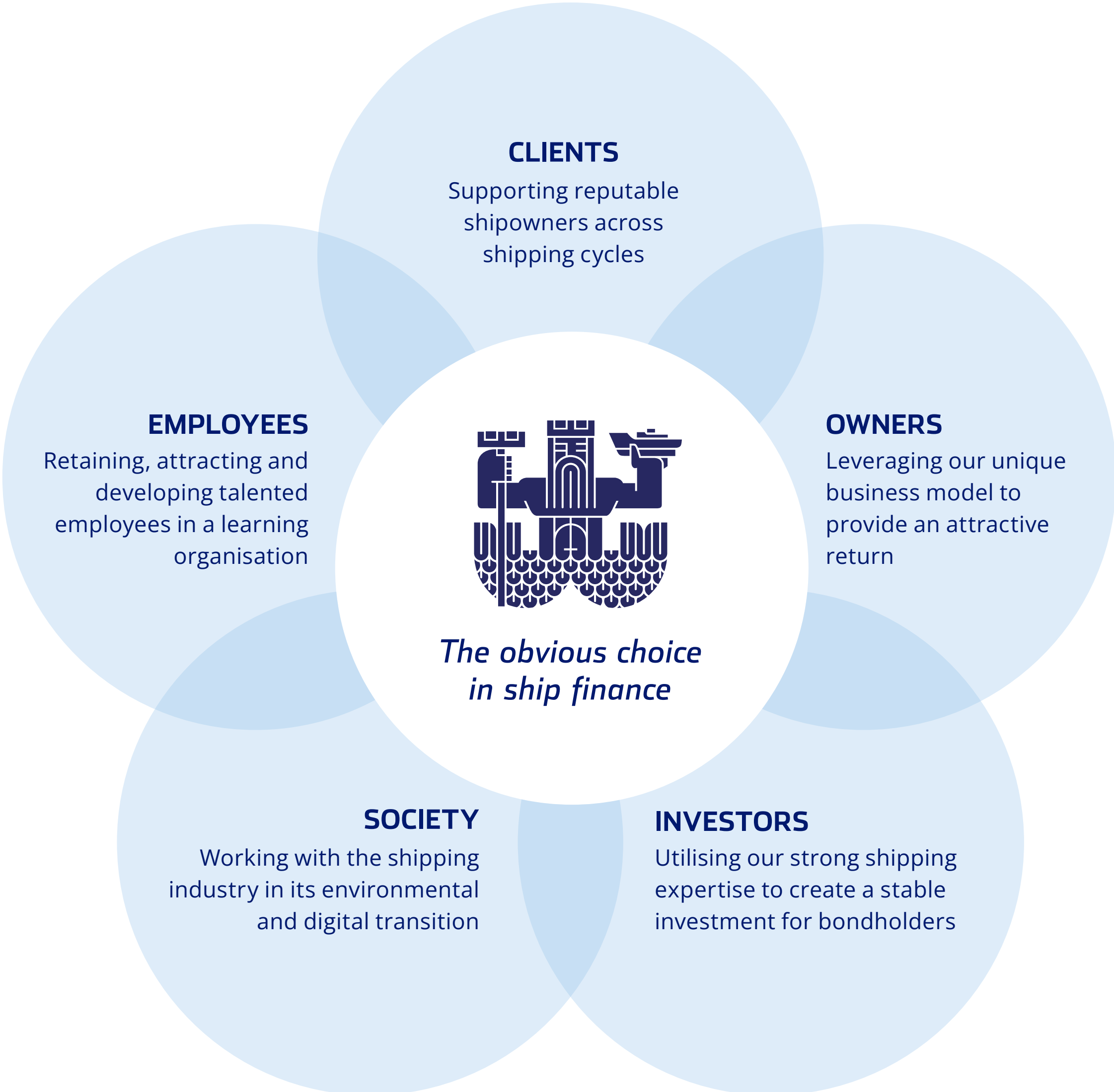
We have a loan book of DKK 37.5 billion[1], collateralised by 803 vessels

We are domiciled in Copenhagen, and able to tap into strong shipping competencies

Our lean credit organisations enable quick decision-making to the benefit of clients

1) The loan book comprises of loans and guarantees. See note 17 for further details.

VISION

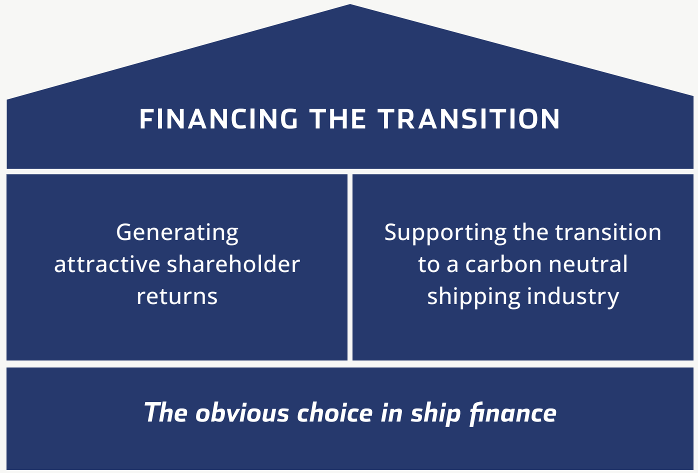


We strive to continuously strengthen our competitive position and to be *the obvious choice in ship finance*. An essential aspect of our vision is to remain a low-risk institution, carefully adhering to our proven credit policy while optimising long-term returns from our lending business.

Our strategy: Financing the transition

Generating attractive shareholder returns by building a strong lending business has always been a top strategic priority for us, and now, financing the transition to a carbon neutral shipping industry will be another. As a financier to the shipping industry we believe that we have a responsibility for supporting the industry in this transition and we will work even closer with our clients and other stakeholders to deliver on this goal in the coming years.

In our 'financing the transition' strategy, we set a number of short- and longer-term targets aimed at supporting and encouraging our clients in furthering their transition and ensuring that we as an organisation constantly integrate sustainability even further into our core business. Our targets are described in the Sustainability Section in this report and detailed in the companion Sustainability Report.



DANISH SHIP FINANCE

HIGHLIGHTS

During an eventful and sometimes operationally challenging year for the shipping industry, we achieved the following:

- Supported our clients in their business plans
- More than doubled our net profit from last year
- Gained seven new clients
- Introduced ambitious short- and longer-term sustainability targets
- Increased the share of new loans with margins linked to carbon emissions to 20%
- Reported fleetwide CO_2 emissions under the Poseidon Principles, showed a closer alignment to the IMO trajectory compared to last year's inaugural reporting
- Maintained strong regulatory solvency of 20.1%
- Fully established our presence in the EUR covered bond market, with our third issuance
- Made a negative investment return of 0.9%
- Reversal of DKK 39 million loan impairment charges

This year, we will make a DKK 38 million dividend payment to the Danish Maritime Fund and hence the "Blue Denmark". Our total contribution since 2005 now stands close to DKK 800 million.

THE YEAR IN SUMMARY

The net result of DKK 254 million for the financial year 2021 represents an increase of 117% on the previous full-year net result.

Net income from lending of DKK 563 million was DKK 9 million higher than the 2020 result. The result included an increase in amortised fees of DKK 35 million, reflecting increased activity in the loan book.

Throughout 2021, we experienced a resurgence of lending activity as buoyant shipping markets stimulated increased sales and purchase and refinancing activity.

Net income from funding (excluding costs directly attributable to clients) of a negative DKK 8 million was DKK 35 million better than the 2020 level.

Net income from our investment portfolio was a net loss of DKK 100 million in 2021 which was on par with the 2020 performance.

Operating costs of DKK 167 million were higher than the 2020 level by DKK 9 million due to the partial resumption of travel and other activities, and restoration of bonus accruals that were reduced in 2020 as a result of the extraordinary circumstances. Operating costs were comparable to full-year 2019, after accounting for additional domicile costs.

We are very pleased that credit quality increased from an already robust level. We also managed to resolve two legacy non-performing loans, and the volume of non-performing loans decreased by nearly DKK 0.5 billion (21%) in 2021. Our non-performing legacy exposure in the Offshore segment was reduced to a relatively modest DKK 1.3 billion at year-end 2021.

We were able to reverse DKK 39 million of loan impairment charges in 2021. This compares favourably to loan impairment charges of DKK 100 million in 2020.

The year's result was achieved against a backdrop of buoyant shipping markets, where the high levels of activity already observed going into 2021 were sustained throughout the year. Momentum was particularly strong in the Container and Dry Bulk segments, which posted historically strong performances. This market activity translated into a high level of client interest and increased lending dialogue, as sale and purchase volumes of vessels recovered sharply from an unusually low level the previous year.

We have significant capacity to support our clients in the months and years ahead.

The loan book at the end of the year stood at DKK 37.5 billion, an increase of nearly DKK 4.0 billion on the previous year-end.

Standard & Poors in July confirmed our covered bond rating at 'A' with a Stable outlook. This is another indication that our business model, built on solid capitalisation and strong liquidity, provides a stable basis for future lending activity to top-tier shipowners.

Our sustainability efforts continued apace in 2021 and we added one additional FTE in the Sustainability department to accelerate these efforts as the shipping industry gears up for its transformation to a sustainable future.

We continued to increase the share of sustainability-linked loan agreements during the year.

Our Poseidon Principles reporting this year (reporting on 2020 performance) showed an improvement in our portfolio performance, to 5.6% from 6.7%.

Income by business area[1]

DKK MILLION	2021	2020
Lending	563	554
Funding	(8)	(43)
Investments	(100)	(99)
Income	**455**	**412**

1) The link between income according to the income statement and the business areas can be seen in note 3.

SUSTAINABILITY

FINANCING THE TRANSITION

Seaborne trade must become carbon neutral, and in the coming years and decades financing this transition will be an integral part of our mission. In order to deliver true change, it is crucial to set progressive yet specific goals, which a thorough materiality assessment have provided the foundation for.

This forms one pillar of our strategy 'Financing the transition'. In this, we set forth a number of ambitious goals that not only take our CO_2-emissions (Scope 1 and Scope 2) into account, but more importantly target our financed emissions.

The targets related to the lending portfolio are focused on reducing our indirect climate impact and ensuring the necessary preparation for the transition to a sustainable shipping industry. In addition, we set targets for our own emissions to ensure we uphold the same standards that we expect from our clients.

Our targets

Carbon-neutral shipping industry

CO_2

2050 Carbon-neutral portfolio
2025 Only new loans to clients who are actively engaged in sustainable transition

Sustainable finance

2025 Loan portfolio is fully aligned to the Poseidon Principles trajectory
2022 30% of new lending is sustainability-linked

Our contribution

2030 40-60% women in leadership positions
2023 25% female board members
2023 Annually reduce DSF's own direct climate impact by 5-10%

Brief status summary on 2021

In parallel with our new sustainability targets, we continue our sustainability engagement with clients and other stakeholders.

During 2021, we continued to rate the sustainability performance and transparency levels of our clients.

We also continued to offer sustainability-linked loans to strengthen clients' incentive to contribute to the transition of the shipping industry with the end goal of reaching CO_2 neutrality by 2050.

Finally, we published our second portfolio climate alignment report in line with the Poseidon Principles. This has provided us with a more detailed and nuanced perspective on our portfolio's climate performance, and these insights will increasingly inform our lending decisions.

Sustainability Report 2021

New this year, our sustainability report draws upon the recommendations set forth by the Task Force on Climate-related Financial Disclosures. Further, the sustainability report ensures compliance with section 135 and 135a of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms etc.

Read more about the new sustainability strategy and targets, and our current progress in the Sustainability Report 2021 on our website:

→ **www.shipfinance.dk/sustainability/reporting/**

FINANCIAL REVIEW BY BUSINESS AREA

DANISH SHIP FINANCE

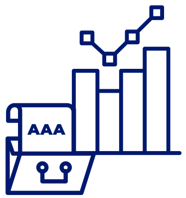
FINANCIAL REVIEW BY BUSINESS AREA

Our business model is focused and transparent.

Our areas of activity are as follows:

Lending to our shipowning clients

Funding the loan book and macro hedging



Investing the company's funds in liquid instruments partly to meet regulatory requirements

LENDING

Maintaining a strong and competitive lending business is our key value driver. Led by our highly specialised and experienced client relations and credit teams, we work with many of the industry's most reputable shipowners. Our disciplined approach to credit risk and our focus on long-term sustainable results are imbued across the organisation and in every new lending arrangement.

By leveraging our strong internal competencies across research, lending, sustainability, marine legal, technical survey and insurance, we strive to expand the role we play in the industry and to engage with clients on a broader range of issues than just their financing needs.

2021 in brief

We were pleased that the shipping industry overall was in good shape in 2021. Our clients were once again very active throughout the year, and we were able to support their funding needs. As a result, we experienced a resurgence of lending in 2021. At the same time, credit quality remained very strong, reflecting healthy sector earnings and appreciating vessel values in buoyant markets.

New loans of DKK 9.4 billion were disbursed during the year and new loan offers accepted equalled DKK 10.3 billion (at year-end exchange rates). As at 31 December 2021, our loan book amounted to DKK 37.5 billion, 12% higher than at year-end 2020.

The increase was due to a substantially higher and more diverse level of new lending activity during the year supported by an increase in the USD/DKK exchange rate.

Net income from lending increased by DKK 9 million year-on-year including an increase in income from amortised fees of DKK 35 million, reflecting increased activity in the loan book in recent years. The loan book at year-end was collateralised by a total of 803 vessels.

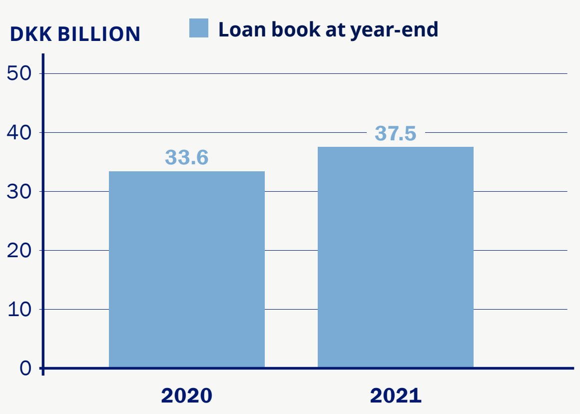
Income, lending

DKK MILLION	2021	2020
Net interest income	531	533
Net fees and commission	32	21
Income	**563**	**554**

"We were pleased that the shipping industry overall was in good shape in 2021"

DANISH SHIP FINANCE

Loan book development



Key credit ratios

Loan impairment charges for 2021 amounted to an income of DKK 39 million, against an expense of DKK 100 million in 2020, corresponding to an annual loan impairment ratio of -0.11% in 2021, down from 0.27% the year before. The positive development in loan impairment charges was attributable to improved credit quality across the loan book and lower expected credit losses on non-performing loans, particularly in the Offshore segment.

During the past five years, default levels have normalised, coming down from the elevated level in 2016, when the Offshore and Dry Bulk segments in particular experienced severe downturns. In 2021, there was only one loan default, which was subsequently resolved without a credit loss.

In 2021, net write-offs debited to the ECL allowance account decreased to 0.8% of the average loan book, down from 2.1% the year before, stemming from workouts on legacy non-performing loans (NPL), primarily within the Offshore segment.

At year-end 2021, the weighted average loan-to-value ratio after loan impairment charges stood at a very healthy 44%, and 99% of the loan book after loan impairment charges was secured within 60% of the values of the mortgaged ships.

NPL decreased by DKK 0.5 billion to DKK 1.9 billion, improving the net NPL ratio to 3.0% at year-end 2021, a substantial reduction from 4.2% the year before.

Accumulated loan impairment charges of 2.6% of the loan book at year-end 2021 continue to provide adequate protection for future credit losses.

Key ratios, lending

	2021	2020
Annual loan impairment ratio (Loan impairment charges as % of average loan book)	(0.1)	0.3
Net write-offs on loans as % of average loan book	0.8	2.1
Weighted average loan-to-value after loan impairment charges (%)	44	54
Proportion of loans covered within 60% of market values (%)	99	98
Gross NPL ratio (%)	5.1	7.2
Net NPL ratio (%)	3.0	4.2
Accumulated loan impairment charges as % of loan book (year-end)	2.6	3.9

Competition

During 2021, the ship finance market recovered from the initial Covid-19 impact. Due to strong shipping markets in several segments, some clients had limited need for financing, pushing margins slightly lower at the start of the year. Margins remained stable at fairly low levels, especially for shipping companies with strong balance sheets, as banks and leasing companies competed fiercely for their business. This will most likely continue going into 2022.

Several European banks continued to increase their focus on core clients in their home markets, thus reducing their overall market presence. We do not expect this trend to continue much longer and would not be surprised to see these institutions stabilise or even increase their market shares once again.

Asian banks are increasing their presence in the international ship finance markets, and we expect them to play a somewhat larger role in the years to come.

Chinese leasing companies still account for a large part of the ship finance market, especially for newbuilds and large transactions. Although they remain dominant market participants, we expect growth in their market shares to level off, as shipowners are increasingly focused on having more diversified funding sources.

We are seeing a sharp increase in sustainability-linked loans, with margins linked to CO_2 emissions. This will continue in 2022, and we will also see more green loans and bonds as the shipping industry gradually moves towards decarbonisation.

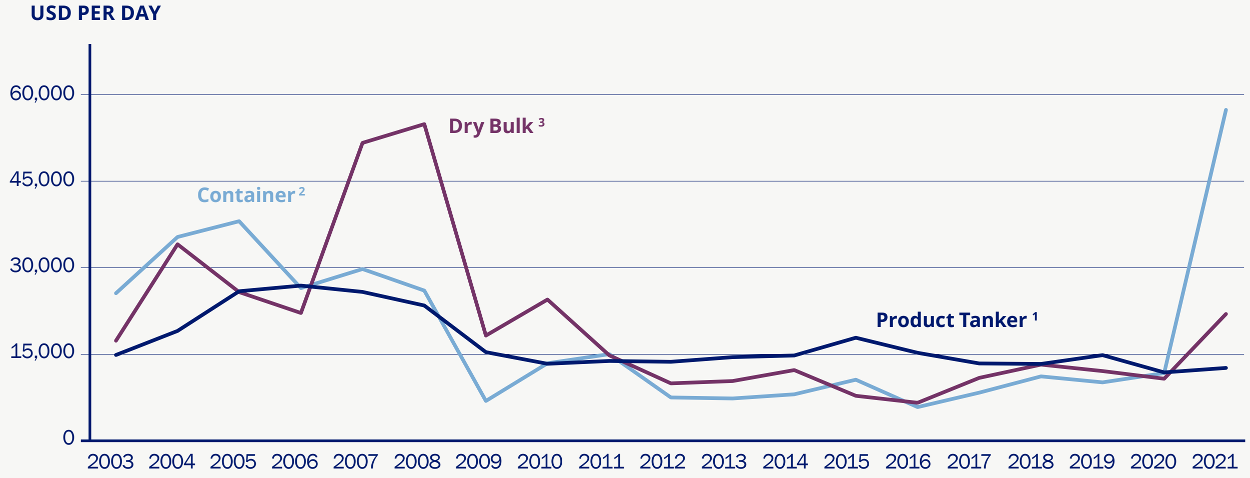
THE SHIPPING INDUSTRY

Shipping segments

In 2021, the shipping industry rebounded after a challenging 2020 shaped by the Covid-19 outbreak and the subsequent waves of regional lockdowns. Some segments recovered much faster, while others remain below pre-Covid levels. The overall earnings index, the ClarkSea Index, was anchored around USD 15,000 per day for large parts of 2020 but surged to a 13-year high in October 2021 at USD 42,600 per day primarily driven by the segments Container and Dry Bulk. The index at year-end stood at around USD 36,000 per day.

Volatility is the norm in the shipping industry, and shipowners and operators are used to adjusting accordingly. During 2021, some shipowners increased vessel speeds and reduced lay-ups to cope with the sudden rebound in demand. S&P activity reached 7% of the fleet, which is a level not seen since 2007. This reflects the fact that immediate access to vessels is highly valued by shipowners, even if there are some concerns related to future earnings. Secondhand prices for especially Container and Dry Bulk vessels surged to high levels, albeit still well below the levels seen before the financial crisis in 2008.

Timecharter rates



Note: [1] MR 1 year T/C [2] 3,500 teu 1 year T/C [3] Panamax 1 year T/C **Sources:** Clarksons, Danish Ship Finance

Macro trends

Global economic growth has been on a rollercoaster ride during the pandemic. In 2021, the global economy recovered from the steep declines experienced in 2020. However, it has not yet recovered fully – global GDP is still lower than projected before the pandemic. The loss of output has been proportionally greater in lower-income countries.

Supply bottlenecks have put a lid on global GDP growth. Continuous Covid-19 outbreaks and shortages of raw materials have caused vast disruption to the global supply chain and pushed prices up on energy and various goods. In Europe and North America in particular, inventory levels have declined in many industries, leading to longer-than-expected delivery times.

China experienced strong growth in the first half of 2021, but this stalled in the second half of the year on the back of declining confidence in the Chinese financial and real estate sectors. Manufacturing investments also slowed due to temporary power cuts in various provinces caused by energy shortages. In the US, economic growth softened during the second half of the year as supply chain disruptions and a spike in inflation rates reduced consumer confidence.

World seaborne trade volumes increased by 3.7% in 2021 and thus regained the momentum lost in 2020.

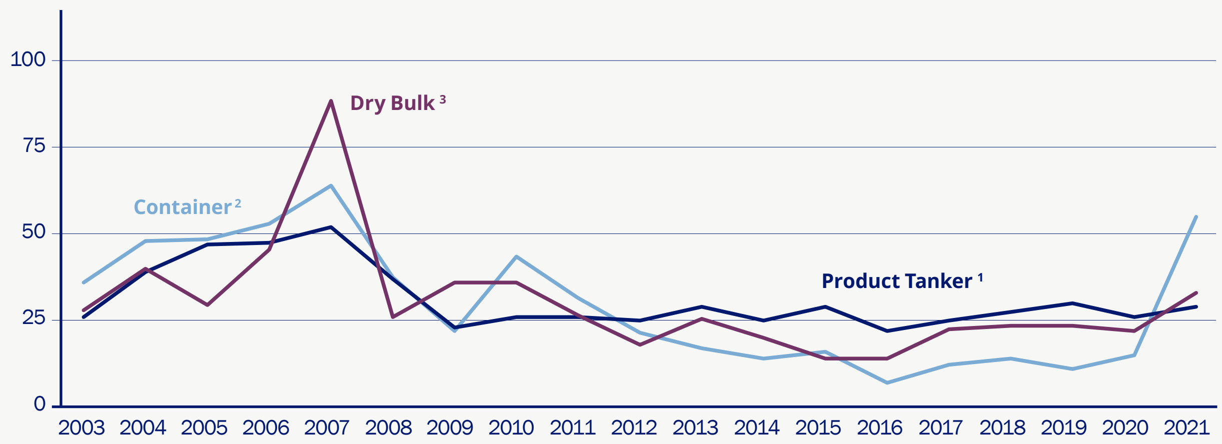
Seaborne trade volumes largely regained their lost territory during 2021. The recovery in trade volumes was uneven with Container, Dry Bulk and Gas Carriers seeing strong demand growth and high freight rates, while demand for Oil Tankers remained below pre-Covid levels due to massive stock drawings. Contracting increased strongly for Container and Gas Carriers, while low yard availability and low decarbonisation transparency restricted shipowners' appetite for ordering new Dry Bulk vessels and Oil Tankers.

Although contracting has increased significantly from 2020 levels, the global orderbook is still relatively small and represents only 10% of the world fleet. Seaborne trade volumes are expected to continue to increase in 2022, but the recent surge in Covid cases adds risk to the outlook.

"Shipping is accustomed to volatility and the sector was not as impacted by Covid-19 as many may have expected"

Ship prices by segment

USD MILLION



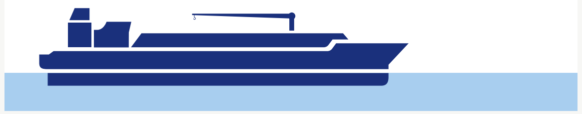
Note: [1] MR 5 year old [2] 3,500 teu 5 year old [3] Panamax 5 year old/C **Sources:** Clarksons, Danish Ship Finance

CONTAINER

In 2021, box rates in the Container market reached unprecedented highs. Consumers redirected spending towards containerised goods owing to social distancing, and demand for Container vessels surged accordingly. Port congestion rose due to increased port handling, supply chain disruptions and less effective port operations. The fleet's cargo-carrying capacity decreased accordingly. The need for tonnage caused timecharter rates and secondhand prices to sky-rocket across vessel ages and sizes. Both liner operators and tonnage providers benefited from the strong market.

GAS CARRIERS

Market conditions for Gas Carriers strengthened in 2021, as demand for gas recovered ahead of fleet growth. However, the fleet is expected to expand significantly in the coming years as investor appetite for larger dual-fuel vessels continues to grow. Demand is expected to increase both in the short and long run, but uncertainties persist, as production and inventory levels have not been able to follow suit.



OIL TANKERS

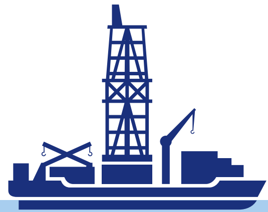
Oil demand has recovered much of the lost territory but remains below pre-Covid-19 levels. Inventory drawdowns have kept both fleet utilisation and freight rates low among Crude and Product Tankers. Freight rates are expected to remain weak until late 2022, as fleets are set to grow ahead of demand. The medium-term outlook for Crude Tankers is more moderate, as oil demand is expected to grow up until 2025. However, expanding refinery capacity closer to oil-producing countries is expected to switch some Crude volumes into Product trades and thereby support the outlook for Product Tankers – there were already signs of this towards the end of 2021.

DRY BULK

Strong industrial output combined with low fleet growth, port congestion and infrastructure bottlenecks raised freight rates for Dry Bulk vessels to levels not seen since 2009. Secondhand prices rose accordingly but did not enter the extraordinary territory of the past super cycle. The surge was strongest among mid-sized and small vessels. These vessel segments are enjoying a positive outlook due to promising demand prospects and low fleet growth, while the larger segments face structural headwinds to their demand outlook.

OFFSHORE

The market for Offshore Supply vessels improved relatively sharply in 2021, in part driven by the offshore wind industry. Demand saw a reasonably firm recovery and day rates rebounded from a Covid-impacted 2020. While challenges remain, market sentiment is at its brightest since the post-2014 downturn began. Average fleet utilisation improved by approximately 7 percentage points during 2021, ending the year at 64%. The outlook for 2022 is relatively optimistic, although there is still an overhang of supply.



CAR CARRIERS

Global sales of cars rebounded in 2021, which led to high growth in demand for Car Carriers. High levels of port congestion limited the number of available vessels. Consequently, timecharter rates rose to the highest level since the financial crisis. Demand is expected to continue to grow rapidly in 2022 and surpass 2019 volumes, although easing port congestion is likely to keep a lid on timecharter rates.

RO-RO/FERRIES

Due to the firm Container market, Ro-Ro vessels have increasingly carried goods that normally would have been carried by Container vessels. This lifted earnings for Ro-Ro vessels during 2021. Ferries experienced a large rebound in activity driven by regional traffic starting to normalise during the year.

"The supply side is becoming more manageable with a very low orderbook"

DANISH SHIP FINANCE

FUNDING

We maintain ongoing access to funding in domestic and international financial markets. Our Treasury department manages our liquidity, issuance of bonds, and financial hedging transactions.

2021 in brief

Our funding market access remained good throughout the year. Our liquidity position was strong, supporting the underlying growth in the loan book.

We returned to the EUR covered bond market in October with a new June 2028 benchmark bond. We successfully undertook a switch tender in connection with the benchmark issue whereby we bought back shorter-dated EUR covered bonds. Through the year, we carried out similar switch activity in DKK, issuing longer-dated bonds and at the same time buying back shorter-dated bonds. Investors in both programmes provided positive feedback on the provisions of additional liquidity via these buybacks. All bond issuances are subject to the Danish specific balance principle.

Even though traditional face-to-face investor meetings proved almost impossible to arrange for much of the year, we were delighted to see healthy interest from existing and new investors alike. In particular, we were pleased to welcome 23 new investors at the issuance of our EUR benchmark bond. The strong reception for our new issue alongside the performance of our existing bonds is proof of that our strong credit story resonates well both in the Danish market and internationally.

In total, we issued the equivalent of DKK 9.6 billion in DKK and EUR ship covered bonds while buying back the equivalent of DKK 6.4 billion.

By year-end 2021, we had DKK 46.4 billion of outstanding bonds with an average maturity of approx. 3.5 years, of which 24% were denominated in EUR.

Funding costs decreased in 2021. We saw a tightening of our DKK funding costs relative to DKK mortgage bonds and our EUR issuance was priced well below our DKK curve. Favourable cross-currency basis spreads further reduced our effective USD funding costs compared to 2020.

Funding costs not covered decreased to DKK 13 million from DKK 29 million in 2020. This improvement primarily reflected beneficial moves in funding- and cross-currency swap spreads. This coupled with a well-timed funding strategy, enabled us to fund loans at attractive levels.

Costs relating to warehousing of temporary excess liquidity from bond issuances pending loan disbursements and associated hedges were a modest DKK 0.4 million in 2021. This result is very satisfactory given the conservative risk profile of this portfolio and the environment of extremely negative money market rates.

Non-accrual loans contributed a negative DKK 2 million in lost interest income, shown as negative income under non-business activities. This was less than the previous year, reflecting lower LIBOR rates. FX hedging of credit margins contributed a negative DKK 6 million and buy-backs of issued bonds a net income of DKK 11 million distributed on negative DKK 41 million market value adjustments and positive DKK 52 million reduction of interest payments. In total, net income in non-business activities amounted to DKK 4 million in 2021.

In total, the cost of funding and hedging after loan funding charges was a cost of DKK 8 million, an improvement of DKK 35 million year-on-year.

Income, funding

DKK MILLION	2021	2020
Funding costs not covered	(13)	(29)
Warehousing	0	(8)
Non-business activities	4	(6)
Income	**(8)**	**(43)**

"We are pleased that our extensive dialogue with investors across Europe has been able to continue"

DANISH SHIP FINANCE

INVESTMENTS

Our own funds are invested in a portfolio of high-grade fixed income instruments, predominantly Danish 'AAA' government bonds and mortgage covered bonds, but also, to a limited extent, other highly rated core EU government bonds. The portfolio is managed within prudent risk limits defined by the Board of Directors. While the risk of outright default is viewed as very remote, the portfolio is exposed to daily changes in the credit spread for these instruments. The interest rate risk of the investment portfolio is to a large extent hedged with derivative instruments. As such, the interest rate risk sensitivity was low during 2021. The credit spread risk was reduced further compared to 2020.

The financial markets

Inflationary pressure across developed markets made itself increasingly felt in 2021. This in turn drove longer-term interest rates higher and led to increased uncertainty about the future direction of central bank rates. In combination, higher rates and greater uncertainty created headwinds for the performance of most fixed income portfolios – including our own funds' investments.

Despite the volatility in the outright level of interest rates, AAA-rated credit spreads proved well supported throughout 2021 with the notable exception of callable Danish mortgage bonds. While spreads to interest rate swaps performed for both DKK government bonds and non-callable mortgage bonds, spreads on the callable bonds widened and became increasingly volatile towards the end of 2021. Relative to EUR fixed income markets, DKK fixed income assets had a difficult first half of the year but saw performance recover after the rate cut by the Danish central bank at the end of Q3.

2021 in brief

The investment result for the year was on par with that of many external fund managers but nevertheless showed an unsatisfactory negative figure of DKK 100 million. The result was in part due to the very negative money market rates in DKK and in part due to mark-to-market losses on DKK callable mortgage bonds.

Throughout 2021, the investment portfolio was managed at conservatively risk tolerances and only small movements in day-to-day profit and loss were observed. Towards the end of 2021, the investment portfolio was further de-risked by further reducing the remaining holding of callable bonds.

The investment result for 2021 corresponded to a return on capital of a negative 0.9%.

Income, investment

DKK MILLION	2021	2020
Net interest income	(37)	41
Market value adjustments	(62)	(139)
Income	**(100)**	**(99)**

"Throughout 2021, the investment portfolio was managed at conservatively risk tolerances"

DANISH SHIP FINANCE

SUMMARY OF FINANCIALS

DANISH SHIP FINANCE

SUMMARY OF FINANCIALS

FINANCIAL TRENDS

Financial highlights

Key figures[1]

DKK MILLION	2021	2020	2019	2018	2017
Net interest income from lending[2]	541	501	516	477	541
Net interest and fee income from lending[2]	573	522	543	509	561
Net interest income from investment activities[2]	(37)	41	115	163	135
Total net interest income	504	542	631	640	676
Net interest and fee income	536	562	657	672	696
Market value adjustments	(82)	(150)	(197)	(135)	37
Staff costs and administrative expenses	(167)	(158)	(166)	(158)	(141)
Loan impairment charges	39	(100)	2	(35)	(163)
Profit before tax	326	154	296	343	427
Net profit for the year	254	117	227	262	334

DKK MILLION	2021	2020	2019	2018	2017
Loan book	37,544	33,576	41,440	39,591	37,412
Issued bonds	43,228	42,477	47,738	43,549	42,467
Equity	9,325	9,275	9,260	9,229	9,307
Total assets	54,457	59,804	66,824	62,349	58,161
Common Equity Tier 1 capital after deductions	9,131	9,156	9,065	8,972	8,930

1) The key figures are calculated in accordance with Appendix 5 of the Danish FSA's Executive Order on Financial Reports.

2) The link between income in the income statement and the business areas can be seen in note 3.

Key ratios[1]

DKK MILLION	2021	2020	2019	2018	2017
Return on equity after tax (%)	2.7	1.3	2.5	2.8	3.6
Return on investment activities (%)[2]	(0.9)	(0.9)	(0.6)	0.5	3.1
Common Equity Tier 1 capital ratio (%)	20.1	22.3	18.5	19.0	19.7
Combined capital buffer requirement (%)	12.0	12.0	12.5	11.2	10.8
Cost/income ratio (%)[3]	36.8	38.3	35.5	29.1	19.0
Equity as a % of loan book	24.8	27.6	22.3	23.3	24.9
Annual loan impairment ratio[4]	(0.1)	0.3	0.0	0.1	0.4
Accumulated loan impairment charges as a % of loan book (year-end)	2.6	3.9	4.9	6.3	6.9
Weighted average loan-to-value ratio after loan impairment charges (%)	44	54	51	52	57
Proportion of loans covered within 60% of market value (%)	99	98	99	98	95
Net write-offs on loans as a % of average loan book[4]	0.8	2.1	1.2	0.7	0.2

1) The key figures are calculated in accordance with Appendix 5 of the Danish FSA's Executive Order on Financial Reports.

2) Return on investment activities is calculated exclusive of the return from shares and currency.

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

4) The average balance is calculated as a simple average of the opening and closing balance.

Trends

- Net profit for the year amounted to DKK 254 million, an increase of DKK 137 million (117%) compared to 2020.
- The growth trajectory in the loan book seen during the past few years resumed in 2021 after a temporary blip in 2020 due to effects of the Covid-19 pandemic and an elevated level of loan prepayments from clients.
- Similarly, net interest and fee income from lending was above trend in 2021.
- As expected, staff costs and administrative charges increased in 2021, returning to the 2019 level, with a gradual normalisation of activities that had been reduced by Covid-19 lockdowns and of performance-based variable pay.
- Loan impairment charges were reversed, primarily as a result of solving or reducing NPL exposures.

DANISH SHIP FINANCE

INCOME

Net interest and fee income from lending[1], including fee income of DKK 32 million, was DKK 573 million in 2021, an increase of DKK 51 million (10%) versus 2020. The increase can be ascribed to lower funding costs throughout the year and higher activity-based fees. New lending activity was high compared to 2020, with DKK 10.3 billion of loan offers made and accepted.

Net interest income from Investment activities of negative DKK 37 million in 2021 reflected the prevailing low interest rates for high-grade bonds and was DKK 78 million lower than net interest income of DKK 41 million in 2020.

Market value adjustments of securities and foreign exchange generated a loss of DKK 82 million, compared to a loss of DKK 150 million in 2020. Market value losses were largely due to Danish callable mortgage bonds.

EXPENSES

Staff costs and administrative expenses totalled DKK 167 million compared to DKK 158 million in 2020. This represents an increase of approximately 6%, due to a gradual normalisation of activities, which had been reduced in 2020 due to Covid-19 lockdowns, and higher performance-based variable pay.

Operating costs in 2021 included temporary expenses of approximately DKK 2 million for operating our new domicile at Langebrogade 5. A renovation of the domicile is currently under way and the plan is to move into the building during 2023, at which time our current domicile at Sankt Annæ Plads 3 will be handed over to the buyer.

In 2021, the cost/income ratio was 36.8%, compared with 38.3% in 2020.

1) In the income statement lending comprises of the business areas Lending and Funding, see note 3.

LOAN IMPAIRMENT CHARGES

Credit quality across the loan book strengthened from an already good level in 2021, positively impacted by increased freight rates in several shipping segments and successful work-outs, whereby exposures to the Offshore segments were further reduced. In total, loan impairment charges for the year amounted to an income of DKK 39 million compared to an expense of DKK 100 million in 2020.

The ECL allowance account amounted to DKK 1,007 million at year-end 2021, down from DKK 1,330 million at year-end 2020, as a result of reversal of loan impairment charges and write-offs or partial write-offs on legacy non-performing loans (NPL), primarily within the Offshore segment.

TAX

Tax for the year represented an expense of DKK 72 million, against an expense of DKK 37 million in 2020. For 2021, this translated into an effective tax rate of 22.0% versus 24.0% in 2020.

EQUITY

Equity stood at DKK 9,325 million at year-end 2021, against DKK 9,275 million at year-end 2020.

The Board of Directors has proposed a dividend of DKK 128 million. The proposed dividend covers the mandatory preferred dividend to the Danish Maritime Fund, partly accrued interest charges on Group Tier II regulatory capital held in Danish Ship Finance Holding A/S, and associated minority shareholder dividends. This amount is recognised in shareholders' equity until approval of the distribution at the general meeting in March 2022.

The amount of Common Equity Tier 1 (CET1) capital, which is the most important capital concept in relation to capital adequacy rules, is determined exclusive of the proposed dividend, cf. note 30.

CET1 capital totalled DKK 9,131 million at year-end 2021, compared to DKK 9,156 million at year-end 2020. The core capital ratio was 20.1% at year-end 2021, against 22.3% at year-end 2020. There were no supplementary capital instruments on the balance sheet date and the total capital ratio equalled the core capital ratio.

UNCERTAINTY AS TO RECOGNITION AND MEASUREMENT

The most significant uncertainty in recognition and measurement concerns expected credit losses and valuation of financial instruments. We estimate that the uncertainty is at a level which is prudent in terms of providing a true and fair view of the financial statements. See the description in note 1.

MATERIAL RISKS

The most material risks are described in detail in note 41, to which reference is made.

EVENTS SINCE THE BALANCE SHEET DATE

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

Financial results relative to outlook

A significantly improved net result, continued robust credit quality and healthy growth in the loan book were all in line with the expectations for 2021 that we set out one year ago.

Net profits of DKK 254 million in 2021 were a significant improvement on the previous year's result and represent a meaningful step back towards normality.

Renewed growth in the loan book reflected our strategy of increasing earnings from lending, underpinned by cost-effective funding. Further contributions from cost control and reversal of loan impairment charges supported an increase in profitability in 2021. Investment of our own funds delivered a lower-than-expected result amid challenged fixed income markets.

Our loan book grew from a relatively modest DKK 33.6 billion at the beginning of 2021 to a respectable DKK 37.5 billion at year-end, representing an important step towards resuming our previous growth trajectory. We welcomed seven new clients in 2021.

Buoyant shipping markets with high levels of activity throughout the year in many sectors provided a supportive backdrop. Momentum was particularly strong in the Container and Dry Bulk segments, where rates and vessel values appreciated strongly. It was less strong in Tankers, but even here vessel values held up well in the face of continued low rates.

The increase in vessel values had a positive effect on the credit quality of our loan book, which continued to strengthen through the year. This trend was further amplified by two successful work-outs, which reduced the volume of non-performing loans.

Loan impairment charges amounted to a reversal of DKK 39 million in 2021 compared to an expense of DKK 100 million in 2020. Non-performing loans in the Offshore segment now stand at a modest 3.5% of the loan book.

Positive loan growth was underpinned by good access to funding markets, allowing issuance of covered bonds at favourable terms in both the domestic and European markets. In November, we were pleased to see both existing and many new European covered bond investors participate in our third EUR issuance.

Operating costs remained well under control at DKK 167 million. Our Operational Excellence programme continues to strengthen the foundations for efficient and sustainable growth. In 2021, we delivered largely with internal resources and minimal external costs of DKK 3.2 million.

No material market impacts relating to upcoming regulations were observed in 2021.

OUTLOOK FOR 2022

Shipping markets will, in our view, remain supportive in 2022. We expect a continuation of high capacity utilisation in the Container segment, as global supply chains are unlikely to fully normalise in the near term and demand will remain relatively high. The supply side in the Dry Bulk market looks manageable but a combination of easing supply chains and moderate demand growth may challenge the larger Dry Bulk vessels in 2022. Tankers may see more activity this year also, following two years of abnormal trading. Although the number of vessels on order in some segments has markedly increased, we do not see much effect of this in 2022. Overall, our expectation is for near-term supply-demand balances to remain strong, and to continue to provide support for rates through 2022. Albeit rates are expected to moderate from the highs of 2021 (cf. the Shipping Markets section).

Shipping markets thus present a favourable backdrop for our business, which we expect will translate to continued loan growth.

We anticipate being able to access the Danish and European covered bond markets on good terms again during 2022. Combined with our conservative approach to liquidity management, this will underpin our continued ability to offer attractive financing terms to clients.

Engagement with investors will naturally remain one of our top priorities for the year, as will the development and evaluation of a platform for sustainability-linked funding products.

We expect to further evolve our careful strategy for own funds investment, with a view to realising an investment result close to break-even in 2022, still with very low levels of risk.

DANISH SHIP FINANCE

The Tier 2 capital instrument held in Danish Ship Finance Holding A/S is coming up for its first call date, in May 2022. We will in the coming months review the Group's capital structure and opportunities for further strengthening the Group and DSF's long-term capital position.

We expect operating costs to remain well under control and we will continue leveraging our Operational Excellence initiatives to maintain the headcount around the current level. We may make targeted investments in 2022 to efficiently grow and diversify our lending activities, and further integrate sustainability measures into our business.

Healthy market- and credit developments are expected to underpin the stable credit quality of the loan book. We expect to resolve a further number of legacy non-performing loans this year and expect these to be adequately covered by the existing ECL allowance accounts. We do not currently anticipate a need for additional loan impairment charges in 2022.

Our very robust solvency and liquidity give us headroom to grow in a sustainable manner.

Our expectation, in the current market environment, is for a robust operating performance in 2022, resulting in net profit in the range of DKK 275 million to DKK 335 million.

"We thus continue the strategy that we laid out in 2018, of growing and diversifying core lending and funding activities in a controlled and sustainable manner while developing a robust, scalable and cost-efficient operational platform"

Should DKK and EUR interest rates increase, we expect this to have a positive effect on our net result, predominantly through higher investment income from the current defensive positioning.

The business outlook remains subject to market factors and elements beyond our direct control. Uncertainties related to global politics, pandemics, macroeconomics and global trade may impact the shipping markets. Unexpected credit or market events could lead to a reassessment of the outlook. Adverse conditions in financial markets, in particular primary and secondary bond markets, interest rate and foreign exchange markets, may affect the financial performance.

Although we expect a gradual reduction of the remaining non-performing loans in the Offshore segment, the healing process will be slow. While we believe that the ECL allowance account of DKK 1.0 billion provides adequate coverage for future credit losses, adverse credit performance remains a risk to our outlook for 2022.

MACRO OUTLOOK

The global economy continues to be affected by the Covid-19 pandemic in the wake of the Omicron-variant. Vaccine access remains a key driver for the recovery of the global economy. However, continuous threats from new variants of the virus and uneven distribution of vaccines in developing countries undermine the timing of the recovery. The IMF projects global economic output to be up 5.9% in 2021 and 4.4% in 2022, with both advanced and developed economies set to increase.

Global trade volumes recovered markedly in 2021, primarily due to private consumption shifting from services to goods. Global trade is expected to increase by 9.3% in 2021 and 6.0% in 2022. However, frequent Covid-19 outbreaks in critical parts of global supply chains have resulted in infrastructural bottlenecks. These have resulted in longer-than-expected delivery times and created periods of low availability for some consumer products, including new cars. If the supply chain hurdles last well into 2022, it will lower the expected growth in global seaborne trade volumes in 2022.

Along with accommodative fiscal and monetary policies and rising commodity prices, inflation rates have been pushed up, even though employment remains below pre-pandemic levels in some economies. If the high inflation rates persist while wages are kept constant, households' real incomes will deplete and affect their consumption patterns. The IMF currently projects that the high inflation rate will persist in 2022 before subsiding in 2023, partly depending on how long the supply bottlenecks last.

CREDIT RISK FROM LENDING

CREDIT RISK FROM LENDING

We provide financing to large, reputable shipowners located in Denmark and other parts of the world. When assessing a loan request, we consider the client's credit quality through the shipping cycle along with the market outlook for the relevant shipping segment, the vessel type and age, and the terms of the loan, including the initial loan-to-value, the repayment schedule and financial covenants.

We offer our clients ship financing, subject to first priority mortgages on the financed vessels.

The most significant risk we face is the risk of incurring credit losses in situations where the value of financed vessels cannot cover the outstanding debt in the event of a client's loan default.

Our credit policy contains specific guidelines for managing this risk taking, as well as credit risk appetite and the ongoing risk management carried out in relation to lending activities.

We follow several predefined standard operating procedures as part of our ongoing credit risk management and governance process, ensuring a consistent approach to credit reviews and credit risk management, the most important of which are presented in the following sections.

DIVERSIFICATION

The composition of the loan book adheres to a set of diversification requirements. The purpose of the requirements is to ensure adequate diversification by vessel type, client and country.

In order to manage large exposures, we have established a set of guidelines, outlining to what extent and under which conditions we will allow large credit exposures, including credit exposures exceeding 25% of the eligible capital.

The five largest credit exposures as at 31 December 2021, including loans and guarantees but excluding credit exposures with financial institutions, were secured by mortgages on 75 vessels split between nine vessel types. The credit exposure to one client group accounted for about 13% of the loan book.

Diversification of risk on a client level also encompasses diversification across vessel types within each credit exposure. Our largest single credit exposure was secured by mortgages on 34 vessels split between three different vessel types: Container Liners, Product Tankers and Offshore Units.

Movements in five largest credit exposures

DKK MILLION	2021	2020
Five largest credit exposures	11,467	10,141
Loan book	37,544	33,576

"The five largest credit exposures, including loans and guarantees but excluding financial institutions, were secured by mortgages on 75 vessels across eight vessel types"

ONGOING CREDIT RISK MONITORING

A central part of managing our credit risk is monitoring all credit exposures on an ongoing basis, assigning internal DSF Ratings to clients and reviewing them at least annually, or upon receipt of new information or in case of risk events.

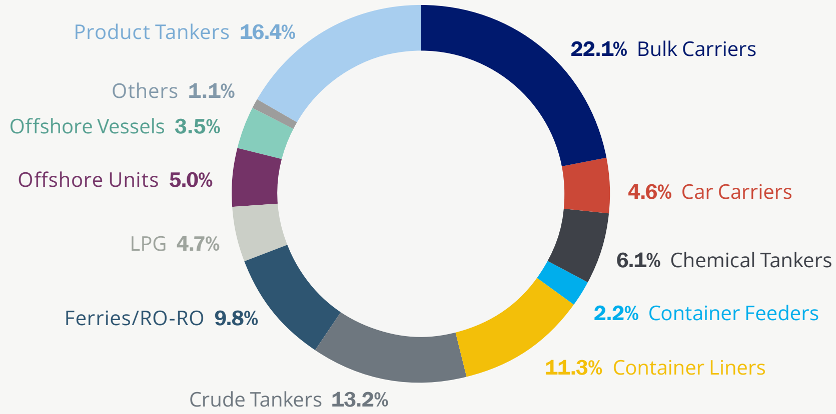
We assess the credit exposures based on the most recent financial information on clients, such as financial statements, interim reports and budgets, as well as the current market valuations of the financed vessels, the current point in the shipping cycle and the shipping market outlook.

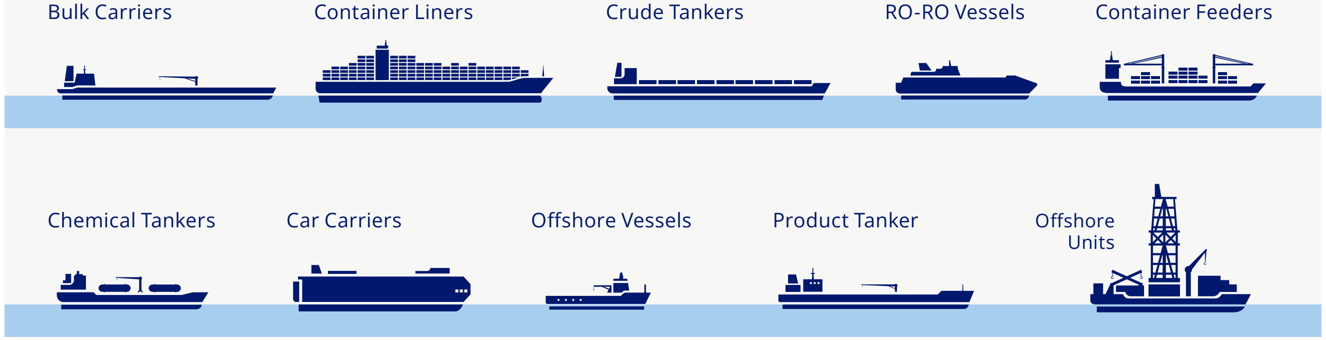
In addition, we monitor all credit exposures to ensure that clients fulfil their obligations under the individual loan agreements. Amongst other, this entails:

- Semi-annual updating of the market values of all financed vessels and verifying compliance with any agreed loan-to-value limits
- Verifying that any other collateral meets the specified minimum requirements
- Verifying the existence of adequate insurance cover on financed vessels
- Verifying compliance with material financial covenants

If a credit exposure is considered to entail increased credit risk, monitoring is intensified to safeguard the position to the greatest possible extent.

Loan book broken down by mortgaged vessel type as at 31.12.2021
DKK 37,544 million





MARKET VALUATIONS

Market valuations for all financed vessels are obtained and updated semi-annually by external brokers. In a few cases, we may assess the market values of the financed vessels internally, typically based on a specific independent market price or external valuations of sister vessels.

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

LOAN-TO-VALUE INTERVALS

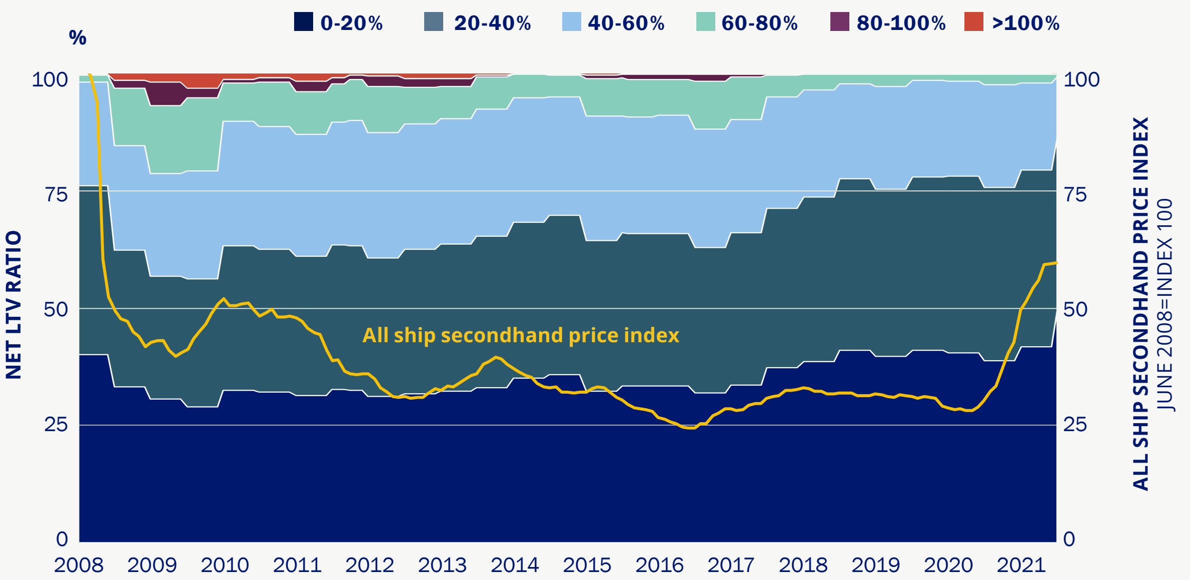
By year-end 2021, the loan book after loan impairment charges was on average secured by mortgages within 44% of the market valuation of financed vessels. 99% of the loan book after loan impairment charges was secured by mortgages within 60% of the market valuation of vessels, as displayed in the chart.

Declines in vessel prices do not in general have a material adverse effect on the collateral coverage of 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, which gives us the right to demand partial prepayment and/or additional collateral if the market values of the mortgaged vessels fall below an agreed threshold.

In the chart, the loan-to-value (LTV) intervals are shown together with the development in vessel prices based on a price index obtained from Clarksons across all the major vessel types (the solid line).

The chart illustrates how MVC stabilise our portfolio loan-to-value (LTV) ratio even with significant changes in the market values of vessels.

Net LTV vs price index for all vessel types



Sources: Clarksons, Danish Ship Finance

"Declines in vessel prices do not in general have a material adverse effect on collateral coverage, due to regular repayments and minimum value clauses (MVC)"

LOAN IMPAIRMENT CHARGES AND WRITE-OFFS

We review all credit exposures on a semi-annual basis, with the purpose of calculating loan impairment charges for expected credit losses (ECL) under the guidelines set out in the Danish FSA's Executive Order on Financial Reports.

The IFRS 9 impairment rules form the basis for staging of credit exposure and calculating loan impairment charges for ECL, as set out in the table below.

Stages of credit exposure

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 is showing significant signs of weakness	Lifetime PD
Stage 3	Credit-impaired	Lifetime PD

The stage migration for the purpose of calculating loan impairment charges for ECL is closely linked to the development of clients' DSF Ratings. Note 17 provides more detailed information.

The credit quality of the loan book strengthened in 2021, positively impacted by increased freight rates in several shipping segments and successful work-outs, leading to a DKK 39 million reversal of loan impairment charges for the year, compared to an expense of DKK 100 million in 2020.

Considering decreased uncertainties created by the Covid-19 pandemic and an improved world economy, the DKK 39 million reversal of loan impairment charges for the year included a DKK 25 million reduction in management judgment and positive effects from macroeconomic factors in our ECL impairment model.

In 2021, net write-offs amounted to DKK 284 million, corresponding to 0.8% of the average loan book, as a result of write-offs or partial write-offs on NPL, primarily within the Offshore segments. Write-offs were well within the total ECL allowance account provided for in previous years.

Since Danish Ship Finance was established in 1961, accumulated net write-offs have amounted to approximately DKK 3.0 billion, corresponding to 8.1% of the loan book at year-end 2021. As at 31 December 2021, the ECL allowance account amounted to DKK 1,007 million, corresponding to 2.6% of the loan book.

ARREARS/PAST-DUE DATE

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. At year-end 2021, no performing loans were in arrears/past-due. Thus, all loans recognised in Stage 2 were due to assigned DSF Ratings, reflecting significantly increased credit risk since initial recognition or showing signs of weakness, rather than arrears/past-due.

LOANS SUBJECT TO FORBEARANCE MEASURES

We focus 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. Our credit risk management efforts should ensure financial solutions that are viable in the short, medium and long term.

Normally, forbearance plans are 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 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 year-end 2021, forbearance measures had been granted on a limited number of loans.

The Risk Report 2021 provides more detailed information on DSF's credit risk management.

COVID-19 CONCESSIONS

Forbearance practices continue to be able to cater for clients materially affected by the Covid-19 pandemic. Temporary Covid-19 concessions to clients are not considered forbearance if such clients – based on an individual credit assessment – are considered to have a viable business model post-Covid-19.

In 2021, we did not receive any client requests for Covid-19 concessions.

NON-PERFORMING LOANS

NPL encompass all credit-impaired loans (DSF Rating 11) and all defaulted loans (DSF Rating 12). This includes clients with loans for which no loan impairment charges have been recognised, for example because adequate collateral has been provided. All NPL are classified as Stage 3 for the purpose of calculating ECL.

As at 31 December 2021, gross NPL represented 5.1% of the loan book, compared to 7.2% the year before, with an average loan-to-value ratio on NPL after loan impairment charges of 47% at year-end 2021. Net NPL constituted 3.0% of the loan book after loan impairment charges as at 31 December 2021, compared to 4.2% the previous year. The significant improvement in NPL volume was driven by DKK 0.3 billion in write-offs and DKK 0.2 billion in repayments, credit performance improvements and negative currency effects.

Notes 15 to 17 and the Risk Report 2021 provide more detailed information on NPL.

"Net NPL constituted 3.0% of the loan book after loan impairment charges as at 31 December 2021, compared to 4.2% the previous year"

CAPITAL, FUNDING AND LIQUIDITY

CAPITAL, FUNDING AND LIQUIDITY

OWN FUNDS, TOTAL CAPITAL RATIO AND CAPITAL REQUIREMENTS

Own funds after deductions were DKK 9,131 million at year-end 2021, down DKK 25 million from year-end 2020. Own funds consist mainly of share capital, tied-up reserve capital and retained earnings from previous years less deductions.

At the annual general meeting held on 18 March 2021, the Board of Directors' proposal to pay dividends of DKK 59 million based on the 2020 result was adopted. An extraordinary proposal to pay dividends of DKK 146 million to A shareholders was adopted on 3 November 2021. The proposed dividends cover the mandatory preferred dividend to the Danish Maritime Fund, accrued interest charges on Tier II regulatory capital held in Danish Ship Finance Holding A/S, and associated minority shareholder dividends.

The Board of Directors proposes that the annual general meeting on 29 March 2022 resolves to distribute a dividend for 2021 in the amount of DKK 128 million. In the balance sheet, dividend is not deducted from equity as at 31 December 2021 but is carried for accounting purposes until approval by the annual general meeting.

For the calculation of capital ratios, the proposed dividend is deducted from own funds as at 31 December 2021.

It has been proposed that the A shareholders receive a dividend of DKK 90 million, and that the B shareholder, the Danish Maritime Fund, receives a dividend of DKK 38 million.

If shareholders approve the dividend proposal for 2021, we will, since the conversion of the company in 2005, have made total distributions of DKK 796 million to the B shareholder, the Danish Maritime Fund. The funds are used to develop and promote the Danish maritime industry (Blue Denmark).

The own funds requirement (also referred to as the Pillar 1 requirement) is a total capital ratio of 8%, equivalent to the statutory minimum requirement.

"Our total capital ratio of 20.1% corresponds to excess coverage of 8.5 percentage points"

Own funds are defined as the sum of Common Equity Tier 1 capital (CET1), Additional Tier 1 capital (AT1) and Tier 2 capital, and the ratio of own funds to the total risk exposure amount is referred to as the total capital ratio. At year-end our own funds consisted of CET1 only.

The calculation is shown below.

Calculation of total capital ratio

DKK MILLION	2021	2020
Own funds after deductions	9,131	9,156
Total risk exposure amount	45,477	41,042
Total capital ratio (%)	**20.1**	**22.3**

We follow the Danish FSA guidelines on adequate own funds and capital adequacy requirements for credit institutions (the Pillar 2 requirement). The guidelines provide an interpretation of Annex 1 to the Danish Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need. The Danish FSA has defined benchmarks and calculation methods within seven risk areas which are typically relevant for a credit institution to assess in determining its adequate own funds and has listed additional factors to be included in the assessment.

The calculation is shown below.

Adequate own funds and internal capital adequacy requirement

DKK MILLION	2021	2020
Total risk exposure amount	**45,477**	**41,042**
Pillar 1 requirement (8% of total risk exposure amount)	3,638	3,283
Pillar 2		
Earnings		
Growth in lending		
Credit risk		
- Credit risk exposure to large clients in financial difficulty	34	31
- Other credit risk	34	116
- Concentration risk	29	24
Market and liquidity risk	358	361
Operational and control risk	-	-
Leverage risk	-	-
Other risks	-	-
Total adequate own funds	**4,093**	**3,815**
Internal capital adequacy requirement (%)	**9.0**	**9.3**
Capital conservation buffer (%)	2.5	2.5
Countercyclical capital buffer requirement (%)	0.1	0.2
Internal capital adequacy requirement incl. combined capital buffer requirement (%)	**11.6**	**12.0**

We made a Pillar 2 solvency market risk reservation of DKK 358 million to cover risk exposure to Danish mortgage bond credit spreads and interest risk from non-trading activities (IRRBB), in accordance with the supervisory guidelines. All other reservations were of minor significance.

As at 31 December 2021, our adequate own funds and the total risk exposure amount were DKK 4,093 million and DKK 45,477 million, respectively. The internal capital adequacy requirement including the combined capital buffer requirement totalled 11.6%. Our own funds after deductions totalled DKK 9,131 million, resulting in a total capital ratio of 20.1%. This corresponds to excess coverage in the amount of DKK 3,839 million, or 8.5 percentage points.

The combined capital buffer requirement

The combined capital buffer requirement consists of three elements:

- A capital conservation buffer
- An institution-specific countercyclical capital buffer
- A systemic risk buffer

The regulatory capital conservation buffer is fully implemented at 2.5% of the total risk exposure amount.

The institution-specific countercyclical capital 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 65 million as at 31 December 2021. Due to the Covid-19 pandemic, the countercyclical buffer has been suspended or reduced in many countries. Therefore, the capital requirement pertains currently only to exposures in Chile, Hong Kong, Luxembourg and Norway, which have set the following countercyclical capital buffer rates:

- Chile: 0.625%
- Hong Kong: 1.00%
- Luxembourg: 0.50%
- Norway: 1.00%

Institution-specific countercyclical capital buffer

	2021	2020
Total risk exposure amount (DKK million)	**45,477**	**41,042**
Institution-specific countercyclical capital buffer requirement (DKK million)	65	65
Institution-specific countercyclical capital buffer requirement (%)	0.1	0.2

All EU member states may implement a systemic risk buffer applying to domestic exposures. The buffer may apply to the entire sector or to individual subsectors. The systemic risk buffer is aimed at preventing and mitigating long-term, non-cyclical systemic or macroprudential risks not covered by the Capital Requirements Regulation (CRR). Since the Danish systemic risk buffer rate is applied to systemically important financial institutions, it is not currently relevant for us.

In accordance with the Executive Order on Management and Control of Banks, etc., a capital contingency plan has been prepared, which contains a catalogue of possible courses of action to strengthen the capital position in a critical situation. The capital contingency plan would take effect in the unlikely event of predefined triggers being activated.

For further information on capital management, including a detailed description of the determination of adequate own funds, please refer to the Risk Report on our website:

www.shipfinance.dk/investor-relations/risk-and-capital-management/

CREDIT RATING

Our covered bonds have been assigned a rating of 'A' by S&P Global Ratings, with a 'Stable' outlook, based on S&P's methodology for rating covered bonds. Our covered bond rating is two notches above our issuer credit rating of 'BBB+', 'Stable' outlook.

- Bond rating A
- Issuer credit rating BBB+
- Outlook Stable

S&P regularly monitors and provides instrument and issuer credit ratings.

"The balance principle limits the financial risk the issuer may assume in relation to funding and lending"

BALANCE PRINCIPLE

Mortgage lending in Denmark is regulated by the balance principle, which applies to ship mortgage lending as well as real estate mortgage lending. The balance principle limits the financial risk the issuer may assume in relation to funding and lending.

Danish mortgage institutions may apply either the specific balance principle or the general balance principle. We apply the specific balance principle. The specific balance principle permits a future liquidity deficit between issued bonds and loans disbursed of up to 100% of own funds.

The deficit occurs if the future payments related to bonds, other funding and financial instruments exceed the future incoming payments on loans, financial instruments and positions.

In our internal policies, we have set stricter requirements for any liquidity deficits between issued bonds and disbursed loans.

FUNDING

Our bonds are typically issued in DKK and EUR, whereas most of our loans are disbursed in USD. We source USD for funding of USD loans via so-called basis swaps. Sourcing USD liquidity rely on an efficient capital market. Internal policies govern the maximum USD funding requirements over time.

Issuing EUR ship covered bonds has been a strategic priority for us, in order to obtain a more diversified investor base.

For this purpose, we established a new Capital Centre A in 2019, from which we issued two EUR 500 million benchmark ship covered bond in 2019. In November 2021, we issued a third EUR 500 million benchmark.

Our DKK covered bonds are issued from the Capital Centre Institute in General.

Both capital centres hold an A rating from S&P Global Ratings with Stable outlook.

A lack of opportunities to convert DKK or EUR funding into USD entails a risk of higher financing costs or a loss of business opportunities. The opportunities for sourcing USD liquidity rely on an efficient capital market. Internal policies govern the maximum USD funding requirements over time.

Mortgage funding through covered bonds

All bonds issued by Danish Ship Finance are on the European Commission's list of bonds meeting the gilt-edged requirements of Article 52(4) of the UCITS Directive.

The rules governing bond issuance are described in the Act on a Ship Finance Institute and the Executive Order on a Ship Finance Institute as well as in the Bond Executive Order. Lending operations are funded through previously issued debenture bonds, issuance of ship mortgage bonds, ship covered bonds, lending of own funds, and proceeds from loans raised in money markets and capital markets. Individual clients have no direct obligations to the bondholders.

Debenture bonds

This refers to certain bonds issued before 1 January 2008. By definition, the bonds are considered covered bonds under the CRD until maturity.

Ship mortgage covered bonds

Ship Covered Bonds & Ship Mortgage Bonds are issued to finance lending secured by mortgages on vessels up to 60% and 70% of the market value of the mortgaged vessel(s), respectively.

In respect of loans funded by ship covered bonds, the loan-to-value ratio shall at no time exceed 60%. Such a requirement for continuous compliance with a certain loan-to-value ratio does not apply to loans funded by ship mortgage bonds. In respect of loans funded by ship mortgage bonds, compliance with loan-to-value limits in only required at the time of the loan offer.

Additional capital charge

Loans exceeding 70% of the value of the vessel(s) may be granted subject to an additional capital charge in the form of a deduction from own funds in the calculation of the total capital ratio.

We have not utilised this option for a number of years and no deduction was made in 2021.

The market for covered bonds

We primarily issue in the form of bullet loans denominated in DKK. Our issued bonds totalled DKK 46.4 billion at amortised cost as at 31 December 2021. About 76% of these bonds are denominated in DKK, and 24% are denominated in EUR. Except for the CIRR bonds, all our bond issues are listed and traded on Nasdaq Copenhagen.

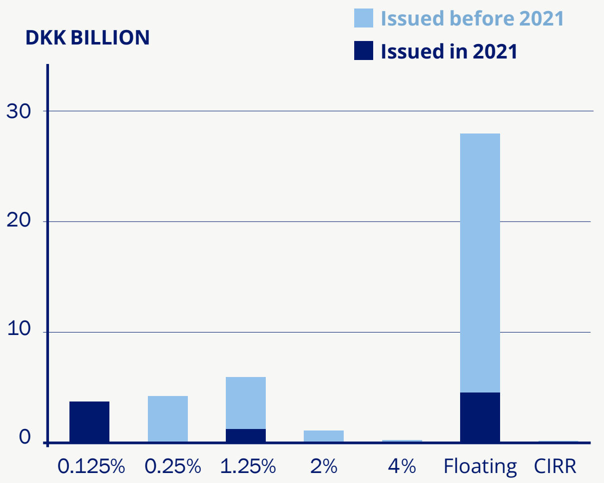
At the end of 2021, we held own bonds totalling DKK 3.2 billion.

Interest rate risk

There is a risk that the coupon on our floating-rate bonds will be negative, in the event of which we will have a claim against the bondholders. In such a case, we are entitled, but not required, to redeem for settlement at par value, an amount of bonds equivalent to a value up to the nominal negative interest coupon.

The procedure is stated in the final terms for each applicable floating-rate bond issue since 2017. However, it can be waived in future final terms if necessary.

Issued bonds by type



Subordinated debt

We did not issue any subordinated debt in 2021 and none is outstanding.

Bail-in able senior debt and senior unsecured debt

No senior resolution notes (SRN) or any other senior bail-in able or senior unsecured debt were issued in 2021 or are outstanding.

Issuance schedule for 2022

We expect to issue the equivalent of DKK 11-12 billion in DKK and EUR covered bonds to maintain adequate funding to support clients' refinancing needs and expected growth in the loan book. We will continue to focus on maintaining a sufficiently diversified investor base.

LIQUIDITY

Liquidity management and the statutory liquidity requirements are aimed at reducing liquidity risk to very low levels.

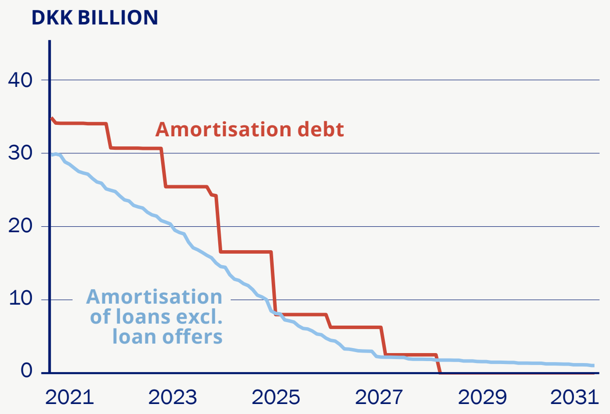
Liquidity risk involves the risk of:

- A disproportionate rise in the cost of funding
- Not being able to meet payment obligations due to a lack of funding

Through bond issues and the existence of a liquid portfolio of bonds, we have ensured adequate liquidity coverage for all existing loans and loan offers until expiry. We are therefore not exposed to any refinancing risk. A potential downgrade of our external credit rating would not change the robust liquidity position but could lead to higher funding costs for new loans.

The average maturity of our issued bonds (DKK issuances) exceeds the average maturity of loans in the Capital Centre Institute in General.

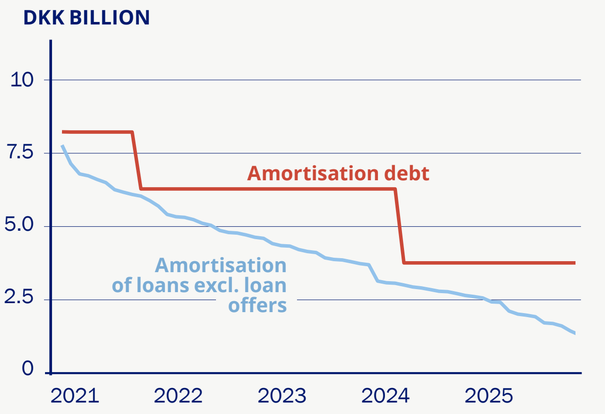
Capital centre Institute in General developments in issued bonds relative to loans



"We expect to issue the equivalent of DKK 11-12 billion in DKK and EUR covered bonds to maintain adequate funding to support clients' refinancing needs and expected growth in the loan book"

The average maturity of issued bonds (EUR issuances) exceeds the average maturity of loans in Capital Centre A.

Capital centre A developments in issued bonds relative to loans



According to the CRR, liquidity is required to ensure that a credit institution has an adequate stock of unencumbered highly 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.

$$\text{Liquidity coverage ratio} = \frac{\text{HQLA}}{\text{Net liquidity outflow over a 30 day stress period}} \geq 100\%$$

The LCR in DKK as at 31 December 2021 was 449%.

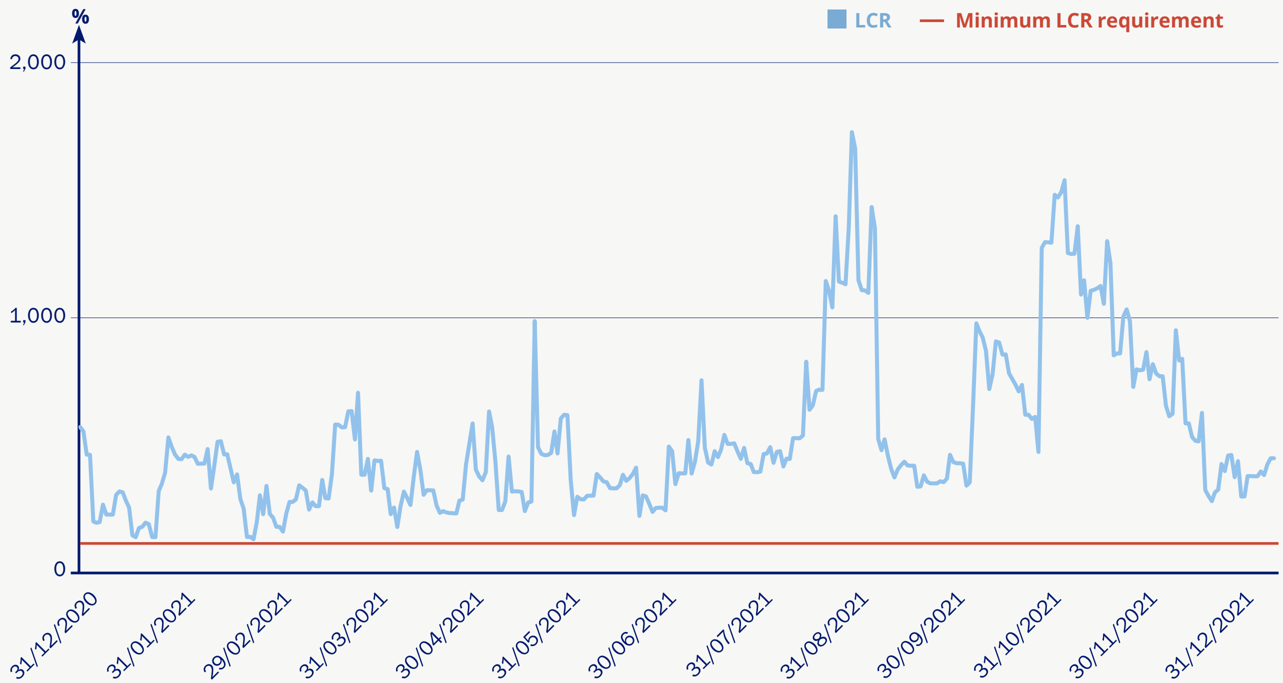
We treat EUR as a significant currency due to the EUR bonds issued in Capital Centre A and accordingly calculate the EUR LCR.

The LCR in EUR as at 31 December 2021 was 267%.

Our securities portfolio represents a significant part of our assets. The securities portfolio consists of government and mortgage bonds, money market transactions and interest sensitive financial instruments.

Distribution of securities portfolio

The LCR ratio fluctuates at levels well above the 100% requirement



In accordance with the Executive Order on Management and Control of Banks, etc., a liquidity contingency plan has been prepared, which contains a catalogue of possible courses of action to strengthen the liquidity position in a critical situation. The liquidity contingency plan will take effect if predefined triggers are activated.

IBOR transition programme

The Interest Rate Benchmark Reform will replace existing benchmark inter-bank offered rates (IBORs) with alternative risk-free rates. Last year we established an IBOR Transition Programme, the main objectives being to identify how the IBOR transition will affect us financially and operationally and to recommend the best implementation of the transition, mitigate risks, and implement changes in contractual relationships, etc. The programme has looked at both the financial and operational impact of the transition towards risk free rates and how to engage with clients that have been affected.

The Financial Conduct Authority (FCA) confirmed on 5 March 2021 that all LIBOR settings will either cease to be provided by any administrator or will no longer be representative, effective immediately after 31 December 2021 in the case of GBP settings, and after 30 June 2023 in the case of USD settings. Other IBORs are, in the same context, expected to be replaced by risk-free rate (RFR) reference benchmarks in the near future. As a consequence our transition programme will continue into 2022. RFRs are based on rates agreed in actual market transactions, as opposed to rates that are expected to be achievable in market transactions.

We are exposed to IBORs through cash products in our loan book, bonds held and derivatives traded. Relevant systems, processes and documentation are in place and the Board of Directors has approved the use of RFRs. We are thereby today able to formally grant loans and trade derivatives based on RFR indices.

INVESTOR RELATIONS

INVESTOR RELATIONS

SHARE CAPITAL

Our ambition is to deliver an absolute and risk-weighted return that is satisfactory to our shareholders. The Board of Directors continually assesses whether the company's capital structure is consistently aligned with the interests of the shareholders and appropriate to support the strategy. The Board of Directors assesses that the share and capital structure are currently appropriate given the level of activity.

Our share capital amounts to a nominal value of DKK 333 million and is divided into A shares with a nominal value of DKK 300 million and B shares with a nominal value of DKK 33 million. Each A share of nominally DKK 1 carries ten votes, and each B share of nominally DKK 1 carries one vote. Other than that, there are no restrictions on the number of votes or shares for each shareholder. The shares are not listed for trading on a regulated market.

Ownership

Danish Ship Finance Holding A/S (DSH) owns 86.6% of the shares in DSF. Furthermore, the Danish Maritime Fund owns 10% of the shares (the B shares). The remaining 3.4% of shares are owned by a small number of minority shareholders.

The ownership of DSH is as follows:

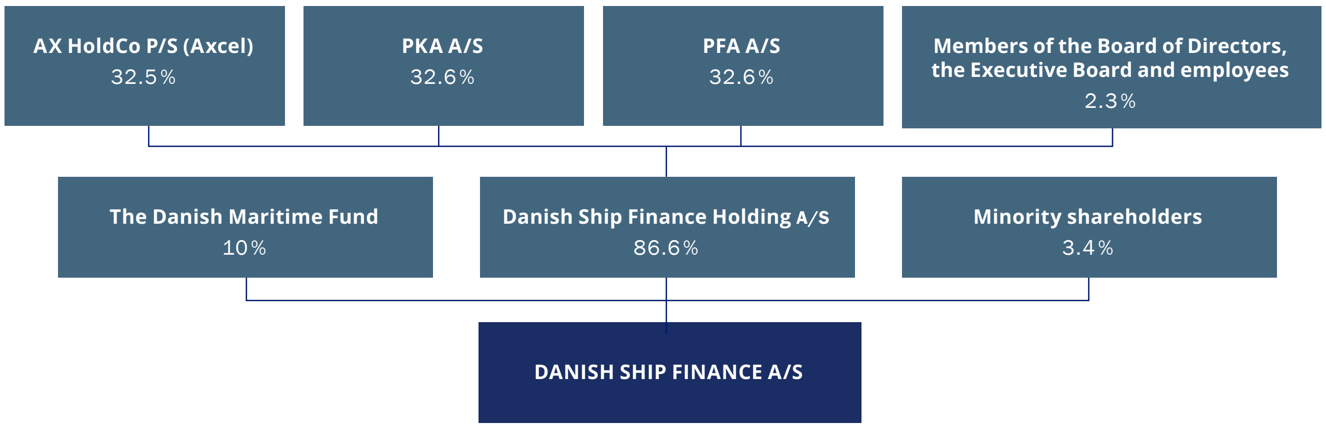
- 97.7% of DSH is owned by a consortium consisting of Axcel, PFA and PKA
- The remaining 2.3% is owned by members of the Board of Directors, the Executive Board and current or former employees of DSF

According to the Danish Companies Act, shareholders must notify the company if the voting rights of their shares represent 5% or more of the voting rights of the company's share capital or if the nominal value of their shares represents 5% or more of the share capital. Shareholders must also disclose changes in shareholdings if they exceed or fall below specified percentage thresholds.

The following shareholders, listed in alphabetical order, hold at least 5% of the total voting rights or own at least 5% of the shares in DSF.

- AX IV HoldCo P/S (Axcel)
- The Danish Maritime Fund
- The Social Workers', Social Pedagogues' and Office Staff Pension Fund (PKA)
- The Healthcare Professionals' Pension Fund (PKA)
- The State Registered Nurses' and Medical Secretaries' Pension Fund (PKA)
- PFA A/S

The ownership structure is displayed in the following chart:



ORGANISATION AND RESPONSIBILITIES

General meeting

Our highest decision-making authority is the general meeting. In 2021, the annual general meeting was held on 18 March. Our Articles of Association are available at:

shipfinance.dk/company/

and contain information about the notice convening the general meeting, shareholders' admission and voting rights, and shareholders' right to submit proposals and have specified business transacted at the meeting.

The Board of Directors and the Executive Board seek to promote active ownership, including participation by the shareholders at the general meeting, and efforts are made to ensure that all members of the Board of Directors and the Executive Board are represented at general meetings.

The next annual general meeting will be held on 29 March 2022.

Board of Directors

The Board consists of twelve members, eight of whom are elected by the general meeting and four elected by and among the employees.

Board members elected by the general meeting stand for election every year. As prescribed by Danish law, members elected by and among the employees serve on the Board of Directors for a four-year term, with the next election to be held prior to the annual general meeting in 2024.

Eivind Kolding is Chairman of the Board of Directors, and Peter Nyegaard is Vice Chairman.

The Board of Directors defines our overall strategy, policies and guidelines. Each year, the Board of Directors also defines its principal duties in respect of financial and management control, which helps ensure control within all key areas.

Dates and agendas for the ordinary meetings are fixed more than one year in advance. Extraordinary Board meetings are held whenever deemed necessary or when requested by a member of the Board of Directors or the Executive Board. In 2021, the Board of Directors held 45 meetings, of which 8 were the ordinary scheduled meetings and the rest were extraordinary meetings primarily due to new lending above certain limits, which must be submitted to the Board of Directors for approval.

The board member attendance rate for ordinary board meetings was 98% in 2021.

The Executive Order on Management and Control of Banks, etc. requires the board members' experience and competencies to be evaluated on an annual basis. The Board of Directors has assessed that the board as a whole possesses the competencies deemed necessary to ensure a professional management.

The competency profile is as follows:

- Banking and mortgage lending
- Financial derivatives
- International maritime industry and shipping
- IT
- Credit approval processes
- Management experience from a relevant financial enterprise
- Legislation
- Macroeconomics
- Bond issuance
- Management of shipping companies
- Risk management in a financial institution
- Finance and accounting
- Cyber risk
- Sustainability

The Board of Directors is elected within the framework of a shareholders' agreement.

When new board members are elected, consideration is given to the composition of the board, including in terms of diversity.

Evaluation of the Board of Directors

In December 2021, the Board of Directors carried out the annual evaluation of the Board of Directors, including its composition, the work done by the Board and the leadership of the Chairman. To ensure anonymity, an external consulting firm facilitated the evaluation and the members of the Board of Directors answered comprehensive questionnaires. The findings and conclusions were subsequently presented to and discussed by the Board of Directors.

The aim of the evaluation was to ensure, among other things, that the composition of the Board of Directors as well as the special competencies of each board member enable the Board of Directors to perform its tasks.

The results of the 2021 evaluation were good overall and showed good alignment within the Board of Directors. The Board of Directors will work on the agreed focus areas in 2022.

Committee

Audit Committee

The Board has set up a statutory Audit Committee consisting of members of the Board of Directors. In composing the Audit Committee, we have ensured that the Chairman of the Board of Directors does not act as the Chairman of the Audit Committee. We have also ensured that the Committee has professional capabilities and experience in financial matters and in finance and accounting.

The Audit Committee consists of :

Anders Damgaard (Chairman),
Peter Nyegaard,
Michael N. Pedersen and
Henrik Sjøgreen.

The Audit Committee is a preparatory and monitoring body. The duties of the Audit Committee are defined in the terms of reference of the Audit Committee. The Audit Committee is to inform the Board of Directors of the outcome of the statutory audit and assist the Board of Directors in monitoring the financial reporting process, monitoring the efficiency of the internal control and risk management systems, monitoring the audit of the Annual Report, monitoring and verifying the independence of the auditors, and selecting and recommending new auditors.

In 2021, the Audit Committee held four meetings: three ordinary meetings, two of which took place prior to the presentation of the Annual Report and the Interim Report, respectively, and one extraordinary meeting. The Committee reports to the Board of Directors, and minutes of the Committee's meetings are discussed at the first ordinary board meeting after the Audit Committee's meeting.

Additional information on the Audit Committee is available on our website:

→ **www.shipfinance.dk/the-company/board-of-directors/**

Remuneration Committee

The Remuneration Committee consists of members of the Board of Directors and undertakes preparatory work and assists the Board of Directors in matters related to remuneration of the Board of Directors, the Executive Board, material risk takers and other employees.

The Remuneration Committee monitors pay developments in general. Furthermore, it ensures that the incentive programmes are designed to create sustained and long-term value and that the remuneration policy is complied with.

The Remuneration Committee consists of:

Eivind Kolding (Chairman),
Christian Frigast,
Thor Jørgen Guttormsen and
Jacob Meldgaard.

The Remuneration Committee holds ordinary meetings twice a year. The Committee reports to the Board of Directors, and minutes of the Committee's meetings are discussed at the first ordinary board meeting after the Remuneration Committee's meeting.

Additional information on the Remuneration Committee is available on our website:

→ **www.shipfinance.dk/the-company/board-of-directors//**

The Executive Board and senior management

The Executive Board reports to the Board of Directors and together with senior management it oversees the day-to-day management of the company.

The Executive Board consists of:

- Erik I. Lassen, CEO
- Lars Jebjerg, CFO/CRO
- Michael Frisch, CCO

Senior management consists of:

- The Executive Board
- Flemming Møller, Head of Credit and Executive Vice President
- Jacob Vammen, Head of Finance and Senior Vice President

TARGETS AND POLICIES FOR THE UNDERREPRESENTED GENDER

In our 2022 strategy 'Financing the transition', we have updated our previously defined target and policy for gender composition of the Board of Directors. The new target is for at least 25% of the Board of Directors to be women (excluding employee-elected members) by 2023. Today all are male.

The shareholders select candidates for the Board of Directors. Hence, the Board has no direct influence on which candidates are nominated. However, the Board tries to influence the process where possible.

The Board of Directors currently consists of twelve members, eight of whom are elected by the general meeting and four by our employees. Ten board members are male and two board members are female.

More information on our efforts for the underrepresented gender is provided in the Sustainability Report 2021 on our website:

→ **www.shipfinance.dk/sustainability/reporting/**

CORPORATE GOVERNANCE

As our shares are not listed for trading on Nasdaq Copenhagen, we are not subject to corporate governance rules. However, we have resolved to follow the corporate governance guidelines.

We also comply with the corporate governance code of the association Finance Denmark. This code is more comprehensive than the recommendations of the Corporate Governance Committee and also builds on a 'comply or explain' principle. We comply with these guidelines.

Through the ownership by DSH, we are partly owned by a private equity fund, managed by Axcel Management A/S, which is a member of Active Owners Denmark, and we have therefore adopted Active Owners Denmark's guidelines. These guidelines build on a "comply or explain" principle and are available on Active Owners Denmark's website:

→ **www.aktiveejere.dk.**

We also comply with these guidelines.

Corporate governance reports must be published at least once a year. The reports are published on our website in conjunction with publication of the Annual Report.

Detailed information about corporate governance is provided in the reports on our website:

→ **www.shipfinance.dk/investor-relations/**

DANISH SHIP FINANCE

REMUNERATION REPORT

A remuneration policy has been prepared covering the Board of Directors, the Executive Board and all other employees.

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

A specification of the total remuneration of the Board of Directors, the Executive Board and other employees whose activities are deemed to have a material impact on the risk profile is presented in note 9.

The enclosed quantitative information in the Risk Report Annex 8 complies with the Danish FSA and EBA Capital Requirements Regulation article 450 on disclosure of remuneration related to material risk takers.

Further information on DSF's remuneration policy is available on our website:

www.shipfinance.dk/investor-relations/

The link between the remuneration of the Executive Board and the strategy

The remuneration of the Executive Board consists of a fixed salary and a variable part (incentive programme). The variable part is structured as a grant of a share-like instrument, an instrument where the future value is based on a total shareholder return (TSR) index. The remuneration of the Executive Board complies with the remuneration policy laid down by the Board of Directors in compliance with the Danish Financial Business Act.

The remuneration of the Executive Board is presented in the Remuneration Report at:

www.shipfinance.dk/investor-relations/

Material risk takers

At year-end 2021, a total of 22 risk takers were identified:

- Members of the Board of Directors: 12
- Members of the Executive Board: 3
- Other material risk takers: 7

The principles for identifying 'other material risk takers' are approved annually by the Board of Directors in accordance with current regulations.

Details on our remuneration policy and practices are available in note 9 to the financial statements, the Risk Report Annex 8 and:

www.shipfinance.dk/investor-relations/

Incentive programmes for other employees

Individual incentive programmes are offered to some members of staff in line with market standards for such positions.

Formal incentive programmes are not offered to other employees, but employees may receive individual bonuses based on their performance.

"We follow corporate governance guidelines"

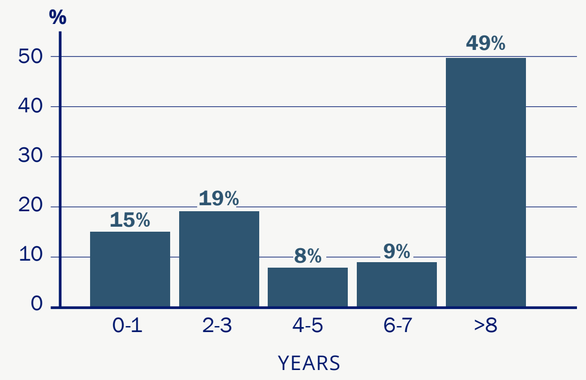
HUMAN RESOURCES

During the ongoing Covid-19 pandemic, employees' opportunity to work from home has been widely taken up. Working remotely has succeeded beyond all expectations and employees have continued to carry out tasks with a high level of commitment. We have made efforts to reach out to employees and have made awareness of their health and general wellbeing a priority.

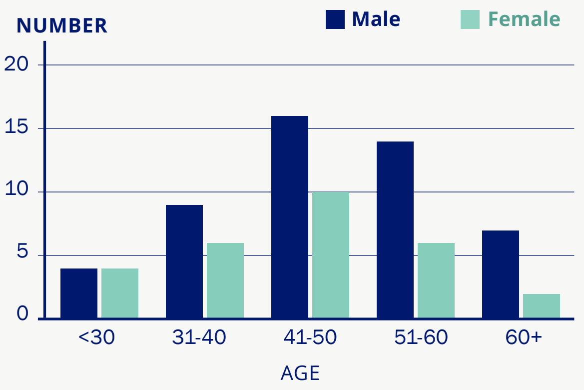
Since it became possible once again to return to the workplace, our focus has been on restoring collegial unity. Several initiatives and events have been held to strengthen the identity of the workplace. In addition, we have also paid close attention to onboarding and introductory courses upon hiring new employees. Fortunately, employee turnover for 2021 was no higher than in previous years.

At the end of 2021, we had 78 employees, of whom 28 were female and 50 were male. The employees possess a high level of professionalism and deep knowledge of the industry as well as high average seniority.

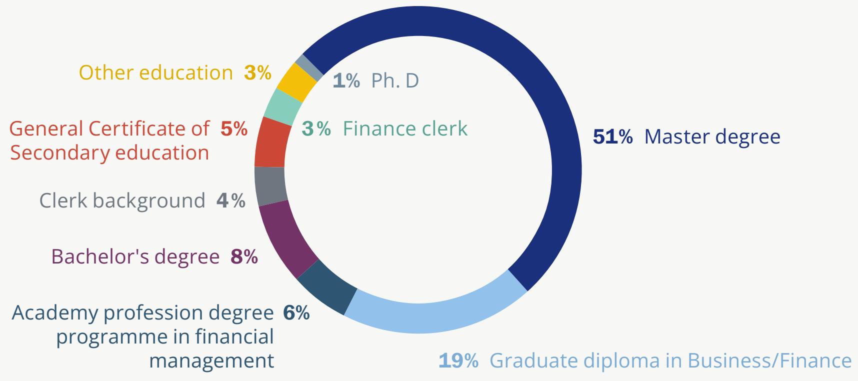
Seniority



Age distribution by gender



Educational background



INTERNAL CONTROL AND RISK MANAGEMENT

The primary responsibility for risk management and internal controls in relation to the financial reporting process rests with the Board of Directors, including compliance with applicable legislation and other financial reporting regulations.

Our risk management and internal controls are designed with the objective to effectively minimising the risk of errors and omissions. Our processes, risk management and internal control systems provide reasonable, but not absolute, assurance that misappropriation of assets, losses and/or significant errors and omissions, including in financial reporting, are avoided.

The Audit Committee is responsible for monitoring and controlling accounting and auditing matters and for preparing the decision basis for accounting and audit-related topics for consideration by the Board of Directors.

The Board of Directors, the Audit Committee and the Executive Board regularly assess significant risks and the adequacy of internal controls in relation to the operations and their potential impact on the financial reporting processes.

Overall control environment

The key component of our control environment is an appropriate organisation, including adequate segregation of functions, internal policies, business processes and procedures.

In accordance with applicable legislation, the Board of Directors, including the Audit Committee, regularly assesses the need for an internal audit function. We have an internal control function which performs its controls in conjunction with our external auditors. The Board of Directors finds this set-up adequate given the level of complexity of the organisation and therefore maintains its view that an internal audit function is not required.

Risk assessment

At least once a year, the Board of Directors, the Audit Committee and the Executive Board undertake a general assessment of risks in relation to the financial reporting process. In addition, management regularly assesses the need for new internal controls to be implemented to reduce and/or eliminate identified risks.

In its risk assessment, the Board of Directors specifically assesses the organisation of risk measurement and risk management, the accounting and budget organisation, internal controls, segregation of functions, IT usage and IT security, including measures taken to reduce cyber risk. As part of the risk assessment, the Board of Directors also considers the risk of fraud.

The Board of Directors and the Executive Board assess whether the organisation has the necessary competencies to ensure that internal controls and risk management procedures are managed effectively.

Control activities

We use systems and manual processes for monitoring data that form the basis of the financial reporting process.

The purpose of the control activities is to prevent, detect and correct any errors or omissions. In the context of our financial reporting process, control activities are performed to ensure that the financial statements are presented in accordance with current legislation.

Information and communication

The Board of Directors has adopted a number of requirements for the presentation of the financial statements and the external financial reporting in accordance with current legislation and guidelines. The objective is to ensure that applicable disclosure requirements are met and that disclosures are full, complete and accurate.

Monitoring and reporting

Monitoring takes place by means of regular and/or periodic assessments and controls at all levels. Reports on the appropriateness and/or weaknesses of the controls, control failures, cases of non-compliance with adopted policies, limits, etc. or other significant deviations are escalated in the organisation in accordance with the policies and instructions.

Whistleblower scheme

We have implemented a whistleblower scheme in accordance with the Danish Financial Business Act. The scheme enables employees to report any instance of non-compliance with financial legislation, economic crime, suspected corruption, breach of occupational safety, breaches of confidentiality, sexual harassment or other harassment due to race, political or religious affiliation to an independent third party.

In the event of a report being made, the independent third party will undertake a provisional screening to assess whether the instance of non-compliance falls within the scope of the whistleblower scheme.

In March 2018, DSF was granted permission to extend the whistleblower scheme to include economic crime.

As in previous years, no reports were made in 2021.

"No whistleblower reports were made in 2021"

DANISH SHIP FINANCE

FINANCIAL STATEMENTS

INCOME STATEMENT

NOTE	1 JANUARY - 31 DECEMBER DKK MILLION	2021	2020
4	Interest income	1,129	1.500
5	Interest expenses	(625)	(958)
6	**Net interest income**	**504**	**542**
	Fee and commission income	32	21
7	**Net interest and fee income**	**536**	**562**
8	Market value adjustments	(82)	(150)
	Other operating income	1	1
9,10	Staff costs and administrative expenses	(167)	(158)
22,23	Depreciation and impairment of property, plant and equipment	(2)	(1)
16	Loan impairment charges	39	(100)
	Profit before tax	**326**	**154**
11	Tax	(72)	(37)
	Net profit for the year	**254**	**117**
	Other comprehensive income [1]	-	40
	Tax on other comprehensive income	-	(9)
	Other comprehensive income after tax	**-**	**31**
	Comprehensive income for the year	**254**	**148**

1) Revaluation of current domicile property

NOTE	1 JANUARY - 31 DECEMBER DKK MILLION	2021	2020
	AMOUNT AVAILABLE FOR DISTRIBUTION		
	Distributable reserves	325	412
	Comprehensive income for the year	254	148
	Total	**579**	**560**
	PROPOSED ALLOCATION OF PROFIT		
	Distribution	128	59
	Other comprehensive income transferred to revaluation reserves	-	31
	Distributable reserves	451	471
	Total	**579**	**560**

BALANCE SHEET

NOTE	AT 31 DECEMBER DKK MILLION	2021	2020
	ASSETS		
12	Due from credit institutions and central banks	388	1,298
13,14,15,16,17	Loans and other receivables at amortised cost	36,293	31,950
18,19,20	Bonds at fair value	16,007	24,319
21	Shares, etc.	-	-
22	Land and buildings		
	Owner-occupied property	332	323
23	Other tangible assets	6	6
	Current tax assets	7	10
28	Deferred tax assets	-	-
24	Other assets	1,425	1,898
	Total assets	**54,457**	**59,805**

NOTE	AT 31 DECEMBER DKK MILLION	2021	2020
	LIABILITIES AND EQUITY		
	Liabilities		
25	Due to credit institutions and central banks	758	6,693
26	Issued bonds at amortised cost	43,228	42,477
	Current tax liabilities	60	-
	Deferred tax liabilities	108	68
20,27	Other liabilities	962	1,275
	Total liabilities	**45,117**	**50,514**
	Provisions		
	Other provisions	16	16
	Total provisions	**16**	**16**
29	**Equity**		
	Share capital	333	333
	Tied-up reserve capital	8,343	8,343
	Revaluation reserves	70	70
	Retained earnings	451	471
	Proposed dividend for the financial year	128	59
	Total equity	**9,325**	**9,275**
	Total liabilities and equity	**54,457**	**59,805**
	Off-balance sheet items		
31	Contingent liabilities	101	116
32	Other contingent liabilities	3,356	3,723
	Total off-balance sheet items	**3,457**	**3,839**

DANISH SHIP FINANCE

STATEMENT OF CHANGES IN EQUITY

DKK MILLION	Share capital	Tied-up reserve capital	Revaluation reserves	Retained earnings	Proposed dividend for the financial year	Total
Equity as at 1 January 2020	**333**	**8,343**	**38**	**412**	**133**	**9,260**
Dividends paid for the financial year 2019	-	-	-	-	(133)	(133)
Comprehensive income	-	-	31	59	59	148
Equity as at 31 December 2020	**333**	**8,343**	**70**	**471**	**59**	**9,275**
Dividends paid for the financial year 2020	-	-	-	-	(59)	(59)
Extraordinary dividends				(146)		(146)
Comprehensive income	-	-	-	126	128	254
Equity as at 31 December 2021	**333**	**8,343**	**70**	**451**	**128**	**9,325**

LIST OF NOTES

NOTES

NOTE 1 ACCOUNTING POLICIES

GENERAL

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

The accounting policies are unchanged from those applied in the Annual Report 2020.

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

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

Significant accounting estimates

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

- Measurement of expected credit losses (ECL)
- Fair value measurement of financial instruments
- Parameters used for amortisation of fees which are an integral part of the current yield of a financial instrument

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

In 2021, the parameters used for amortisation of fees which are an integral part of the current yield of a financial instrument have been revised to better reflect the nature and development of the loan book. The change in the parameters affected the interest income in 2021 by approx. DKK 35 million accumulated over the previous years.

Measurement of expected credit losses

The measurement of expected credit losses (ECL) on loans, guarantees and credit commitments (credit exposure) is set out in the Executive Order on Financial Reports, which is based on the three-stage (Stage 1, 2 and 3) expected credit loss impairment model (ECL impairment model) pursuant to IFRS 9.

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

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

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

Fair value measurement of financial instruments

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

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

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

NOTES

NOTE 1 CONTINUED

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

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

Translation of transactions in foreign currency
The financial statements are presented in DKK, and the functional currency is DKK.

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

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

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

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

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

Classification
Financial instruments are divided into financial assets and financial liabilities.

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

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

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

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

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

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

Hedge accounting
DSF uses derivatives to hedge the interest rate risk on fixed-rate liabilities measured at amortised cost.

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

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

NOTES

NOTE 1 CONTINUED

Determination of fair value

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

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

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

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

BALANCE SHEET

Amounts due from credit institutions and central banks

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

Loans

Loans consist of credit exposures which have been disbursed to shipping clients either on a bilateral basis or as part of a syndicated transaction. Loans comprise traditional shipping loans against mortgages on vessels but may also to a limited extent comprise financing of shipping clients' payment of instalments to shipyards under shipbuilding contracts.
On initial recognition, loans are measured at fair value plus transaction costs less origination fees and other charges. Subsequently, loans are measured at amortised cost according to the effective interest rate method, less loan impairment charges for ECL, if any. The difference between the value at initial recognition and the nominal value is amortised over the time to maturity and recognised under interest income.

Loan impairment charges

The current impairment rules, pursuant to IFRS 9, became effective as at 1 January 2018, introducing a forward-looking approach to measuring impairment of financial assets based on expected credit losses (ECL).

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

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

ECL = PD * EAD * LGD * MEF

NOTES

NOTE 1 CONTINUED

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

Loan impairment charges for ECL are booked in an allowance account and offset against loans or recognised as provisions (loss allowances) for guarantees and credit commitments.

With the entry into force of the current impairment rules as at 1 January 2018, transitional arrangements were agreed, allowing institutions in determining own funds to add back an amount to their CET1 capital over a five-year transition period. DSF opted not to apply these transitional arrangements.

The Risk Report provides more information on the ECL impairment model.

Bonds at fair value

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

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

Shares, etc.

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

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

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

Land and buildings

Land and buildings consist of DSF's fully owned domiciles at Sankt Annæ Plads 3, Copenhagen and Langebrogade 5, Copenhagen.

Owner-occupied property

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

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

Other tangible assets

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

Other assets

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

Due to credit institutions and central banks

Amounts due to credit institutions and central banks include amounts received under repo transactions (sale of securities with an agreement to repurchase the same securities back later). Amounts due to credit institutions and central banks are measured at amortised cost, which corresponds to the nominal amount.

Issued bonds at amortised cost

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

NOTES

NOTE 1 CONTINUED

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

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

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

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

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

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

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

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

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

OFF-BALANCE SHEET ITEMS

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

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

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

NOTES

NOTE 1 CONTINUED

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Interest income and expenses

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

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

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

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

Fee and commission income and expenses

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

Market value adjustments

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

Staff costs and administrative expenses

Staff costs

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

Bonuses and share-based payments

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

Pension costs

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

Depreciation and impairment of tangible assets

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

Loan impairment charges

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

Tax

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

NOTES

NOTE 2

KEY FIGURES

DKK MILLION	2021	2020	2019	2018	2017
Net interest income from lending	541	501	516	477	541
Net interest income from investment activities	(37)	41	115	163	135
Total net interest income	504	542	631	640	676
Net interest and fee income	536	562	657	672	696
Market value adjustments	(82)	(150)	(197)	(135)	37
Staff costs and administrative expenses	(167)	(158)	(166)	(158)	(141)
Loan impairment charges	39	(100)	2	(35)	(163)
Profit before tax	326	154	296	343	427
Net profit for the year	254	117	227	262	334
Loans	36,293	31,950	39,082	36,735	34,492
Bonds	16,007	24,319	25,027	22,470	20,093
Equity	9,325	9,275	9,260	9,229	9,307
Total assets	54,457	59,805	66,824	62,349	58,161

NOTE 2 CONTINUED

KEY RATIOS

DKK MILLION	2021	2020	2019	2018	2017
Common Equity Tier 1 capital ratio (%)	20.1	22.3	18.5	19.0	19.7
Tier 1 capital ratio (%)	20.1	22.3	18.5	19.0	19.7
Total capital ratio (%)	20.1	22.3	18.5	19.0	19.7
Return on equity before tax (%)	3.5	1.7	3.2	3.7	4.6
Return on equity after tax (%)	2.7	1.3	2.5	2.8	3.6
Income/cost ratio[1]	3.5	1.6	2.8	2.8	2.4
Income/cost ratio (excluding loan impairment charges)	2.7	2.6	2.7	3.4	5.1
Foreign exchange position (%)	3.1	2.9	2.8	4.8	10.8
Gearing of loans	3.9	3.4	4.2	4.0	3.7
Annual growth in lending (%)	13.6	(18.2)	6.4	6.5	(13.4)
Annual loan impairment ratio (%)	(0.1)	0.3	0.0	0.1	0.4
Accumulated loan impairment charges as a % of loan book	2.6	3.9	4.9	6.3	6.9
Rate of return on assets (%)	0.5	0.2	0.4	0.4	0.6

The key figures are calculated in accordance with Appendix 5 of the Danish FSA's Executive Order on Financial Reports.

1) In accordance with the instructions, the income/cost ratio must be calculated including loan impairment charges.

NOTES

2021 **DKK MILLION**

NOTE 3 RECONCILIATION OF BUSINESS AREAS

		Income statement								
Business areas		Net interest income, lending	Net interest income, investment activities	Fee and commission	Market value adjustments	Other operating income	Staff costs and adm. expenses	Dep. and imp. of property, plant and equip.	Loan impairment charges	Profit before tax
Income										
Lending										
Net interest income	531	531							0	
Net fees and commission	32			32						
Funding										
Funding costs not covered	(13)	(14)			1					
Warehousing	0	(19)			20					
Non-business activities	4	44			(41)	1				
Investments										
Net interest income	(37)		(37)							
MV adjustments	(62)				(62)	(62)				
Total income	**455**	541	(37)	32	(82)	1	0	0	0	0
Staff costs and adm. expenses	(169)						(167)	(2)		
Loan impairment charges before reclassification of interest	39								39	
Profit before tax	326									326
Total		**541**	**(37)**	**32**	**(82)**	**1**	**(167)**	**(2)**	**39**	**326**

DANISH SHIP FINANCE

NOTES

2020 — **DKK MILLION**

NOTE 3 CONTINUED

RECONCILIATION OF BUSINESS AREAS

Business areas						Income statement				
		Net interest income, lending	Net interest income, investment activities	Fee and commission	Market value adjustments	Other operating income	Staff costs and adm. expenses	Dep. and imp. of property, plant and equip.	Loan impairment charges	Profit before tax
Income										
Lending										
Net interest income	533	533							0	
Net fees and commission	21			21						
Funding										
Funding costs not covered	(29)	(53)			24					
Warehousing	(8)	(21)			13					
Non-business activities	(6)	42			(4)					
Investments										
Net interest income	41		41							
MV adjustments	(139)				(139)					
Total income	**412**	501	41	21	(150)	0	0	0	0	0
Staff costs and adm. expenses	(158)					1	(158)	(1)		
Loan impairment charges before reclassification of interest	(100)								(100)	
Profit before tax	154									154
	Total	**501**	**41**	**21**	**(150)**	**1**	**(158)**	**(1)**	**(100)**	**154**

DANISH SHIP FINANCE

NOTES

NOTE 4 INTEREST INCOME

DKK MILLION	2021	2020
Due from credit institutions and central banks	15	30
Loans and other receivables	936	1,255
Bonds	138	155
Other interest income	0	0
Derivatives		
Interest rate contracts	37	59
Foreign exchange contracts	2	2
Total interest income[1]	**1,129**	**1,500**
Of this amount, income from genuine purchase and resale transactions recognised in:		
Due from credit institutions and central banks	16	31

1) A DKK 1.7 million component of interest income reflects negative interest rates in 2021 (2020: DKK 0.5 million).

NOTE 5 INTEREST EXPENSES

DKK MILLION	2021	2020
Credit institutions and central banks	(6)	(2)
Bonds	(6)	(18)
Issued bonds	(138)	(169)
Other interest expenses	(135)	(108)
Derivatives		
Interest rate contracts	(340)	(662)
Foreign exchange contracts	-	-
Total interest expenses[1]	**(625)**	**(958)**
Of this amount, interest expenses for genuine sale and repurchase transactions recognised in:		
Due from credit institutions and central banks	(12)	(12)

1) A DKK 6.1 million component of interest expenses reflects negative interest rates in 2021 (2020: DKK 18.9 million).

NOTES

NOTE 6 NET INTEREST INCOME

DKK MILLION	2021	2020
Net interest income from lending		
Loans and other receivables	936	1,255
Bonds	46	14
Due from credit institutions	3	4
Interest to credit institutions	(5)	0
Issued bonds	(138)	(169)
Other interest expenses	0	(2)
Derivatives		
Interest rate contracts	(303)	(604)
Foreign exchange contracts	2	2
Total net interest income from lending	**541**	**501**
Net interest income from investment activities		
Bonds	87	123
Due from credit institutions	12	27
Other interest income	0	0
Interest to credit institutions	(2)	(3)
Other interest expenses	(135)	(106)
Total net interest income from investment activities	**(37)**	**41**
Total net interest income	**504**	**542**

NOTE 7 FEE AND COMMISSION INCOME

DKK MILLION	2021	2020
Guarantee commission	2	2
Fee and other commission income	31	19
Total fee and commission income	**32**	**21**

NOTE 8 FEE AND COMMISSION INCOME

DKK MILLION	2021	2020
Market value adjustment of bonds	(459)	(64)
Market value adjustment of shares	0	6
Exchange rate adjustments	1	(5)
Market value adjustment of derivatives	376	(87)
Total market value adjustments	**(82)**	**(150)**

DANISH SHIP FINANCE

NOTES

DKK MILLION	2021	2020
NOTE 9 STAFF COSTS AND ADMINISTRATIVE EXPENSES		
Remuneration of Board of Directors and Executive Board		
Board of Directors	(3)	(3)
Executive Board	(15)	(15)
Total remuneration of Board of Directors and Executive Board	**(18)**	**(18)**
Staff costs		
Salaries and wages	(87)	(73)
Pensions	(9)	(8)
Social security costs and financial services employer tax	(21)	(23)
Total staff costs	**(116)**	**(105)**
Other administrative expenses	(32)	(35)
Total staff costs and administrative expenses	**(167)**	**(158)**
Number of employees - full-time equivalents[1]	79	78
Average number of employees - full-time equivalents[1]	79	79

1) The number includes Student Assistants.

DKK '000

NOTE 9 CONTINUED

INFORMATION ON REMUNERATION POLICY

Information about remuneration policy and practice for the Board of Directors, the Executive Board and other employees whose activities have a material impact on the company's risk profile.

The remuneration policy and remuneration report were adopted at the company's annual general meeting on 18 March 2021. The remuneration policy and remuneration report are available on the company's website:

→ **www.shipfinance.dk/investor-relations/**

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

2021	Fixed salary/fee	Variable salary	Total salary/fee	Number of recipients
Board of Directors	2,950	-	2,950	12
Executive Board	14,871	402	15,273	3
Other employees whose activities have a material impact on the company´s risk profile	12,169	1,271	13,440	7
Total	**29,990**	**1,673**	**31,663**	

NOTES

DKK '000

NOTE 9 CONTINUED

Detailed information about remuneration for the Board of Directors and the Executive Board can be found in the company's remuneration report.

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

The pension plans of other employees are defined contribution plans.

2020	Fixed salary/fee	Variable salary	Total salary/fee	Number of recipients
Board of Directors	3,260	-	3,260	12
Executive Board	14,628	(28)	14,600	3
Other employees whose activities have a material impact on the company´s risk profile	12,203	1,579	13,782	7
Total	**30,091**	**1,551**	**31,642**	

The Executive Board has received a variable remuneration in the form of warrants in Danish Ship Finance Holding A/S. The related costs are recognised in Danish Ship Finance Holding A/S.

The variable remuneration terms and pension plans for 2020 for other employees are identical with the terms for 2021.

NOTE 10

DKK MILLION	2021	2020
AUDIT FEES		
Fees for statutory audit of financial statements	(1.0)	(0.8)
Fees for tax advisory services	0.0	(0.2)
Fees for non-audit services	0.0	0.0
Fees for other assurance engagements	(0.1)	(0.2)
Total fees	**(1.2)**	**(1.2)**

The Executive Board has received a variable remuneration in the form of warrants in Danish Ship Finance Holding A/S. The related costs are recognised in Danish Ship Finance Holding A/S.

The variable remuneration terms and pension plans for 2020 for other employees are identical with the terms for 2021.

NOTES

NOTE 11 TAX

DKK MILLION	2021	2020
Tax on profit for the year		
Estimated tax on profit for the year	(52)	(22)
Changes in deferred tax	(20)	(13)
Adjustment of prior-year tax charges	0	(2)
Total tax	**(72)**	**(37)**
Tax on other comprehensive income		
Deferred tax	-	(9)
Total tax	**-**	**(9)**

Pct. (%)		
Effective tax rate		
Tax rate in Denmark	22.0	22.0
Non-taxable income and non-deductible expenses	0.0	0.6
Adjustment of prior-year tax charges	0.0	1.3
Effective tax rate	**22.0**	**24.0**

NOTE 12 DUE FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

DKK MILLION	2021	2020
Genuine purchase and resale transactions (reverse repo)	367	1,170
Other receivables	21	127
Total due from credit institutions and central banks	**388**	**1,298**
Broken down by due date		
Demand deposits	21	24
Up to 3 months	367	1,274
Total due from credit institutions and central banks	**388**	**1,298**

The company has no term deposits with central banks.

DANISH SHIP FINANCE

NOTES

NOTE 13 LOANS AT AMORTISED COST

DKK MILLION	2021	2020
As at 1 January	31,950	39,082
Additions	9,380	6,472
Ordinary repayments and redemptions	(4,962)	(5,181)
Extraordinary repayments	(3,047)	(4,533)
Net change concerning revolving credit facilities	461	(318)
Exchange rate adjustment of loans	2,152	(4,287)
Change in amortised cost for the year	36	2
Depreciation, amortisation and impairment for the year	323	713
As at 31 December	36,293	31,950

NOTE 14 LOANS AT AMORTISED COST BROKEN DOWN BY DUE DATE

DKK MILLION	2021	2020
Gross loans at exchange rates at the balance sheet date	37,284	33,264
Accumulated loan impairment charges	(991)	(1,314)
Total loans	**36,293**	**31,950**
Total loans broken down by due date		
Up to 3 months	1,981	1,257
From 3 months to 1 year	4,230	2,529
From 1 to 5 years	25,329	24,140
Over 5 years	4,753	4,024
Total loans	**36,293**	**31,950**
Total loans		
Loans at fair value	37,066	32,703
Loans at amortised cost	36,293	31,950

Loans at fair value are assessed using the market value of fixed-rate loans.

NOTES

DKK MILLION	2021	2020
NOTE 15 NON-PERFORMING LOANS		
Impaired loans (DSF Rating 11)		
Loans subject to forbearance or otherwise impaired, gross	635	650
Accumulated loan impairment charges	(231)	(150)
Impaired loans, net	**404**	**500**
Defaulted loans (DSF Rating 12)		
Loans in default, gross	1,276	1,757
Accumulated loan impairment charges	(569)	(901)
Defaulted loans, net	**707**	**855**
Non-performing loans, gross (NPL)	**1,911**	**2,407**
Non-performing loans, net (net NPL)	**1,111**	**1,357**
NPL ratio	**5.1%**	**7.2%**
Net NPL ratio	**3.0%**	**4.2%**

NPL ratio definition: NPL divided by loan book.

Net NPL ratio definition: Net NPL divided by loan book after loan impairment charges.

Note 17 provides detailed information on loan-to-value intervals for the total loan book and for non-performing loans.

DKK MILLION	2021	2020
NOTE 16 LOAN IMPAIRMENT CHARGES		
The following loan impairment charges/loss allowances were made on loans/credit commitments		
Accumulated loan impairment charges	991	1,314
Accumulated loss allowances for credit commitments	16	16
Total	**1,007**	**1.330**
Accumulated loan impairment charges as a % of the loan book	2.6	3.9
Reconciliation of total allowance account		
As at 1 January	1,330	2,035
New loan impairment charges/loss allowances	277	760
Reversal of loan impairment charges/loss allowances	(307)	(648)
Gross write-offs debited to the allowance account	(293)	(817)
Total	**1,007**	**1,330**
Loan impairment charges for the period		
New loan impairment charges/loss allowances	(277)	(760)
Reversal of loan impairment charges/loss allowances	307	648
Reclassification of interest	0	0
Recovery on loans previously written off	9	12
Loan impairment charges	**39**	**(100)**

NOTES

NOTE 17 CREDIT RISK

DKK MILLION	2021	2020
Reconciliation of loans and guarantees (loan book)		
Balance sheet		
Loans at amortised cost	36,293	31,950
Other receivables	160	196
Accumulated loan impairment charges	991	1,314
Total balance sheet items	**37,444**	**33,460**
Guarantees	101	116
Total guarantees	**101**	**116**
Total loans and guarantees	**37,544**	**33,576**
Reconciliation of other contingent liabilities		
Credit commitments	3,356	3,723
Total other contingent liabilities	**3,356**	**3,723**
Reconciliation of financial exposure		
Due from credit institutions and central banks	388	1,298
Bonds at fair value	16,007	24,319
Shares, etc.	-	-
Derivatives	1,153	1,674
Total financial exposure	**17,548**	**27,291**
Total credit risk from loans, guarantees, credit commitments and financial exposures	**58,449**	**64,590**

DKK MILLION

NOTE 17 CONTINUED

DSF RATING CATEGORY BREAKDOWN

The internal DSF Rating scale consists of 12 rating categories.

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

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

Loan book before loan impairment charges broken down by rating category

DSF Rating	Loans and guarantees 2021	Loans and guarantees 2020
1 - 2	-	-
3 - 4	4,659	5,450
5 - 6	17,188	11,710
7 - 8	13,188	12,929
9 - 10	598	1,080
11 (impaired)	635	650
12 (default)	1,276	1,757
Total	**37,544**	**33,576**

NOTES

DKK MILLION

NOTE 17 CONTINUED

STAGES FOR CHANGES IN CREDIT RISK

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

DSF Rating	Stage 1	Stage 2	Stage 3	Loans and guarantees 2021
1	-	-	-	-
2	-	-	-	-
3	1,953	-	-	1,953
4	2,706	-	-	2,706
5	5,158	-	-	5,158
6	12,030	-	-	12,030
7	7,955	3,228	-	11,183
8	2,005	-	-	2,005
9	-	204	-	204
10	-	394	-	394
11 (impaired)	-	-	635	635
12 (default)	-	-	1,276	1,276
Total	**31,807**	**3,827**	**1,911**	**37,544**

DKK MILLION

NOTE 17 CONTINUED

STAGES FOR CHANGES IN CREDIT RISK

Credit commitments broken down by rating category and stage

DSF Rating	Stage 1	Stage 2	Stage 3	Credit Commitments 2021
1	-	-	-	-
2	-	-	-	-
3	-	-	-	-
4	741	-	-	741
5	142	-	-	142
6	1,213	-	-	1,213
7	914	-	-	914
8	346	-	-	346
9	-	-	-	-
10	-	-	-	-
11 (impaired)	-	-	-	-
12 (default)	-	-	-	-
Total	**3,356**	-	-	**3,356**

NOTES

DKK MILLION

NOTE 17
CONTINUED

STAGES FOR CHANGES IN CREDIT RISK

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

DSF Rating	Stage 1	Stage 2	Stage 3	Loans and guarantees 2020
1	-	-	-	-
2	-	-	-	-
3	1,803	-	-	1,803
4	3,648	-	-	3,648
5	1,073	-	-	1,073
6	10,637	-	-	10,637
7	8,179	1,543	-	9,722
8	3,207	-	-	3,207
9	-	358	-	358
10	-	722	-	722
11 (impaired)	-	-	650	650
12 (default)	-	-	1,757	1,757
Total	**28,547**	**2,623**	**2,407**	**33,576**

DKK MILLION

NOTE 17
CONTINUED

STAGES FOR CHANGES IN CREDIT RISK

Credit commitments broken down by rating category and stage

DSF Rating	Stage 1	Stage 2	Stage 3	Credit Commitments 2020
1	-	-	-	-
2	-	-	-	-
3	-	-	-	-
4	1,221	-	-	1,221
5	298	-	-	298
6	1,023	-	-	1,023
7	727	-	-	727
8	429	-	-	429
9	-	25	-	25
10	-	-	-	-
11 (impaired)	-	-	-	-
12 (default)	-	-	-	-
Total	**3,698**	**25**	**-**	**3,723**

DANISH SHIP FINANCE

NOTES

DKK MILLION

NOTE 17 CONTINUED

STAGES FOR CHANGES IN CREDIT RISK

Changes in total ECL allowance account broken down by stage

DKK MILLION	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	135	144	1,051	1,330
Transferred to Stage 1 during the period	-	-	-	-
Transferred to Stage 2 during the period	-	-	-	-
Transferred to Stage 3 during the period	-	-	-	-
New loan impairment charges/loss allowances	117	-	160	277
Reversal of loan impairment charges/loss allowances	(81)	(107)	(118)	(307)
Gross write-offs for the period	-	-	(293)	(293)
Total ECL allowance account as at 31 December 2021	**171**	**37**	**800**	**1,007**
Of which:				
- Accumulated loan impairment charges	155	37	800	991
- Accumulated loss allowances for credit commitments	16	-	-	16
Of which:				
- Management judgments			75	75

DKK MILLION

NOTE 17 CONTINUED

STAGES FOR CHANGES IN CREDIT RISK

Changes in total ECL allowance account broken down by stage

DKK MILLION	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	167	90	1,778	2,035
Transferred to Stage 1 during the period	-	-	-	-
Transferred to Stage 2 during the period	(9)	189	(179)	0
Transferred to Stage 3 during the period	-	-	-	-
New loan impairment charges/loss allowances	53	51	656	760
Reversal of loan impairment charges/loss allowances	(75)	(186)	(386)	(648)
Gross write-offs for the period	-	-	(817)	(817)
Total ECL allowance account as at 31 December 2020	**135**	**144**	**1,051**	**1,330**
Of which:				
- Accumulated loan impairment charges	119	144	1,051	1,314
- Accumulated loss allowances for credit commitments	16	-	-	16
Of which:				
- Management judgments			100	100

DANISH SHIP FINANCE

NOTES

NOTE 17
CONTINUED

Classification, stage migration and loan impairment charges

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

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

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

The Risk Report 2021 provides more detailed information.

Arrears/past-due loans

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

NOTE 17
CONTINUED

Covid-19 concessions

Our forbearance practices have been updated to cater for clients materially affected by the Covid-19 pandemic. Temporary Covid-19 concessions to clients are not considered forbearance if such clients - based on individual credit assessments - are considered to have viable business models post-Covid-19.

Credit risk mitigation

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

The USD market value of mortgaged vessels increased by 24.4% on average in 2021.

NOTES

NOTE 17 CONTINUED

Loan book after loan impairment charges broken down by loan-to-value interval

Loan-to-value interval	Share of loans 2021	Share of loans 2020
0 - 20 %	49%	39%
20 - 40 %	37%	37%
40 - 60 %	13%	22%
60 - 80 %	1%	2%
80 - 90 %	0%	0%
90 - 100 %	0%	0%
Over 100 %	0%	0%

The table above shows that at year-end 99% (2020: 98%) of all loans were secured within 60% of the market value of the mortgage, and 100% (2020: 100%) of all loans were within 80% of the market value of the mortgage.

The weighted loan-to-value ratio on the loan book after loan impairment charges was 44% (2020: 54%).

NOTE 17 CONTINUED

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

Loan-to-value interval	Share of loans 2021	Share of loans 2020
0 - 20 %	48%	41%
20 - 40 %	37%	35%
40 - 60 %	15%	22%
60 - 80 %	1%	2%
80 - 90 %	0%	0%
90 - 100 %	0%	0%
Over 100 %	0%	0%

The table above shows that at year-end 99% (2020: 98%) of non-performing loans were secured within 60% of the market value of the mortgage, and 100% (2020: 100%) of non-performing loans were within 80% of the market value of the mortgage.

The weighted average loan-to-value ratio for non-performing loans after loan impairment charges was 47% (2020: 53%).

NOTES

NOTE 18 BONDS AT FAIR VALUE

DKK MILLION	2021	2020
Bond portfolio		
Own non-callable bonds	3,225	962
Non-callable bonds	15,626	21,697
Callable bonds	381	2,622
Total portfolio of bonds	**19,232**	**25,281**
Own bonds (offset against issued bonds at amortised cost)	(3,225)	(962)
Total bond portfolio	**16,007**	**24,319**
Bond portfolio		
Own bonds	3,225	962
Government bonds and bonds issued by KommuneKredit	2,385	7,048
Mortgage bonds	13,622	17,271
Total portfolio of bonds	**19,232**	**25,281**
Own bonds (offset against issued bonds at amortised cost)	(3,225)	(962)
Total bond portfolio	**16,007**	**24,319**

NOTE 19 BONDS BY TIME TO MATURITY

DKK MILLION	2021	2020
Bond portfolio		
Bonds with a maturity up to and including 1 year	4,107	1,658
Bonds with a maturity over 1 year and up to and including 5 years	8,774	17,935
Bonds with a maturity over 5 years and up to and including 10 years	1,417	1,624
Bonds with a maturity over 10 years	1,709	3,102
Total bonds specified by time to maturity	**16,007**	**24,319**

NOTE 20 CSA COLLATERAL

DKK MILLION	2021	2020
Collateral under CSA agreements		
Collateral received	12	714
Collateral delivered	(1,274)	(999)
Net value of collateral under CSA agreements	**(1,262)**	**(285)**

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

DANISH SHIP FINANCE

NOTES

DKK MILLION	2021	2020
NOTE 21 SHARES, ETC.		
Shares listed on Nasdaq Nordic	0	0
Unlisted shares recognised at fair value	-	-
Total shares, etc.	**0**	**0**
NOTE 22 LAND AND BUILDINGS		
Owner-occupied properties		
Valuation, as at 1 January	325	102
Acquisition	-	183
Property improvements during the year	9	-
Revaluation	-	40
Revaluation including improvements, as at 31 December	**334**	**325**
Accumulated depreciation, as at 1 January	2	2
Depreciation for the year	0	0
Accumulated depreciation, as at 31 December	**2**	**2**
Total valuation, as at 31 December	**332**	**323**

NOTE 22 CONTINUED

The owner-occupied properties are the office properties at Sankt Annæ Plads 3, Copenhagen (public property valuation on 1 October 2020: DKK 79 million) and Langebrogade 5, Copenhagen (public property valuation on 1 October 2020: DKK 88 million).

The domicile properties have been valued based on rent levels and yields for similar properties in the respective areas. Consequently, a recalculation has been made to the recognised value. External experts have not been involved in valuing the owner-occupied properties.

In mid-July 2020, we entered into an agreement for the sale of our current domicile property at Sankt Annæ Plads and the property has therefore been valued based on its sale price. The sale will be effected once we can move to our new offices, expected to be in 2023.

DANISH SHIP FINANCE

NOTES

NOTE 23 OTHER TANGIBLE ASSETS

DKK MILLION	2021	2020
Cost, as at 1 January	12	23
Additions during the year	0	0
Disposals during the year	0	(11)
Cost, as at 31 December	**13**	**12**
Accumulated depreciation, as at 1 January	6	16
Disposals during the year	0	(11)
Depreciation during the year	1	1
Accumulated depreciation, as at 31 December	**7**	**6**
Total other tangible assets	**6**	**6**

NOTE 24 OTHER ASSETS

DKK MILLION	2021	2020
Interest receivable	147	131
Prepayments to swap counterparties	17	12
Derivatives	1,153	1,674
Miscellaneous receivables	107	81
Total other assets	**1,425**	**1,898**

NOTE 25 DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

DKK MILLION	2021	2020
Repo transactions	509	6,693
Other amounts due	249	-
Total due to credit institutions and central banks	**758**	**6,693**
Broken down by due date		
On demand	-	-
Up to 3 months	758	6,693
From 3 months to 1 year	-	-
From 1 to 5 years	-	-
Over 5 years	-	-

NOTES

NOTE 26

ISSUED BONDS AT AMORTISED COST

DKK MILLION	2021	2020
As at 1 January	42,477	47,737
Additions in connection with pre-issuance	9,600	7,935
Amortisation of cost	(89)	(137)
Adjustment for hedge accounting	(71)	(1)
Exchange rate adjustment	(2)	(38)
Own bonds	(2,300)	(970)
Ordinary and extraordinary redemptions	(6,386)	(12,050)
As at 31 December	**43,228**	**(42,477)**
Specification of issued bonds		
Bonds issued in DKK		
Bullet bonds	(35,170)	35,653
Amortising CIRR bonds	161	276
Total Danish bonds	**35,330**	**35,929**
Bonds issued in foreign currency		
Bullet bonds	11,123	7,439
Amortising CIRR bonds, at year-end exchange rates	-	71
Total bonds issued in foreign currency	**11,123**	**7,510**
Own bonds	(3,225)	(962)
Total issued bonds	**43,228**	**42,477**

NOTE 26 CONTINUED

DKK MILLION	2021	2020
Broken down by term to maturity		
Up to 3 months	625	1,175
From 3 months to 1 year	3,739	38
From 1 to 5 years	31,884	38,042
Over 5 years	10,206	4,184
Total issued bonds	**46,454**	**43,439**
Own bonds	(3,225)	(962)
Total issued bonds	**43,228**	**42,477**

DANISH SHIP FINANCE

NOTES

NOTE 27

OTHER LIABILITIES

DKK MILLION	2021	2020
Broken down by term to maturity		
Interest payable	124	131
Derivatives	779	1,074
Other liabilities	59	70
Total other liabilities	**962**	**1,275**

NOTE 28

DEFERRED TAX

DKK MILLION	2021	2020
Deferred tax, as at 1 January	(68)	47
Adjustment of prior year	(21)	(91)
Estimated deferred tax on profit for the year	(20)	(24)
Total deferred tax	**(108)**	**(68)**

	2021 Deferred tax assets	2021 Deferred tax liabilities	2021 Deferred tax net	2020 Deferred tax net
Property, plant and equipment	0	(21)	(21)	(21)
Loans	35	-	35	72
Shares, etc.	0	-	0	1
Issued bonds	-	(134)	(134)	(121)
Employee obligations	11	-	11	0
Balance of tax losses	-	-	-	0
Total deferred tax	**47**	**(155)**	**(108)**	**(68)**

NOTES

NOTE 29 EQUITY

DKK MILLION	2021	2020
Share capital		
A shares	300	300
B shares	33	33
Total share capital	**333**	**333**
Tied-up reserve capital	8,343	8,343
Revaluation reserves	70	70
Retained earnings	451	471
Proposed dividends for the financial year	128	59
Total equity	**9,325**	**9,275**

The share capital is divided into the following denominations:

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

Each A share of DKK 1.00 entitles the holder to 10 votes.
Each B share of DKK 1.00 entitles the holder to 1 vote.

NOTE 30 CAPITAL ADEQUACY

DKK MILLION	2021	2020
Common Equity Tier 1 capital		
Share capital - A shares	300	300
Share capital - B shares	33	33
Tied-up reserve capital	8,343	8,343
Retained earnings	451	471
Proposed dividends for the financial year	128	59
Revaluation reserves	70	70
Total common Equity Tier 1 capital before deductions	**9,325**	**9,275**
Deductions from Common Equity Tier 1 capital		
Proposed dividends for the financial year	128	59
Additional capital charge pursuant to the Executive Order		
on a Ship Finance Institute	-	-
Prudent valuation pursuant to Article 105 of the CRR	24	28
Deductions for NPE Loss coverage	8	-
Deductions pursuant to transitional rules regarding B share capital	33	33
Total deductions from Common Equity Tier 1 capital	**194**	**119**
Common Equity Tier 1 capital after deductions	**9,131**	**9,156**

DANISH SHIP FINANCE

NOTES

NOTE 30 CONTINUED

DKK MILLION	2021	2020
Risk exposure amount		
Assets outside the trading book	36,856	32,309
Off-balance sheet items	1,678	1,862
Counterparty risk outside the trading book	2,766	2,255
Market risk	3,346	3,736
Operational risk	829	880
Total risk exposure amount	**45,477**	**41,042**
Common Equity Tier 1 capital ratio	**20.1**	**22.3**
Tier 1 capital ratio	**20.1**	**22.3**
Total capital ratio	**20.1**	**22.3**
The risk exposure amount for market risk consists of:		
Position risk related to debt instruments	3,045	3,454
Position risk related to shares	18	18
Total currency position	284	265
Total risk-weighted exposure amount for market risk	**3,346**	**3,736**

DKK MILLION	2021	2020
NOTE 31 CONTINGENT LIABILITIES		
In the ordinary course of its lending operations, DSF has undertaken guarantee commitments of	101	116
Payment guarantee provided to the Danish Securities Centre	0	0
Total contingent liabilities	**101**	**116**
NOTE 32 OTHER CONTINGENT LIABILITIES		
In the ordinary course of its lending operations, DSF has undertaken commitments in relation to unutilised drawing rights on loans with revolving credit facilities in the amount of	896	885
In the ordinary course of its lending operations, DSF has undertaken commitments relating to irrevocable credit commitments in the amount of	2,460	2,837
Total other contingent liabilities	**3,356**	**3,723**

NOTES

DKK MILLION

NOTE 33 RELATED PARTIES

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

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

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

Transactions with the Executive Board and the Board of Directors only concerned remuneration. See Note 9.

Related-party transactions concerning loans and loan offers as at 31 December 2021 totalled a nominal amount of DKK 1,456 million (as at 31 December 2020: DKK 1,252 million). Transactions with related parties are settled on an arm's-length basis and recognised" in the financial statements according to the same accounting policy as for similar transactions with unrelated parties."

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

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

DKK MILLION

NOTE 34 CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of DSF are consolidated into the consolidated financial statements of Danish Ship Finance Holding A/S.

The consolidated financial statements are available on request from Danish Ship Finance Holding A/S, Sankt Annæ Plads 3, DK-1250 Copenhagen K.

DANISH SHIP FINANCE

NOTES

DKK MILLION

NOTE 35 HEDGE ACCOUNTING

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

2021	Nominal Value	Carrying Amount	Fair Value
Commitments			
Issued bonds	15,250	15,165	15,560
Total commitments	**15,250**	**15,165**	**15,560**
Derivatives			
Interest rate swaps	(15,250)	121	121
Total derivatives	**(15,250)**	**121**	**121**
Net	**0**	**15,287**	**15,681**

2020	Nominal Value	Carrying Amount	Fair Value
Commitments			
Issued bonds	12,910	13,014	13,350
Total commitments	**12,910**	**13,014**	**13,350**
Derivatives			
Interest rate swaps	(12,910)	(101)	(101)
Total derivatives	**(12,910)**	**(101)**	**(101)**
Net	**0**	**12,913**	**13,249**

DKK MILLION	2021	2020

NOTE 36 NOTIONAL PRINCIPALS OF OUTSTANDING DERIVATIVES

Swap agreements

Swap agreements have been made with the following parties to hedge the foreign exchange risk on loans and issued bonds:

	2021	2020
Receivables	161	279
Credit institutions	85,578	78,741

Swap agreements have been made with the following parties to hedge the interest rate risk on loans, bonds and issued bonds:

	2021	2020
Receivables	-	-
Credit institutions	132,962	129,437

Swap agreements for which financial risks are not fully hedged have been made with the following parties:

	2021	2020
Credit institutions	56,768	56,487

Forward interest rate and currency agreements

Forward interest rate and currency agreements have been made with the following parties to hedge interest rate and foreign exchange risk:

	2021	2020
Credit institutions	31,745	34,619

NOTES

NOTE 37

FAIR VALUES OF OUTSTANDING DERIVATIVES

Swap agreements

Swap agreements have been made with the following parties to hedge the foreign exchange risk on loans and issued bonds:

DKK MILLION	2021 Positive	2021 Negative	2020 Positive	2020 Negative
Receivables	19	-	19	-
Credit institutions	109	501	1,240	285

Swap agreements have been made with the following parties to hedge the interest rate risk on loans, bonds and issued bonds:

DKK MILLION	2021 Positive	2021 Negative	2020 Positive	2020 Negative
Receivables	-	-	-	-
Credit institutions	1,069	979	1,161	967

Swap agreements, for which financial risks are not fully hedged, have been made with the following parties:

DKK MILLION	2021 Positive	2021 Negative	2020 Positive	2020 Negative
Credit institutions	711	1,278	1,200	1,861

Forward interest rate and currency agreements

Forward interest rate and currency agreements have been made with the following parties to hedge interest rate and foreign exchange risk:

DKK MILLION	2021 Positive	2021 Negative	2020 Positive	2020 Negative
Credit institutions	44	121	46	258

NOTE 37 CONTINUED

Netting of exposure value

The positive gross fair value of financial contracts after netting:

DKK MILLION	2021 Positive	2020 Positive
Counterparties with risk weight of 0%	-	-
Counterparties with risk weight of 20%	525	539
Counterparties with risk weight of 50%	1,407	1,251
Counterparties with risk weight of 100%	26	36

Value of total counterparty risk[1]

DKK MILLION	2021 Positive	2020 Positive
Counterparties with risk weight of 0%	-	-
Counterparties with risk weight of 20%	580	881
Counterparties with risk weight of 50%	2,094	2,750
Counterparties with risk weight of 100%	26	36

1) Figures for 2021 are calculated according to method in SA-CCR (implemented in 2021) while figures for 2020 are calculated according to the market valuation method.

NOTES

DKK MILLION

NOTE 38 FOREIGN EXCHANGE RISK AND USE OF DERIVATIVES

Our total unhedged foreign currency position as at 31 December 2021, translated at year-end exchange rates into DKK, amounts to DKK (97) million (DKK 265 million as at 31 December 2020). All amounts are translated into DKK at the year-end exchange rates.

The net position is specified as follows:

	USD	Other currencies	Total currencies	DKK	Total
Loans at year-end exchange rates	33,017	2,731	35,748	1,536	37,284
Loan impairment charges	-	-	-	(991)	(991)
Loans as per the balance sheet					36,293
Due from credit institutions and central banks	4	12	17	372	388
Bond portfolio	-	1,374	1,374	14,633	16,007
Interest receivable, other assets, etc.	109	51	160	1,609	1,769
Total assets as per the balance sheet	**33,130**	**4,168**	**37,298**	**17,159**	**54,457**
Issued bonds at year-end exchange rates	0	(8,034)	(8,034)	(35,195)	(43,228)
Issued bonds as per the balance sheet					**(43,228)**
Due to credit institutions and central banks	(235)	(75)	(310)	(448)	(758)
Interest payable, other payables	(3)	(4)	(7)	(1,124)	(1.131)
Provisions	-	-	-	(16)	(16)
Total equity	-	-	-	(9,325)	(9,325)
Total liabilities as per the balance sheet	**(237)**	**(8,112)**	**(8,350)**	**(46,107)**	**(54,457)**
Derivatives - receivables	12,668	28,579	41,247		
Derivatives - payables	(45,505)	(24,788)	(70,293)		
Total net position	**56**	**(153)**	**(97)**		

DANISH SHIP FINANCE

NOTES

DKK MILLION	2021	2020

NOTE 39

MARKET RISK SENSITIVITY

Interest rate risk

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

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

	(20)	(46)

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

	(1)	32

NOTE 39 CONTINUED

Exchange rate risk

Most of the loans are denominated in USD, and most of the ship mortgages provided as collateral for the loans are also valued in USD. In the calculation of the collateral value of the ship mortgages for determining the level of loan impairment charges, a haircut is made to the market value of the vessel. For loans on which loan impairment charges have been made, there is typically a difference in USD between the size of the credit exposure and the mortgage values. All else being equal, the loan impairment charges are therefore adversely affected in the event of an increase and positively affected by a fall in theUSD/DKK exchange rate. Since a small proportion of the loans are denominated in currencies other than USD, while the ship mortgage in question is valued in USD, the total positive net effect from a fall in the USD/DKK exchange rate is reduced, and the sensitivity is thus not symmetric in the event of changes in the USD/DKK exchange rate.

Furthermore, earnings and loan impairment charges from lending are primarily denominated in USD, GBP and NOK, which means that, all else being equal, an increase in the exchange rates for these currencies against the DKK results in higher earnings from lending and vice versa if these currencies fall. The opposite applies to loan impairment charges.

NOTES

NOTE 39 CONTINUED

DKK MILLION	2021	2020
An appreciation of the USD exchange rate against the DKK		
Change in net profit for the year and equity	30	(2)
Percentage change in total capital ratio	(2.1)	(2.4)
A depreciation of the USD exchange rate against the DKK		
Change in net profit for the year and equity	(31)	(5)
Percentage change in total capital ratio	2.6	(3.1)
An appreciation of the GBP exchange rate against the DKK		
Change in net profit for the year and equity	(18)	(32)
Percentage change in total capital ratio	0.0	0,0
A depreciation of the GBP exchange rate against the DKK		
Change in net profit for the year and equity	18	32
Percentage change in total capital ratio	0.0	0,0
An appreciation of the NOK exchange rate against the DKK		
Change in net profit for the year and equity	(29)	(29)
Percentage change in total capital ratio	(0.2)	(0.3)
A depreciation of the NOK exchange rate against the DKK		
Change in net profit for the year and equity	22	22
Percentage change in total capital ratio	0.2	0.3

The impact on net profit for the year and equity from a change in the USD, GBP and NOK exchange rates assumes a permanent change of 17% (which equals a DKK 1 change against the USD) for an entire financial year. The impact comprises the change in the value of on-going net interest and fee income as well as the change in the need for loan impairment charges due to the change in the exchange rates in question.

The impact on the total capital ratio of a change in the currencies in question occurs immediately after the exchange rate change.

NOTE 40

FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

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

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

DKK MILLION	2021	2020
Loans		
Measured at amortised cost	36,293	31,950
Measured at fair value	37,066	32,703
Difference between carrying amounts and fair value-based value of loans, total	**773**	**753**

Loans at fair value are assessed using the market value of fixed-rate loans.

DKK MILLION	2021	2020
Issued bonds		
Measured at amortised cost, incl. hedging	43,228	42,477
Measured at fair value	43,842	43.034
Difference between carrying amounts and fair value-based value of issued bonds, total	**613**	**557**

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

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

DANISH SHIP FINANCE

NOTES

DKK MILLION

NOTE 41

SUPPLEMENTARY NOTES WITHOUT REFERENCE FINANCIAL RISKS AND POLICIES FOR FINANCIAL RISK MANAGEMENT RISK MANAGEMENT

DSF is exposed to different types of risk.

The most important types of risk are:

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

CREDIT RISK

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

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

The credit process is controlled centrally by the Credit Department. The Executive Board and the Head of Credit have been authorised by the Board of Directors to grant loans up to predetermined limits. The granting of loans must be disclosed at the subsequent ordinary board meeting. Other loans are granted by the Board of Directors. Note 17 includes a more detailed description of credit risk.

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

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

DKK MILLION

NOTE 41 CONTINUED

MARKET RISK

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

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

The Board of Directors determines the general policies, frameworks and principles for risk management.

The policies cover the identification and calculation of various types of market risk. The frameworks indicate specific limits on the extent of risk the company is willing to assume. The principles establish the methods to be used in the calculation of various risk targets.

The Board of Directors receives continuous reporting on risk developments and the utilisation of allocated risk limits.

The purpose of our market risk policy is to ensure that the market risk at all times is appropriate in relation to the total capital. The objective of the market risk policy is also to ensure that we consistently maintain adequate and appropriate handling and management of market risk.

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

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

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

NOTES

NOTE 42

CAPITAL CENTRES, 2021

DKK MILLION	Capital Centre Institute in general	Capital Centre A	Total
Income statement			
Interest, loans and other receivables	777	159	936
Other interest and fee income, net	(332)	(68)	(400)
Market value adjustments	(108)	27	(82)
Staff costs and administrative expenses	(139)	(29)	(168)
Loan impairment charges	9	30	39
Tax	(45)	(26)	(72)
Net profit for the year	**161**	**93**	**254**
Assets			
Loans and other receivables at amortised cost	28,971	7,322	36,293
Other assets	15,407	2,687	18,094
Total assets	**44,377**	**10,010**	**54,387**
Liabilities			
Issued bonds at amortised cost	35,281	7,947	43,228
Other liabilities	1,828	5	1,834
Equity[1]	7,268	2,057	9,325
Total liabilities	**44,377**	**10,010**	**54,387**
Transferrals of capital between capital centres	**(272)**	**272**	**0**

1) Capital Centre A was established in 2019, at which time DKK 1.7 billion was transferred to the centre.

NOTE 42 CONTINUED

CAPITAL CENTRES, 2020

DKK MILLION	Capital Centre Institute in general	Capital Centre A	Total
Income statement			
Interest, loans and other receivables	1,062	193	1,255
Other interest and fee income, net	(586)	(106)	(692)
Market value adjustments	(135)	(15)	(150)
Staff costs and administrative expenses	(134)	(24)	(158)
Loan impairment charges	(217)	117	(100)
Tax	(1)	(36)	(37)
Net profit for the year	**(11)**	**128**	**117**
Assets			
Loans and other receivables at amortised cost	26,021	5,929	31,950
Other assets	25,373	2,482	27,855
Total assets	**51,394**	**8,411**	**59,805**
Liabilities			
Issued bonds at amortised cost	35,857	6,620	42,477
Other liabilities	8,047	5	8,053
Equity[1]	7,490	1,785	9,275
Total liabilities	**51,394**	**8,411**	**59,805**
Transferrals between capital centres	**(68)**	**68**	**0**

STATEMENTS

DANISH SHIP FINANCE

STATEMENTS

STATEMENT BY MANAGEMENT ON THE ANNUAL REPORT

The Board of Directors and the Executive Board have today considered and approved the Annual Report of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year 1 January to 31 December 2021. The Annual Report is presented in accordance with the Danish Financial Business Act. Furthermore, the Annual Report has been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

In our opinion, the Management Report includes a fair review of developments in the company's activities and financial position and fairly describes the principal risks and uncertainties that may affect the company.

Further, in our opinion, the financial statements give a true and fair view of the company's financial position as at 31 December 2021 and of the results of its activities for the financial year 1 January to 31 December 2021.

The Annual Report is recommended for adoption by the annual general meeting on 29 March 2022.

Copenhagen, 28 February 2022

Executive Board

Erik Ingvar Lassen
Chief Executive Officer

Michael Frisch
Chief Commercial Officer

Lars Jebjerg
Chief Financial Officer

Board of Directors

Eivind Drachmann Kolding
(Chairman)

Peter Nyegaard
(Vice Chairman)

Marcus Freuchen Christensen

Anders Damgaard

Povl Christian Lütken Frigast

Thor Jørgen Guttormsen

Anna-Berit Koertz

Ninna Møller Kristensen

Jacob Balslev Meldgaard

Michael Nellemann Pedersen

Christopher Rex

Henrik Sjøgreen

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF DANISH SHIP FINANCE A/S (DANMARKS SKIBSKREDIT A/S)

Opinion

We have audited the financial statements of Danish Ship Finance A/S (Danmarks Skibskredit A/S) for the financial year 1 January – 31 December 2021, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds.

In our opinion, the financial statements give a true and fair view of the financial position as at 31 December 2021 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2021 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor

We were initially appointed as auditor of Danish Ship Finance A/S (Danmarks Skibskredit A/S) on 26 February 2021 for the financial year 2021.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2021. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Accordingly, our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Loans and provisions for credit losses

Key audit matters

A significant part of the company's assets consists of loans which amounted to DKK 36,293 million at 31 December 2021 (DKK 31,950 million at 31 December 2020), and provisions for credit losses on loans amounted to DKK 991 million at 31 December 2021 (DKK 1,314 million in 2020).

We consider the measurement of loans and provisions for credit losses a key audit matter as the measurement of expected losses involves management judgement and is subject to significant uncertainty.

The principles for determining expected credit losses are described in the summary of significant accounting policies and in note 16 and Management has described the management of credit risk and the review for impairment in more detail in notes 16 and 17 to the financial statements.

In 2021 the following required high level of management judgement and audit attention:

- Identification of credit-impaired exposures
- Parameters and management judgements in the calculation model used to determine expected credit losses for loans in stage 1 and 2
- Valuation of collateral and estimation of future cash flows including management judgement involved in determining expected credit losses for loans in stage 3.

How our audit addressed the key audit matter

Based on our risk assessment, our audit comprised a review of relevant central and Based on our risk assessment, our audit comprised a review of relevant business procedures, test of selected internal controls as well as analysis of the loans and the amount of impairment charges.

Specifically the audit included the following procedures:

- Evaluation of methods and models used for calculation of expected credit losses to ensure compliance with relevant accounting rules.
- Test of internal controls regarding:
  - Granting and monitoring of exposures
  - Assessment of credit risk and stage allocation
  - Valuation of collateral
  - Test of individual loans on a sample basis
  - Assessment of credit risk and stage allocation
  - Assessment of valuation of collateral, future cash flows, calculation of losses and definition of scenarios
  - Challenge of management judgements
  - Test of calculation models
  - Assessment and validation of input, assumptions and calculations applied in determination of provisions for loans in stage 1 and 2
  - Challenge of management judgements with focus on consistency and documentation
- Verification that disclosures related to loans, credit risk and provisions for credit losses are appropriate and meet the relevant accounting requirements, cf. notes 16 and 17.

DANISH SHIP FINANCE

Statement on the Management Report

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on compliance with the ESEF Regulation

As part of our audit of the financial statements of Danish Ship Finance A/S (Danmarks Skibskredit A/S) we performed procedures to express an opinion on whether the annual report for the financial year 1 January – 31 December 2021 with the file name Annual report 2021 (XHTML) is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format.

Management is responsible for preparing an annual report that complies with the ESEF Regulation and requirements related to the preparation of the annual report in XHTML format.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The procedure include testing whether the annual report is prepared in XHTML format.

In our opinion, the annual report for the financial year 1 January – 31 December 2021 with the file name Annual report 2021 (XHTML) is prepared, in all material respects, in compliance with the ESEF Regulation.

Frederiksberg, 28 February 2022

EY

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28

Lars Rhod Søndergaard
State Authorised
Public Accountant
mne28632

Thomas Hjortkjær Petersen
State Authorised
Public Accountant
mne33748

MANAGEMENT AND DIRECTORSHIPS ETC.

Directorships and executive positions – Board of Directors

This section lists positions, other directorships, executive positions and fiduciary positions held by board members at the date of publication of the Annual Report 2021. The length of tenure the board members have served and their special competencies are also shown.

Board members elected by the general meeting are elected for a term of one year and board members elected by the employees are elected for a term of four years.

Eivind Kolding, Chairman

Chairman of the Remuneration Committee
Born on 16 November 1959
Nationality: Danish
Considered to be an independent board member
Joined the Board of Directors on 15 November 2016
Nominated by Danish Ship Finance Holding A/S

Directorships and executive positions:

Chairman of NTG Nordic Transport Group A/S
Vice Chairman of Leo Fondet (and one group company)
Member of the Board of Directors:
NNIT A/S
Altor Fund Manager AB

Competencies:

Broad knowledge of shipping and the maritime industry, macroeconomics, banking, credit, insurance and finance, financial risk management, regulation and general management of international business.

Peter Nyegaard, Senior Advisor, Axcel

Vice Chairman
Member of the Audit Committee
Born on 16 May 1963
Nationality: Danish
Considered to be an independent board member
Joined the Board of Directors on 15 November 2016
Nominated by Axcel

Directorships and executive positions:

Chairman of FIH
Member of the Board of Directors of Øens Murerfirma A/S
Chairman/member of a number of boards in the Axcel Group
Member of the Board of Directors in Nuuday A/S

Competencies:

Broad knowledge of general management of international companies, financial risk management, financial regulation, capital markets, credit, financing and macroeconomics.

DANISH SHIP FINANCE

Anders Damgaard, Group CFO, PFA Pension

Chairman of the Audit Committee
Born on 8 August 1970
Nationality: Danish
Considered to be an independent board member
Joined the Board of Directors on 15 November 2016
Nominated by PFA

Directorships and executive positions:

Member of the Board of Directors:

Blue Equity Management A/S

Danish Ship Finance Holding A/S

PFA Asset Management A/S

PFA Bank A/S

PFA DK Boliger Høj A/S

PFA DK Boliger Lav A/S

PFA Ejendomme Høj A/S

PFA Ejendomme Lav A/S

PFA Europe Real Estate High A/S

PFA Europe Real Estate Low A/S

PFA Europe Real Estate Medium A/S

PFA Kapitalforening

PFA Kollegier ApS

PFA Sommerhuse ApS

PFA US Real Estate Medium P/S

PFA Nordic Real Estate Low P/S

Competencies:

Broad knowledge of financial business (including banking), credit, investment, finance, regulation and financial risk management.

Christian Frigast

Member of the Remuneration Committee
Born on 23 November 1951
Nationality: Danish
Considered to be an independent board member
Joined the Board of Directors on 15 November 2016
Nominated by Axcel

Directorships and executive positions:

Chairman of the Board of Directors:

Axcel Management

Danish Ship Finance Holding A/S

EKF (Denmark's export credit agency)

Branche-foreningen for Aktive Ejere i Danmark (Active Owners)

The Board Leadership Society in Denmark

Vice Chairman of the Board of Directors:

Pandora

PostNord

Axcelfuture, Axcel's think tank

Axcel Advisory Board

Member of the Board of Directors:

Nissens A/S

Associate professor at CBS (Copenhagen Business School)

Competencies:

Broad knowledge of banking, finance, financial risk management and management of international companies, M&A, restructuring, operational efficiency and value proposition strategies.

Thor Jørgen Guttormsen

Member of the Remuneration Committee
Born on 5 January 1949
Nationality: Norwegian
Considered to be an independent board member
Joined the Board of Directors on 16 June 2017
Nominated by Danish Ship Finance Holding A/S

Directorships and executive positions:

CEO of Hoegh LNG AS
CEO of Hoegh LNG Holdings Ltd (alternate)

Member of the Board of Directors:

Hoegh Autoliners ASA
Telenor Maritime AS
Aequitas Ltd

Competencies:

Broad knowledge of shipping and the maritime industry, investment, finance, restructuring of operations and general management.

Jacob Meldgaard, CEO, Torm A/S

Member of the Remuneration Committee
Born on 24 June 1968
Nationality: Danish
Considered to be an independent board member
Joined the Board of Directors on 16 June 2017
Nominated by Danish Ship Finance Holding A/S

Directorships and executive positions:

Chairman of Danish Shipping (Danske Rederier)
Chairman of Grant Compass

Member of the Board of Directors:

Syfoglomad
TORM Plc (board member in five companies under TORM)

Competencies:

Broad knowledge of shipping and the maritime industry, general management, investment, finance and restructuring of operations.

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

Member of the Audit Committee
Born on 8 July 1961
Nationality: Danish
Considered to be an independent board member
Joined the Board of Directors on 15 November 2016
Nominated by PKA

Directorships and executive positions:

Management Executive of:

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

Ejendomsselskabet Dronningegården

OPP HoldCo ApS

A/S Kjøbenhavns Ejendomsselskab

Forstædernes Ejendomsaktieselskab

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

Member of the Board of Directors:

Danish Ship Finance Holding A/S

Danmarks Ship Finance A/S

Refshaleøen Holding A/S

Refshaleøens Ejendomsselskab A/S

Margretheholmen P/S

Komplementarselskabet Margretheholm ApS

PKA Skejby Komplementar ApS

PKA Skejby P/S

Hotel Koldingfjord A/S

Fonden Dansk Sygeplejehistorisk Museum

Poppelstykket 12 A/S

P/S PKAE Ejendom

Komplementarselskabet PKA AE ApS

SAS Pilot & Navigators Pension Fund

Investeringsselskabet af 24. februar 2015 A/S

Tuborg Havnevej I/S

PKA Ejendomme I I/S

PKA Ejendomme af 2013 I/S

PKA Projektselskab I/S

Brokvarteret P/S

P/S Tranders Høje

Investeringsselskabet af 4. juli 2018 ApS

Institutional Holding GP ApS

Institutional Holding P/S

PKA Ejendomme af 2012 I/S

Komplementarselskabet Vilvordevej 70 ApS

Ejendomsselskabet Vilvordevej 70 P/S

PKA Private Funds III GP ApS

Rugårdsvej Odense A/S

PKA Venture I GP ApS

Falckgården P/S

PKA AIP A/S

IIP Denmark P/S

IIP Denmark GP APS

PKA Private Funds I GP ApS

PKA Private Funds III GP ApS

PKA Private Funds IV GP ApS

DEAS Invest I A/S

DEAS Invest I Holding A/S

PS Gjellerup

Competencies:

Broad knowledge of financial business (including pension fund operations), credit, investment, finance, regulation and financial risk management.

Henrik Sjøgreen, CEO, FIH A/S

Member of the Audit Committee
Born on 30 July 1964
Nationality: Danish
Considered to be an independent board member
Joined the Board of Directors on 15 November 2016
Nominated by Danish Ship Finance Holding A/S

Directorships and executive positions:

Directorships and executive positions:
Chairman of the Board of Directors:
Simon Fougner Hartmanns Fond
CEO of FIH A/S
CEO FIH Holding A/S
Trusted advisor for the Executive Board of PFA

Member of the Board of Directors:

Henrik Frode Obels Fond
Spar Nord Bank A/S

Competencies:

Broad knowledge of banking, credit, insurance and finance, financial risk management, debt markets and general management.

Christopher Rex, Head of Research and Innovation, Danish Ship Finance A/S

Employee representative
Born on 28 January 1979
Nationality: Danish
Joined the Board of Directors on 29 March 2012

Competencies:

Broad knowledge of macroeconomics, financial risk management, international shipping, digitalisation and decarbonisation through his position as Head of Innovation & Research at Danish Ship Finance A/S.

Ninna Møller Kristensen, Executive Assistant, Danish Ship Finance A/S

Employee representative
Born on 2 September 1987
Nationality: Danish
Joined the Board of Directors on 26 March 2020

Competencies:

Broad knowledge of the shipping markets as well as management and execution of strategic initiatives through her position as Executive Assistant with responsibility for the Project Office of Danish Ship Finance A/S.

Berit Koertz, Senior Client Executive, Danish Ship Finance A/S

Employee representative
Born on 25 June 1957
Nationality: Danish
Joined the Board of Directors on 26 March 2020

Competencies:

Broad knowledge of the international banking and shipping markets, credit and ship finance through her position as Senior Relationship Manager of Danish Ship Finance A/S. She has eight years of corporate board experience.

Marcus Freuchen Christensen, Senior Client Executive, Danish Ship Finance A/S

Employee representative
Born on 20 November 1979
Nationality: Danish
Joined the Board of Directors on 1 October 2021

Competencies:

Broad knowledge of the international banking and shipping markets, credit and ship finance.

ATTENDANCE AT MEETINGS 2021
(excluding electronic board meetings)

Attendance rate (%)	Board of Directors	Audit Committee	Remuneration Committee
Eivind Kolding	100		100
Peter Nyegaard	100	100	
Anders Damgaard	100	100	
Christian Frigast	71		50
Thor Jørgen Guttormsen	100		100
Michael N. Pedersen	100	100	
Jacob Meldgaard	100		100
Henrik Sjøgreen	100	75	
Christopher Rex	100		
Ninna Møller Kristensen	100		
Berit Koertz	100		
Nanna Flint	100		
Marcus F. Christensen	100		

Executive Board

ERIK I. LASSEN, CEO

Member of the Executive Board since
9 April 2008

Executive positions in other business enterprises:

CEO of Danish Ship Finance Holding A/S

MICHAEL FRISCH, CCO

Member of the Executive Board since
9 April 2018

Executive positions in other business enterprises:

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

LARS JEBJERG, CFO/CRO

Member of the Executive Board since
22 May 2018

Executive positions in other business enterprises:

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

FINANCIAL CALENDAR FOR 2022

28 February

Publication of the Annual Report 2022

29 March

Annual general meeting of Danish Ship Finance A/S at our premises at Sankt Annae Plads 3, 1250 Copenhagen K

29 August

Publication of the Interim Report 2022

Art Direction & Design : Lisa Lang Graphic Design

DANISH SHIP FINANCE

DANISH SHIP FINANCE A/S (DANMARKS SKIBSKREDIT A/S)

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