Risk Report 2024

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shipfinance.dk

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LEGAL FRAMEWORK

DSF is governed by the Act on a Ship Finance Institute (the "Act") and the Executive Order on a Ship Finance Institute (the "Executive Order").

DSF is also governed by:

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

Pursuant to the Act and the Executive Order, DSF is subject to parts of the Danish Financial Business Act and parts of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions (CRR).

Scope

On 10 July 2024, Magellan Capital Holdings PLC acquired the majority of the shares in DSH. The Danish Ship Finance Group previously comprised the Group holding company Danish Ship Finance Holding A/S ("DSH") and its sole subsidiary Danish Ship Finance A/S ("DSF").

On 12 July 2024, the Group structure was simplified, with DSH merged into DSF. Hence, DSF is the sole continuing entity.

DSH had no business activity apart from its majority ownership of DSF.

DSF is subject to financial regulation and under the supervision of the Danish Financial Supervisory Authority (the "Danish FSA").

This Risk Report is issued to comply with the disclosure requirements contained in [Part 8 of] Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions (CRR), cf. Section 9 of the Executive Order on a Ship Finance Institute.

Further information about risks and risk management in DSF can be found in the DSF Annual Report.

Reporting pursuant to statutory disclosure requirements is conducted annually in conjunction with the presentation of financial statements. A regulatory capital adequacy assessment is published quarterly.

The Risk Report 2024 is presented in unaudited form.

Additional Pillar 3 disclosures required under CRR as well as disclosures required by the Danish Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need, can be found at *www.shipfinance.dk*

This Risk Report 2024 is presented for DSF. Any statements as at the balance date of 31 December 2024 and any forward-looking statements refer to DSF only.

The report describes the various risks to which DSF is exposed and the associated capital requirements. The report also details the composition of DSF's own funds and the material risk and capital management methodologies employed by DSF.

Historical information presented in this report pertains to DSF stand-alone, prior to the merger of DSH and DSF in July 2024. Any historical information presented in relation to the previous Group structure is expressly marked as such.

The year *in summary*

There were no major changes to our risk and capital management framework in 2024.

Development in key risk figures for DSF

DKK MILLION / %	2024	2023
Capital		
Own funds (less deductions)	8,914	9,952
Total risk exposure amount	37,840	42,093
Internal capital adequacy requirement, incl. buffers	13.1%	13.3%
Total capital ratio	23.6%	23.6%
Excess coverage	10.5%	10.3%
Leverage ratio	12.6%	13.4%
Funding and liquidity		
Liquidity coverage ratio (LCR)	224%	498%
Net stable funding (NSFR)	189%	141%
Issuer rating – S&P	BBB+ (Stable)	BBB+ (Stable)
Covered bond rating – S&P	A (Stable)*	A (Stable)
Asset quality		
Annual loan impairment ratio as % of average loan book	(0.5%)	(1.5%)
ECL allowance account, loans as % of loan book (year-end)	1.9%	2.0%
Total ECL allowance account as % of credit exposure (year-end)	1.9%	1.9%
NPL ratio	0.7%	2.8%
Net NPL ratio	0.6%	1.6%

**On 10 January 2025, Standard & Poor's Financial Services LLC (S&P) upgraded Danish Ship Finance's covered bonds to 'AA- (Stable Outlook)', from a prior rating of 'A (Stable Outlook)'.*

Risk Report

Risk and *capital profile*

Risk and *capital profile*

DSF is a leading provider of ship financing internationally and domestically and is among the 25 largest lenders to the global shipping industry. Our core business comprises lending to shipowners, secured by first-lien ship mortgages and funded by the issuance of covered bonds per the Danish Executive Order on Bond Issuance.

Our business model, as governed by the Act and the Executive Order (see Legal framework above), naturally involves foreign exchange mismatches between funding and lending in different currencies. The governing legislation and supplementary regulation, such as the Danish Specific Balance Principle defined in the Executive Order on Bond Issuance (the “balance principle”), set out requirements for managing these mismatches. These activities are integral to our long-standing business model and risk management framework.

Our business activity of lending to shipowners funded by the issuance of covered bonds takes place in two capital centres. The two capital centres, Capital Centre Institute in General and Capital Centre A are subject to the balance principle. Loans are issued primarily in USD in accordance with general market practice, with a small proportion in other currencies.

The loans are funded by DKK-denominated ship mortgage bonds (SMBs) issued from the Capital Centre Institute in General, and EUR-denominated, CRR-compliant ship covered bonds (SCBs) issued from Capital Centre A. All bonds are issued under Danish law. All issued bonds have been assigned a rating (as of 10 January 2025) of AA- (Stable outlook) by Standard & Poor’s Global Ratings (S&P) and are listed on the Nasdaq Copenhagen exchange. Any currency and interest rate mismatches in the capital centres are hedged with financial counterparties in compliance with the balance principle and additional internal limits.

RISK TYPES

DSF is exposed to credit risk, market risk, liquidity risk and various types of operational risk:

Credit risk is the primary risk related to DSF’s business model. Credit risk is defined as the risk of losses arising from clients or financial counterparties failing to meet their payment obligations. Credit risk stems primarily from shipowners defaulting on their obligations to DSF or, more remotely, defaults by financial counterparties with a credit exposure to DSF.

Market risk is the risk of loss following movements in financial market rates, including interest rates, credit spreads, foreign exchange rates, etc. The balance principle prescribes strict limits for such risks in the capital centres. The principal market risks facing DSF are associated with the investment portfolio and the investment of any surplus liquidity from issued bonds. Interest rate risk and credit spread risk on bonds in the investment portfolio are the most significant market risks.

Liquidity risk is the risk of being unable to fulfil immediate and short-term financial obligations when they fall due. Liquidity risk in DSF primarily arises from future liquidity mismatches, as loans and issued bonds are not matched on a loan-by-loan basis. Exchange rate movements may lead to liquidity needs under certain collateralised hedging contracts and mark-to-market resets on certain derivatives.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. Operational risks include fraud, human error, system failures and natural disasters. In this category, we also consider structural risks to our business model, ESG risks and material damage to the reputation of the company.

Risk governance

We have a two-tier management structure where the Board of Directors defines overall policies, while the Executive Board is responsible for the day-to-day management.

The Board of Directors is responsible for ensuring that the company has an appropriate organisational structure and sound risk and capital management principles. The Board of Directors ensures that governance, risk policies and limits are established for all important risk categories, including the handling and monitoring of such risks by credit risk management, risk management, internal control, and compliance functions, which all report to the Executive Board.

The Board of Directors has laid down guidelines for the Executive Board, clearly specifying the areas of responsibility and scope of action for management. In addition, all new lending above certain limits must be submitted to the Board of Directors for approval. The Board of Directors furthermore receives detailed client-specific information on credit exposures and the loan book.

The Board of Directors has appointed a Chief Risk Officer responsible for monitoring and reporting on our risk management processes. The Chief Risk Officer is a member of the Executive Board and the Credit Committee. The Executive Board has established a risk management function that is responsible for identifying, analysing and monitoring all risks except credit risk. The Credit department is responsible for monitoring and reporting on credit risk arising from lending activities and financial counterparty risk.

The Head of Compliance is responsible for monitoring compliance with applicable legislation, standards and policies and ensuring that effective and suitable techniques are used to identify and mitigate the risk of non-compliance. The Head of Compliance is also in charge of maintaining effective measures to prevent money laundering and terrorist financing and ensuring management focuses on these areas.

Duties are segregated to secure a robust control environment. However, due to the size of the organisation, a complete segregation of duties is sometimes impractical. In such cases, the Audit Committee approves mitigation measures and reviews their effectiveness.

In accordance with applicable legislation, the Board of Directors, including the Audit Committee, annually assesses the need to establish an internal audit function.

Overview of risk reports

Report	Frequency	Applicable legislation
Internal management report	Monthly	The Executive Order on Governance for Credit Institutions The Executive Order on Financial Reports
Treasury reporting	Quarterly	The Executive Order on Financial Reports
Stress test	Quarterly	The Executive Order on Governance for Credit Institutions
Credit risk management reporting	Quarterly	The Executive Order on Governance for Credit Institutions
Loan impairment review	Semi-annually	The Executive Order on Governance for Credit Institutions
Compliance reporting	Annually	The Executive Order on Governance for Credit Institutions
Internal solvency, ICAAP	Annually	Guidelines on Internal Capital Adequacy Assessment Process
Internal solvency, ILAAP	Annually	Guidelines on Internal Liquidity Adequacy Assessment Process
Recovery plan	Annually	The Danish Financial Business Act
Report from the Chief Risk Officer	Annually	The Executive Order on Governance for Credit Institutions
Statement to be used for risk assessment	Annually	The Executive Order on Governance for Credit Institutions
Annual asset review	Annually	The Executive Order on Governance for Credit Institutions
IT risk assessment	Annually	The Executive Order on Governance for Credit Institutions

Board committees

The Board of Directors has established an Audit Committee and a Remuneration Committee. The committees review and discuss topics in their respective subject areas on behalf of the Board of Directors and assist the Board of Directors in its decision-making.

The Audit Committee oversees accounting and audit matters and reviews accounting and audit-related topics before the Board of Directors considers them. The Audit Committee comprises two members of the Board of Directors. The Chairman of the Board of Directors is not a member of the Audit Committee.

The Remuneration Committee assists the Board of Directors in preparing the remuneration policy for DSF and remuneration proposals. The remuneration policy is adopted at the annual general meeting . The Chairman of the Board of Directors chairs the Remuneration Committee. The total remuneration of the Board of Directors, the Executive Board and employees who are deemed to have a material impact on the company's risk profile is specified in Annex 9.

Internal audit

DSF is not required to have an internal audit function. Nevertheless, to promote a robust control environment and support the work of our external auditors, we have established an internal control function that reports to the Executive Board and is in close dialogue with external auditors. In accordance with applicable legislation, the Board of Directors, including the Audit Committee, annually assesses the need for an internal audit function.

Reporting

Reporting to the Board of Directors takes place regularly to ensure that the Board of Directors possesses sufficient information concerning risk levels and trends.

The Board of Directors assesses the adequacy of relevant policies and the framework and principles for risk and capital management in DSF.

Risk governance structure

Board of Directors

Audit Committee

Remuneration Committee

Executive Board

External auditors

Chief Risk Officer
(Member of Executive Board)

Credit Committee

Internal Control

Third line of defence

Credit department
Managing credit and counterparty risk

Risk Management
Managing market, liquidity and operational risk

Compliance
Managing compliance with regulation

Second line of defence

Client Relations

Treasury

IT

First line of defence

Capital and risk management framework

We have a strong culture of risk awareness and long-term decision-making coupled with stringent requirements for day-to-day monitoring and management of risks. We maintain strong capital and liquidity buffers well beyond regulatory minimum requirements. Prudent risk management is pivotal to our activities and shall ensure the long-term viability of our highly specialised business model.

The Group's risk limits and risk tolerance are defined in policies and principles established by the Board of Directors and ultimately determined by applicable regulation.

Capital management

We shall at all times maintain sufficient own funds for lending activity in DSF to continue, even in the event of large cyclical fluctuations in the shipping industry and adverse business conditions. Our capital is managed at a level deemed sufficient to underpin the credit rating of the issued bonds.

Credit and counterparty risk

In our credit risk management activities, we distinguish between credit risk relating to lending to clients and credit risk relating to transactions with financial counterparties.

Our efforts are founded on the limits set out in the Credit Policy and Counterparty Credit Policy. The policies build on the provisions of the company's own Act and the Executive Order, stipulating, among other things, that the Board of Directors must lay down risk diversification rules.

Market risk

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

The overall objective is to safeguard our capital adequacy, to make sure that interest rate- and foreign exchange risks are managed by hedging subject to pre-defined limits.

Liquidity risk

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

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

Operational risk

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

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

KEY DEVELOPMENTS IN 2024

In early January 2025, Standard & Poor's upgraded our covered bond rating to high investment grade AA- (Stable), from a previous rating of A (Stable).

On 10 July 2024, Magellan Capital Holdings PLC acquired a majority of the shares in the Group holding company Danish Ship Finance Holding A/S (DSH). Upon completion of the acquisition, the subordinated Tier 2 capital notes held in DSH were redeemed in full with approval from the Danish FSA. Also in July 2024, the Group structure was simplified, with DSH merged into the operating company Danish Ship Finance A/S (DSF).

In connection with the acquisition and merger, the equity capital base of DSF was increased by DKK 417 million, adding a further 1.0 percentage points to the regulatory solvency of DSF.

Capital profile

The Board of Directors has tasked the Executive Board with prudently managing capital such that adequate own funds are always maintained, and suitable capital coverage is maintained relative to regulatory requirements and any other thresholds defined by the Board of Directors.

Adequate own funds are defined as the minimum capital required, in the assessment of the Board of Directors and the Executive Board, to ensure only a remote risk of DSF becoming distressed or insolvent during the following 12-month period such that bondholders could be exposed to a potential loss. Bondholders are subject to further protection under the balance principle.

DSF's total capital ratio and CET1 capital ratio of 23.6% (both) as at 31 December 2024 are deemed adequate to meet these objectives.

Available own funds

DSF's own funds net of statutory deductions amounted to DKK 8,914 million as at 31 December 2024 (against DKK 9,952 million in 2023).

DSF's own funds consist of Common Equity Tier 1 (CET1) capital in the form of share capital, the tied-up reserve capital, and accumulated retained earnings.

The Board of Directors in 2024 approved a formal DSF dividend policy governing dividend distributions starting from year-end 2024.

DSF's available own funds development is determined primarily by its annual net profit and dividend policy.

Calculation of capital ratio

DKK MILLION	2024	2023
Own funds less deductions	8,914	9,952
Total risk exposure amount	37,840	42,093
Total capital ratio (%)	**23.6**	**23.6**

Capital requirements

DSF's internal capital adequacy requirement, including the combined capital buffer requirement, totalled 13.1% as at 31 December 2024. Own funds after statutory deductions totalled DKK 8,914 million for DSF, resulting in a total capital ratio of 23.6%, corresponding to excess capital coverage in the amount of DKK 3,962 million, or 10.5 percentage points. The capital base fully comprises CET1 capital.

Our capital requirement is calculated based on the 8+ approach and the Danish Financial Supervisory Authority's (Danish FSA) guidelines on Internal Capital Adequacy Assessment Process.

Own funds shall be at least equal to the sum of the own funds requirements associated with each of the risk types defined as regulatory Pillar 1 requirements, Pillar 2 requirements and the combined capital buffer requirement.

Adequate own funds and internal capital adequacy requirement

DKK MILLION	2024	2023
Total capital less deductions	**8,914**	**9,952**
Pillar 1 requirements (8% of total risk exposure amount)	3,027	3,367
Pillar 2 requirements	533	611
Capital conservation buffer	946	1,052
Countercyclical capital buffer	446	577
Excess capital	3.962	4,344
Solvency ratio (%)	23,6	23.6
Internal capital adequacy requirement, including combined capital buffer requirement (%)	13.1	13.3
Excess capital (%)	10.5	10.3

DEFINITIONS

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

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

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

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

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

Risk Report

Credit risk *management*

Credit risk *management*

KEY DEVELOPMENTS IN 2024

The credit quality of the loan book remained solid with no defaults recorded throughout the year. Credit quality was supported by healthy freight rates across most shipping segments. While the average DSF Rating across the loan book weakened during the year following loan pre-payments by some of our financially strongest clients, more than 99% of the loan book was in Stage 1 and collateral coverage remained highly robust. Non-performing loans (NPL) were further reduced by 79%, on the back of another year of successful workouts, which – in combination with DKK 76 million recovery on loans previously written off – resulted in a DKK 147 million reversal of loan impairment charges. The NPL ratio improved significantly to a modest level of only 0.7% at year-end 2024, down from 2.8% the year before.

Credit risk is the risk of incurring losses because of clients (shipping companies) or financial counterparties (financial institutions) failing to meet their payment obligations. We are mainly exposed to the credit risk of clients through loans collateralised by vessels.

Guarantees are obtained from parent companies of clients to which loans are made, when applicable. Guarantees from non-related parties and credit derivatives used as credit protection are not applied as security or to reduce capital requirements.

We are exposed to the credit risk of financial counterparties through the high-quality bonds we hold in our portfolio and the financial contracts we have entered into with those counterparties.

Credit risk is managed pursuant to the credit policy approved by the Board of Directors, containing specific guidelines for credit risk appetite, risk-taking and ongoing risk management carried out in relation to lending activities.

The criteria and approach used for defining the credit risk management policy and setting credit risk limits are based on extensive experience of the shipping markets and how the volatility in freight rates and vessel values is best managed.

Credit risk limits are set according to the creditworthiness of clients, including the assigned DSF Rating, and the characteristics of the segment in which the vessels pledged as collateral operate.

Counterparty risk is managed pursuant to the Counterparty Credit Policy approved by the Board of Directors, containing guidelines for credit risk appetite and risk management carried out in relation to counterparty risk exposure.

Limits on counterparty risk are set by the Board of Directors based on the creditworthiness of counterparties, which in turn is based on DSF Ratings and external credit ratings.

Governance structure

The credit governance structure rests upon the three lines of defence principle, which ensures organisational separation of loan origination, credit risk management and control functions.

Client Relations, comprising our client-facing and loan origination employees, is responsible for interaction with clients, loan and security documentation and the operational management of loans. Together with the operations, support and development functions, it forms the first line of defence.

The Credit department is the second line of defence, with day-to-day responsibility for the Credit Policy, the Counterparty Credit Policy, credit risk monitoring, loan impairment reviews and the reporting of credit risk management. The Compliance department also forms part of the second line of defence.

The third line of defence consists of the internal control function, which reports its findings to the external auditors as a supplement to their audit process.

Standard operating procedures are in place, ensuring a consistent approach to credit assessment and credit risk management.

Client selection and diversification

We strive to maintain a conservative risk profile when structuring and originating loans, focusing on clients' credit quality through the shipping cycle while at the same time ensuring adequate diversification by country and vessel type. Thus, clients' financial standing and robustness, market position, track record in stressed markets, sustainability (ESG) efforts and reputation are criteria we consider when assessing loan requests.

In addition, the distribution of clients in the loan book must be adequately diversified. We have guidelines limiting large credit exposures. Credit exposure to any non-Danish

client group may not exceed 25% of eligible capital in DSF.

At year-end 2024, the five largest credit exposures were secured by mortgages on 48 vessels split between seven vessel types, and – contrary to previous years – no credit exposure to a single client group exceeded 25% of the eligible capital.

Loan-to-value

We grant loans with an initial loan-to-value (LTV) of up to 70%, subject to a first priority mortgage on the financed vessel(s). The level of initial LTV accepted on a new loan will depend on the client's credit risk profile (as reflected by its DSF Rating), ESG profile (as reflected by its Sustainability Rating), contract coverage, orderbook, position of each shipping segment in the market cycle, and the characteristics of the financed vessel(s).

Under certain conditions, we may also grant loans in the LTV range of 70% to 100% against supplementary collateral and/or subject to an additional capital charge. The additional capital charge is determined in DKK on the date of the loan being granted or at disbursement of the loan at the latest. The additional capital charge is a deduction from Tier 1 capital equal to the part of the loan that exceeds 70% of the value of the mortgaged vessel(s) at the time of calculation but not exceeding the maximum defined.

We have not granted loans with an initial LTV exceeding 70% to acquire new business for several years, and no such capital deduction was made in 2024.

Loans held in Capital Centre A are subject to a maximum LTV of 60% after including any additional collateral posted for the benefit of the bondholders.

In 2024, we did not grant any loans for the financing of clients' payments of instalments to shipyards.

The loan book after loan impairment charges was on average secured by mortgages with a LTV ratio of 37% based on market valuations of the financed vessel(s).

Loan documentation

The lending activity involves extensive loan and security documentation. The loan documentation sets out the contractual terms of the loan and the rights and obligations of both parties.

If a client defaults on its representations/warranties, undertakings or obligations (payment or otherwise) and workout proceedings fail, the loan documentation provides for legal remedies whereby we can reduce our exposure to the client.

Ultimately, if the client defaults on its payment obligations pursuant to the loan documentation and such default continues, DSF is entitled to accelerate the loan and take steps to enforce our security, including the first priority mortgages on the vessels.

Following the realisation of its security, DSF may apply such proceeds in prepayment of the relevant loan together with accrued interest and costs and expenses.

DSF is not a frequent user of ship arrests and forced sales – last time being in 2011.

Most of our loan and security documentation incorporates "one-sided exclusive jurisdiction clauses", which allow us to initiate proceedings against clients in any court of competent jurisdiction to ensure that any legal disputes are resolved in an orderly manner and in jurisdictions favourable to our interests.

We also participate in syndicated and club deal loans to shipowners in collaboration with other lenders. These transactions typically utilise adapted versions of the standard documentation provided by the Loan Market Association.

Five largest credit exposures

DKK MILLION	2024	2023
Five largest credit exposures	6,941	10,444
Loan book	27,388	31,980

OBJECTIVE CLAUSE

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

Risk mitigation

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

Vessel type diversification

The loan book shall be adequately diversified across vessel types. No single vessel type may be provided as security for more than 50% of the loan book. Within any vessel type, no subsegment may account for more than 33% of the loan book.

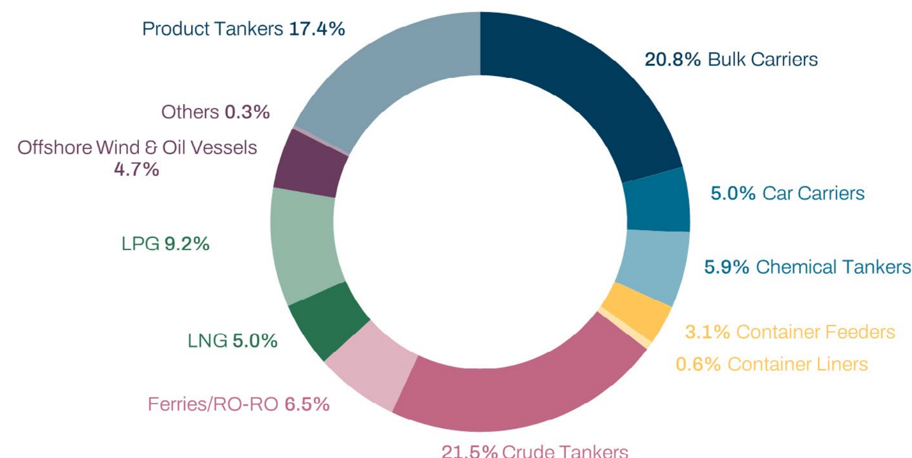
Country risk diversification

The loan book shall be adequately diversified by country. The country risk is monitored in terms of both country of ultimate risk and operational head office, and the latter is used for regulatory purposes such as solvency calculations.

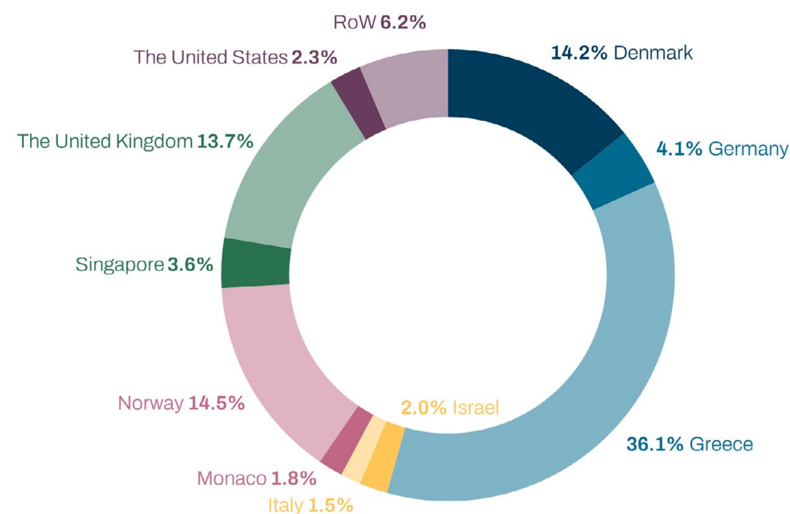
Lending to clients in most EU countries, Norway, the United Kingdom, Switzerland and the US is not subject to any country risk restrictions. For lending to clients in other countries, we have set an overall limit per country of 25% of the loan book.

Countries accounting for a share of 1.5% or more of the loan book are shown individually. Other countries are grouped into the rest of the world ("RoW").

Loan book broken down by mortgaged vessel type as at 31.12.2024 DKK 27,388 million



Loan book broken down by operational head office as at 31.12.2024



Mitigation of collateral risk on mortgaged vessels

Market value of mortgaged vessels
We obtain fair market valuations for all vessels at least semi-annually. The valuations are carried out by external brokers. In rare cases, we may self-assess the values based on, for example, specific independent market values or external valuations of similar vessels.

We have started using algorithm-based valuations to regularly monitor market developments across the most transparent and standardised vessel types.

Market valuations of vessels are, among other things, used to determine the 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. The valuations are also used to monitor compliance with the 60% LTV limit in Capital Centre A.

We always use external brokers to determine the initial LTV ratio in relation to new lending.

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

Insurance of mortgaged vessels
All vessels mortgaged as security for a credit exposure must be insured. Insurance is taken out by the client and assigned to us.

Generally, the following primary insurances are required:

- Hull and machinery insurance, which covers damage to or total loss of the vessel.

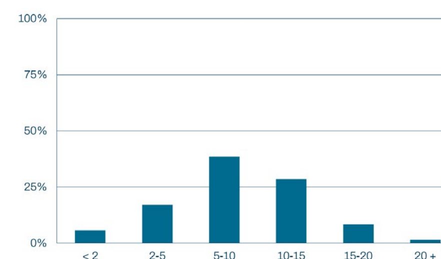
- Protection & indemnity insurance (P&I), which covers oil pollution caused by the financed vessel, damage to equipment and injuries to seafarers. This insurance is also a third-party liability insurance covering damage from collision with another vessel.

- War risk insurance, which covers damage to the vessel, and potential total loss and retention, etc. caused by war or war-like conditions.

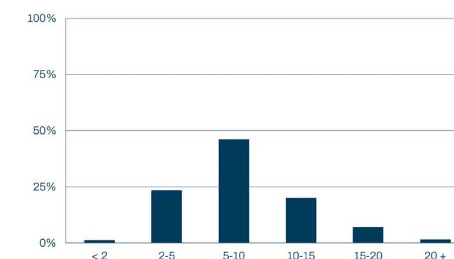
In addition, most credit exposures are covered by a mortgagee's interest insurance (MII) and a mortgagee's additional perils pollution insurance (MAPP). These insurances cover our risks in various situations where the primary insurances do not provide coverage, for example if a vessel is not seaworthy at the time of the claim.

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

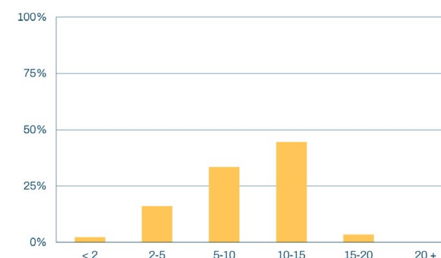
Age distribution of total ship portfolio



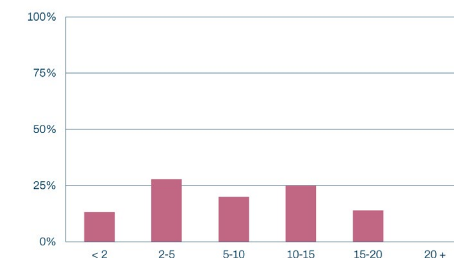
Chemical Tankers / Crude Tankers / Product Tankers



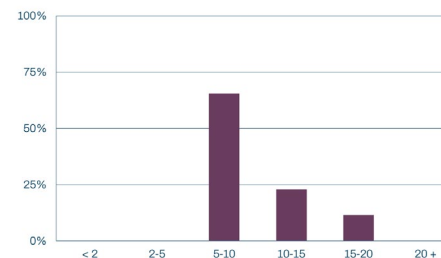
Bulk Carriers



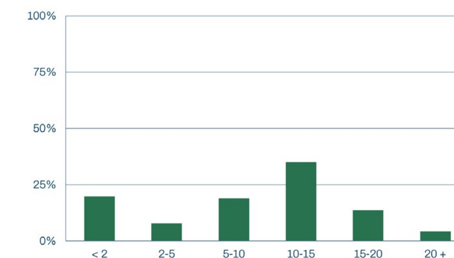
Ferries/Ro-Ro



LPG



Others



Loan book developments

At year-end 2024, the loan book amounted to DKK 27,388 million, down from DKK 31,980 million the previous year.

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

Net LTV intervals

%	2024	2023
0-20	59	53
20-40	36	39
40-60	6	8
60-80	0	0
80-90	0	0
90-100	0	0
Over 100	0	0

The table shows the loan book after loan impairment charges, broken down by net LTV intervals.

At year-end 2024, 100% of the loan book after loan impairment charges was secured by mortgages within 60% of the market valuation of vessels, and the weighted average LTV ratio after loan impairment charges was 37% (2023: 40%).

The chart illustrates the development in net LTVs over time and during periods of significant changes in the market values of vessels.

It is noteworthy that even significant historical declines in vessel values have not adversely affected the collateral coverage of the loan book.

This is due to the positive effect of regular scheduled loan repayments and the benefit of minimum value clauses included in most loan agreements, where we have the right to demand partial pre-payment and/or additional collateral if the market values of the mortgaged vessels fall below an agreed threshold.

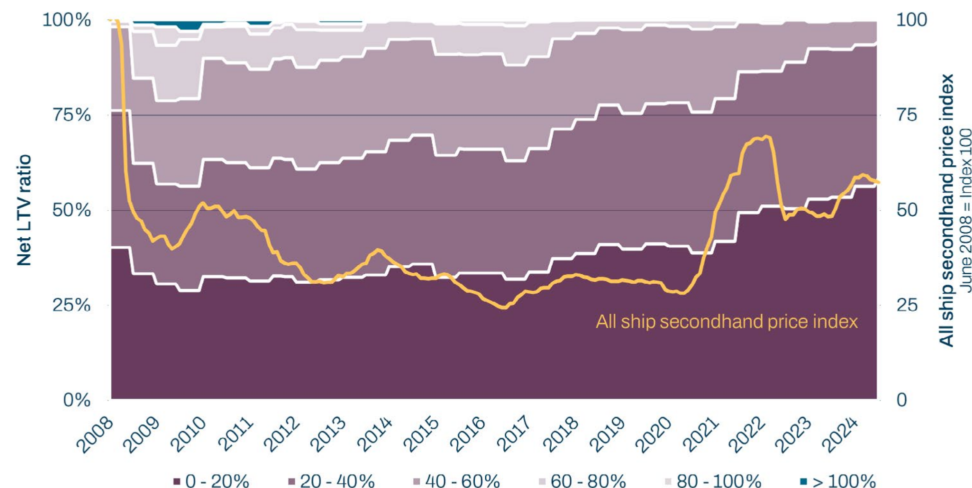
The net LTV intervals are shown together with the development in vessel prices based on a price index for all vessel types (the solid line).

Collateral value of mortgaged vessels (after haircuts)

We have prudent methodologies in place for calculating the expected minimum realisation value of a vessel in a low market net of realisation costs (Sx-value).

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

Net LTV vs price index for all vessel types



The estimated earnings per day of a mortgaged vessel are expected to gradually decline throughout the residual life of the vessel due to increasing maintenance costs and decreasing operational performance, etc. Thus, the value of earnings per day in a low market is adjusted over the estimated lifetime.

This method of calculating the collateral value of the mortgaged vessels resulted in an average haircut of 70% to the current market value (ranging from 52% to 84% depending on the vessel type) at year-end 2024. The method is monitored on an ongoing basis and is recalibrated when deemed prudent.

A client's unsecured credit exposure is calculated as the total credit exposure less (i) the Sx-value of mortgaged vessel(s) and (ii) the value of any other collateral. Any such positive amount is applied in the calculation of loan impairment charges.

Rating
A DSF Rating is assigned to all clients. The development in the DSF Rating since initial recognition and the related stage development are monitored using a stage migration matrix. The actual stage depends on the state of the established credit risk.

In the table on the next page, the DSF Ratings are mapped to the credit risk ratings determined by the Danish FSA and to external ratings determined by the external credit rating agency Standard & Poor's.

If the DSF Rating is 1 to 4 based on the mapping, the client or financial counterparty is considered to have low credit risk. Such a DSF Rating is equivalent to an investment grade rating from external credit rating agencies.

In 2024, the internal rating models were recalibrated to incorporate an enhanced focus on sustainability (ESG) and account for cyclical adjustments associated with extended periods of benign economic conditions pursuant to guidelines issued by the Danish FSA.

Rating scale

DSF Rating	External rating	
	Standard & Poor's	Danish FSA
1	AAA/AA	3
2	A	
3	BBB	2A
4		
5	BB	
6		
7	B	2B
8		
9	CCC	2C
10		
11	CC/C	1
12	D	

Non-performing loans

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

As at 31 December 2024, NPL amounted to DKK 190 million, down from DKK 903 million the year before. NPL after loan impairment charges (net NPL) decreased from DKK 497 million at year-end 2023 to DKK 160 million at year-end 2024. The development in key NPL figures is displayed in the table.

A loan is considered credit-impaired if one of the following events occurs, and hence is assigned a DSF Rating of 11:

- The client is experiencing significant financial difficulty and the risk of incurring a credit loss is larger than not incurring a credit loss; or
- The credit exposure has lenient repayment terms, which could include forbearance measures, which we, for reasons relating to the financial difficulty, would not otherwise have granted.

A loan is in default if the client is subject to one of the following events, and hence is assigned a DSF Rating of 12:

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

Non-performing loans

DKK MILLION / %	2024	2023
Loan book	27,388	31,980
NPL	190	903
NPL ratio (%)	0.7	2.8
Net NPL	160	497
Net NPL ratio (%)	0.6	1.6

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 guidelines, including definitions of restructured and forborne credit exposures. Risk management should ensure financial solutions that are viable in the short, medium and long term, supporting a robust capital structure.

Forbearance plans may be adopted to assist clients in temporary financial difficulty. Given the cyclical nature of shipping, temporary forbearance measures are not uncommon in ship finance.

Concessions granted to clients include temporary partial payment deferrals, interest-only schedules and term extensions. Forbearance plans are adopted solely in accordance with the credit policy with the aim of reducing the long-term risk of credit losses. As at 31 December 2024, forbearance measures had been granted on loans to only one client.

Loan impairment charges

Loan impairment charges are made subject to the International Financial Reporting Standard 9 (IFRS 9), which provides rules for classification and impairment of financial assets, including loans.

We comply with the Executive Order on Financial Reports, according to which the IFRS 9 principles, particularly Annex 10, have been implemented, and guidelines published by the Danish FSA.

This includes stage recognition of all loans in Stages 1, 2 and 3 and provides the overall

NPL PRUDENTIAL BACKSTOP

In our credit risk management systems, we have implemented CRR regulation no. 575/2013 as amended by the European Union (EU) as regards minimum loss coverage for non-performing exposures (NPL backstop), aimed at reducing non-performing loans (NPL) on balance sheets across the European banking sector. Subject to this, new or modified NPL from 26 April 2019 – after two years – will require a deduction from the CET1 capital if not sufficiently covered by loan impairment charges. As at 1 July 2023, the Executive Order on a Ship Finance Institute has been amended to include specific mechanisms ensuring that the collateral value of ship mortgages (as for real estate) may be included in NPL backstop calculations by DSF.

rules and guidelines for calculating loan impairment charges for expected credit losses (ECL), based on a forward-looking approach.

We recognise a 12-month ECL on initial recognition of loans. If a loan is subject to either significantly increased credit risk, significant signs of weakness or credit impairment since initial recognition, lifetime ECL are recognised.

Non-performing loans

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

As part of this process and when obtaining relevant new information, it is evaluated whether the existing DSF Rating still provides the best estimate of the credit risk of the client and the loan. Where this is considered not to be the case, the client and the loan are reclassified accordingly.

Individual loan impairment charges are made based on the ECL impairment model. The size of ECL for individual credit exposures is based on the calculation of ECL, which may be supplemented by management judgments and post-model adjustments (management overlays), as described on page 21-22.

Loan impairment charges for 2024 amounted to an income of DKK 147 million compared to an income of DKK 506 million the previous year.

Stage recognition

All our credit exposures are subject to stage recognition in Stages 1, 2 or 3 based on the principles set out in the table below.

The subsequent calculation of loan impairment charges in the form of ECL includes, depending on the stage of the loan in question, either the 12-month probability of default (PD) or the lifetime PD.

When determining the PD, the remaining duration of a loan is evaluated for credit exposures in Stage 2. 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 2024, no performing loans were in arrears/past due, and no loans were recognised as being in Stage 2.

ECL impairment model

ECL is calculated as a function of PD, exposure at default (EAD) and loss given default (LGD), adjusted for forward-looking information using a macroeconomic factor (MEF) for each shipping segment.

ECL = PD * EAD * LGD * MEF

Scenario testing forms part of the ECL calculation, including the MEF, and is based on the following scenarios:

- Base-case scenario
- Worst-case scenario
- Best-case scenario

Macroeconomic factor (MEF)

The MEF, which is used as a parameter in the calculation of ECL, is based on a semi-annual internal assessment.

The model consists of eight market indicators, which are considered for each vessel type.

Scenario testing is carried out based on three scenarios, their probability and an MEF effect. Based on this, a score for each market indicator which, depending on the characteristics of the market indicator can range from 0 to 2, is provided and accumulated, with an aggregate score close to 12 indicating elevated risk.

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

Stage recognition, PD and ECL

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

the standard PD. The MEF parameter ranged from 0.89 to 1.27 as at 31 December 2024.

The accumulated MEF effect is included in the total ECL allowance account. At year-end 2024, the accumulated MEF effect was plus DKK 10 million compared to minus DKK 18 million the year before, indicating a shift towards a less favourable macroeconomic outlook across the loan book.

Write-offs
A credit exposure is written off, in whole or in part, when we have exhausted all practical recovery and restructuring efforts and have concluded that there is no reasonable expectation of full recovery.

Indications that there is no reasonable expectation of full recovery include:

- Ceasing of enforcement activity; or
- The value of the collateral is such that there are no reasonable expectations for recovering the loan in full.

We may write off credit exposures that are still subject to enforcement activity. Amounts which are legally owed in full, but which have been partially written off, are still subject to full recovery initiatives. In 2024, we had no write-offs, and recovery on loans previously written off amounted to DKK 76 million, compared to DKK 442 million recovery in 2023. During the past 25 years, DSF has incurred average annual net write-offs of only 14 basis points.

Key figures

DKK MILLION	2024	2023
Loan book	27,388	31,980
Total ECL allowance account	601	672
Net write-offs (minus = income)	(76)	(442)
Loan impairment charges (minus = reversal)	(147)	(506)

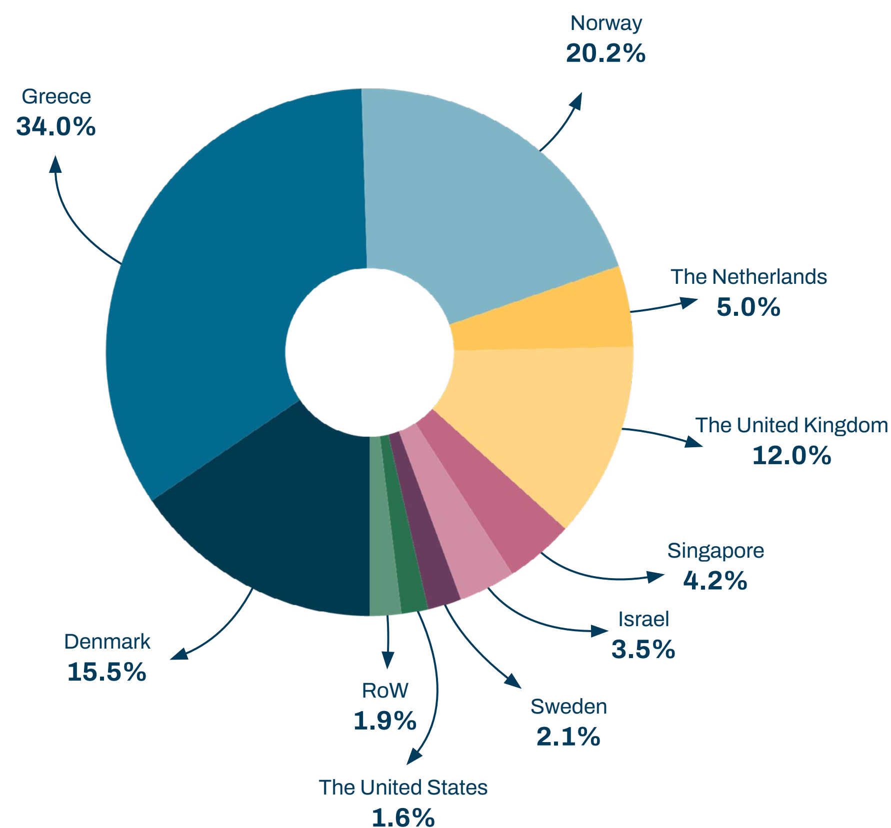
Total ECL allowance account
The total ECL allowance account amounted to DKK 601 million as at 31 December 2024, down from DKK 672 million the year before, primarily driven by solid credit quality and the successful restructuring and reduction of the legacy non-performing loans portfolio.

The table displays key figures related to the total ECL allowance account.

At year-end 2024, the geographical distribution (based on operational head office) of the total ECL allowance account was as shown in the graph.

Management judgments
Management judgments are applied against Stage 3 (and potentially Stage 2) credit exposures as adjustments – either add-ons or reductions – to the individual loan impairment charges suggested by the ECL impairment

Total ECL allowance account broken down by operational head office at 31.12.2024



model based on an expert assessment of each case.

At year-end 2024, management judgments of DKK 25 million in add-ons, down from DKK 75 million the previous year, were included in the total ECL allowance account to cover potential uncertainties related to the recovery of the remaining, albeit significantly reduced, legacy non-performing loans.

Post-model adjustments (Management overlays)
Effective from the financial year 2024, post-model adjustments are applied against Stage 1 credit exposures, further enhancing the robustness of the ECL impairment model.

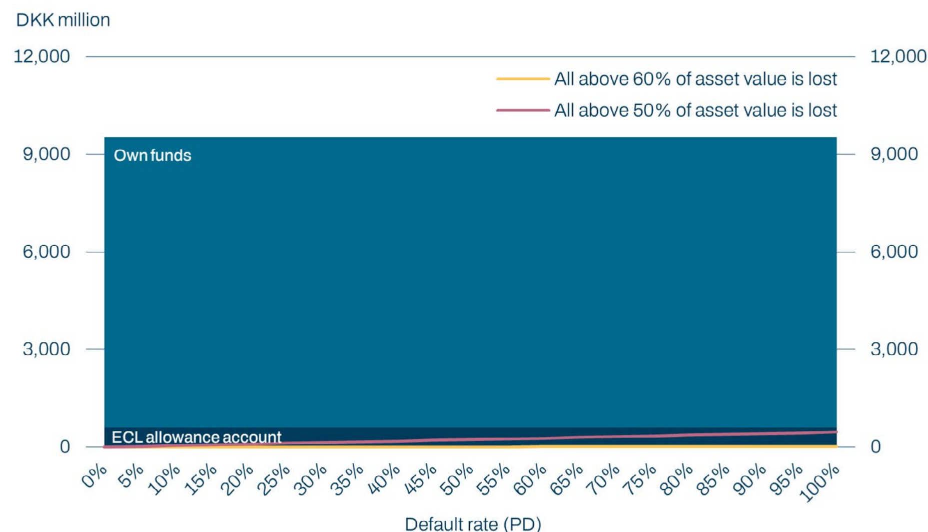
At year-end 2024, discretionary management overlays of DKK 200 million, up from DKK 0 million the previous year, were included in the total ECL allowance account to provide an additional buffer to mitigate potential adverse impacts arising from prevailing macroeconomic and geopolitical uncertainties as well as shipping-specific risks that the ECL impairment model may not fully capture.

Sensitivity analysis
The loan impairment charges are sensitive to, among other things, changes to Sx-values and the MEF. If Sx-values were to decrease by 10% (in addition to the highly conservative 70% average haircut already applied) across the loan book, loan impairment charges would increase by about DKK 113 million. If the maximum MEF were to be applied across all shipping segments, loan impairment charges would increase by about DKK 136 million.

Loan losses at given default rates
The graph illustrates our strong ability to absorb loan losses (write-offs) in various default scenarios due to the collateral (asset value) on our loans.

In the unlikely event of all clients defaulting, the total ECL allowance account would be sufficient to cover shortfalls if the mortgaged vessels were disposed of with haircuts of 51% to current market values.

Loan losses at given default rates



Development in the total ECL allowance account

	Clients		Financial counterparties	
DKK MILLION	**2024**	**2023**	**2024**	**2023**
Total ECL allowance account as at 1 January	672	736	0	0
New loan impairment charges/loss allowances during the year/management overlays	287	176	0	0
Reversal of loan impairment charges/loss allowances made in previous years/management overlays	(358)	(239)	0	0
Gross write-offs debited to the ECL allowance account	0	(0)	0	0
Total ECL allowance account as at 31 December	**601**	**672**	**0**	**0**

Financial counterparties

Credit exposure to financial counterparties, including major and regional banks, major mortgage banks, brokerage firms, insurance companies and similar financial institutions is entered into in accordance with the Counterparty Credit Policy.

The Counterparty Credit Policy quantifies and defines the principles for credit exposure to be granted to financial counterparties. It is also applied in the management of market and liquidity risks and sets out maximum risk limits for financial counterparties.

Most of our financial counterparties are either systemically important financial institutions (SIFI) or global systemically important banks (G-SIB) with an investment grade rating from a recognised external credit assessment institution (ECAI).

We carry out transactions, such as the purchase of covered bonds, with financial counterparties when investing our own funds or placing temporary excess liquidity from bond issuances.

Our investment portfolio, consisting of highly rated investment grade government and covered bonds, and occasionally money market deposits and interest-sensitive financial instruments, represents a significant share of our assets.

Mismatches between the loan book and the funding instruments, for example in the underlying currencies or interest rates, are hedged via derivatives contracts with financial counterparties, meeting certain rating requirements.

Contractual framework

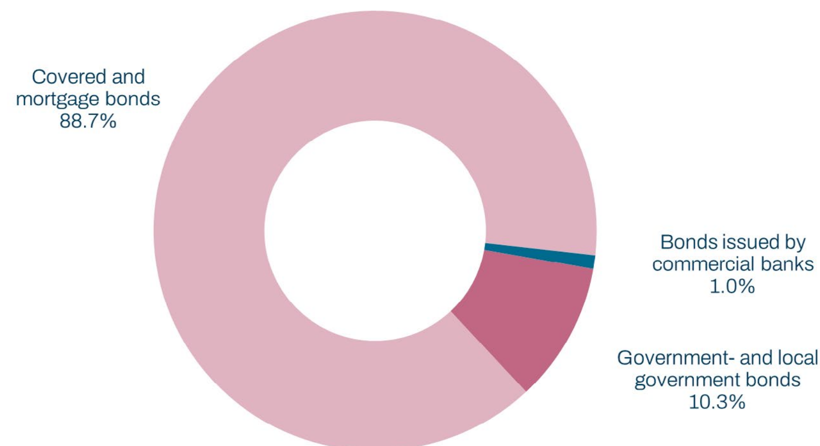
A financial contract may entail the risk of loss if it has a positive market value, and the financial counterparty does not perform on its part of the contract. This type of risk also includes settlement risk.

The contractual framework for transactions with financial counterparties and management of counterparty risk is based on market standards such as ISDA agreements provided by the International Swaps and Derivatives Association (ISDA) and Global Master Repurchase Agreements (GMRA) provided by the International Capital Market Association (ICMA). These agreements allow for netting in the event of a financial counterparty's default. As part of the ISDA agreements, we have Credit Support Annex (CSA) agreements in the form of one- or two-sided collateral agreements for derivatives trading with various financial counterparties.

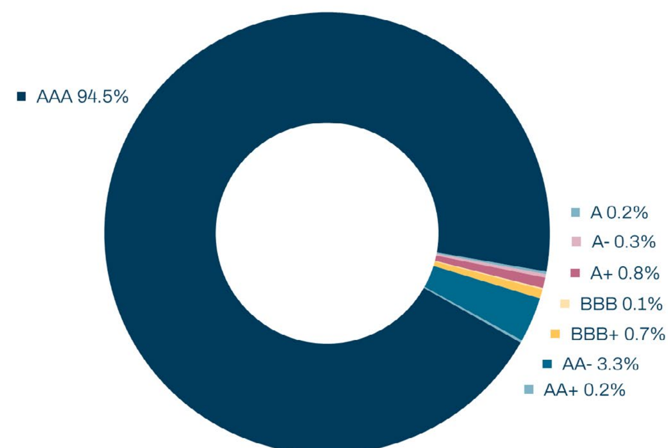
We are subject to the European regulation on OTC derivatives, central counterparties and trade repositories (known as EMIR).

Under EMIR, we are defined as a non-financial counterparty (NFC) below the clearing threshold, as the vast majority of our derivatives transactions are hedges to our lending, funding or investment portfolio.

Distribution of securities portfolio



Exposure to financial counterparties by credit rating



Ongoing monitoring

We continuously monitor our credit exposure to financial counterparties to ensure that they consistently comply with our requirements and to ensure compliance with approved lines. The ongoing monitoring is carried out independently of the executing entities.

External credit assessment (ECAI)

We use Standard & Poor's Global Ratings (S&P) as our external credit assessment institution (ECAI).

The long-term credit rating categories defined by S&P are converted into credit quality steps using the Danish FSA's conversion table. To calculate the risk-weighted exposure amounts under the standardised approach for credit risk, each credit quality step is designated a risk weight to be applied to the exposures graded at this credit quality step.

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

Certain risk weights will be amended going forward due to amendments to the CRR that entered into force on 1 January 2025 (CRR III).

Rating conversion table

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

Exposure classes using S&P credit assessments

EXPOSURE CLASS, DKK MILLION	Exposure
Exposures to central governments or central banks	0
Exposures to regional governments or local authorities	0
Exposures to institutions	1,417
Exposures to corporates	28,355
Exposures in the form of covered bonds and mortgage bonds	1,279
Exposures in default	239
Other items	360
Total	**31,650**

Risk Report

Market risk *management*

Market risk *management*

KEY DEVELOPMENTS IN 2024

At the end of the year, actual market risk levels remained well within the boundaries determined by the Board of Directors and external limits.

Market risk is the risk of loss following movements in the financial markets, including movements in interest rates, credit spreads, foreign exchange rates, costs for hedging volatility, etc.

Our primary market risk arises from the investment portfolio, with interest rate and spread risk on bonds being identified as the most significant factors. The strict rules under the balance principle effectively limit market risks in the capital centres .

We perform our daily operations following internal guidelines set by our Board of Directors, which impose even stricter market risk limits than those required by regulations.

Risk governance and responsibilities

The Board of Directors establishes the market risk policy, which outlines the risk profile and framework for market risk management.

The market risk policy establishes limits and guidelines for managing risks associated with changes in financial risk factors. It specifies clear and measurable limits on various risks, including interest rate and foreign exchange risks, and is based on the Executive Order on Bond Issuance and other relevant provisions. Our internal market risk limits are more stringent than those required by external regulations.

Our Treasury department must comply with the market risk policy limits, and our Risk Management department is responsible for monitoring and reporting the adherence to these limits.

In the event that a limit is breached, the Executive Board is notified immediately upon identification of the breach and the Board of Directors is informed no later than at the next Board of Directors meeting. If necessary, the relevant authorities will also be notified immediately. The Treasury department must document the cause and propose an action plan to address any such breaches. There were no breaches of the market risk policy in 2024.

Our Risk Management department regularly provides a full market risk report to the Board of Directors and the Executive Board members. The department also provides relevant data for internal and external reports, including market risk.

Interest rate risk

Interest rate risk is the risk of incurring a loss due to changes in interest rates. In general, rising interest rates have an adverse impact on the market value of the investment portfolio. Interest rate risk can also be created by a mismatch between assets and liabilities and optionality in the investment portfolio.

According to the balance principle, the interest rate risk should not exceed 1% of own funds. As of 31 December 2024, the interest rate exposure was DKK 27 million, a decrease from DKK 54 million on 31 December 2023. This exposure corresponds to 0.3% of own funds.

In accordance with the Executive Order on Bond Issuance, the interest rate risk on assets, liabilities, and off-balance sheet items in the investment portfolio must not exceed 8% of own funds. Based on the Danish FSA guidelines for calculating interest rate risk, the interest rate exposure was calculated at DKK 194 million as at 31 December 2024, corresponding to 2.2% of own funds, against DKK 178 million as at December 2023.

According to Danish FSA guidelines, it is not permitted to offset interest rate risk between currencies. If currency risks were offset in the calculation, interest rate risk exposure would be reduced to DKK 134 million as of 31 December 2024.

Additionally, the interest rate risk appetite is constrained by a market risk policy limit for the option-adjusted duration. The option-adjusted duration of the investment portfolio is currently limited to +/- 1.75 years. The option-adjusted duration in the trading

book was calculated at 1.1 years as at 31 December 2024.

Credit spread risk

Credit spread risk is the risk of financial loss due to changes in the credit spread, which is the difference in yield between any bond and a risk-free bond of similar maturity. It reflects the perceived creditworthiness of the issuer. Wider spreads indicate increased risk, potentially lowering bond prices and affecting the investment portfolio exposed to credit-sensitive instruments.

Spread risk is typically measured as the decrease in market value caused by a 100 basis point widening of the credit spread on mortgage, government and other secured and unsecured bonds. Spread risk on callable bonds is calculated using option-adjusted interest rate sensitivities.

Our market risk policy limits the allowable maximum spread risk in the investment portfolio. As at 31 December 2024, the credit spread risk was calculated at DKK 717 million, compared to DKK 552 million as at December 2023.

Foreign exchange risk

Foreign exchange risk (FX risk) is the risk of financial loss due to changes in currency exchange rates. Our business activities naturally involve various currencies, primarily related to lending activities. The balance principle does not allow for FX risk arising from a mismatch between funding and lending activities in the cover pools, ensuring that FX risk is fully hedged in the cover pools.

The market risk policy limits FX risk in the investment portfolio to a maximum of 0.3% of own funds when using the Danish Financial Supervisory Authority's (FSA) exchange rate indicator 2 for calculations. Additionally, this exchange rate indicator restricts the use of currencies to those that are specifically included.

Our total FX exposure across all balance sheet items is calculated using the Danish FSA guidelines for exchange rate indicator 1. As at 31 December 2024, the total foreign exchange risk was DKK 357 million.

Equity risk

Equity risk is the risk of financial loss due to changes in the market value of equity investments.

Our market risk policy limits the allowable maximum equity risk in the investment portfolio. As at 31 December 2024, we held no equity positions in the investment portfolio.

Occasionally, small equity positions may arise due to the restructuring of non-performing client exposures, typically loans. As at year-end 2024, we held such equities valued at DKK 0 million held in our own funds.

Financial derivatives

In our investment portfolio, we use financial derivatives in accordance with our market risk policy, which defines the permissible types of derivatives and their intended uses. The policy permits limited use of derivatives to anticipate market movements, but the strict limits outlined in the policy minimise the potential for significant risks from such positions.

In the cover pools, financial derivatives are used to hedge the risks of funding and lending in compliance with the balance principle.

Liquidity risk *management*

Liquidity risk *management*

KEY DEVELOPMENTS IN 2024

Actual levels of liquidity risk at the end of the year remained well within the allowed boundaries. There were no breaches of the liquidity risk policy limits in 2024. Due to pre-payments, we maintained an extremely high level of excess liquidity coverage throughout 2024 relative to regulatory requirements and our internal guidelines and limits.

Liquidity risk is the risk of being unable to fulfil financial obligations when they fall due. Hence, it is focused on the short term.

The composition of liquidity and funding is partly determined by regulatory requirements and rating criteria. Liquidity management is subject to a substantial number of requirements, including the regulatory requirements of the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR), and the minimum requirement for own funds as a liquidity buffer to our capital centres.

We issue EUR ship covered bonds and DKK ship mortgage bonds to finance our lending activities, which are primarily denominated in USD. As a result, we regularly convert funds from EUR and DKK to USD using cross-currency swaps. As stipulated in the Executive Order on Bond Issuance, our funding operations must adhere to the balance principle. According to the regulation , any liquidity shortfall must not exceed own funds. We also manage liquidity risk by setting internal liquidity limits and conducting regular liquidity stress tests.

Our liquidity risk mainly stems from a mismatch between lending and funding, as these are not matched on a loan-by-loan basis. Additionally, funding requirements may be affected by currency exchange rate fluctuations through hedging agreements with bilateral collateral support agreements and mark-to-market resets on certain derivatives. This risk is partially mitigated by pre-funding all loans and client credit commitments in accordance with the balance principle.

We conduct our daily operations in observance of internal guidelines laid down by the Board of Directors, setting even stricter limits for liquidity risk than those set by regulation.

Risk governance and responsibility

The liquidity risk management is anchored in the Internal Liquidity Adequacy Assessment Process (ILAAP), a review to identify liquidity risk exposures and determine liquidity targets. Our liquidity risk policy, approved by the Board of Directors, defines our risk profile and framework, setting out our overall risk appetite regarding liquidity risk and funding structure.

Our Treasury department handles daily liquidity management, ensuring that we always meet our financial obligations and sustain our business model. This includes supporting planned lending activities and ensuring that our funding costs remain competitive.

Our Risk Management department monitors and reports daily compliance with the limits established in the liquidity risk policy.

In case of a limit breach, our Treasury department is responsible for documenting the cause and submitting an action plan to resolve the breach. The Executive Board is informed immediately, and the Board of Directors is notified no later than the next Board meeting. If necessary, the Danish FSA are informed immediately.

Balance principle and funding

The Executive Order on Bond Issuance governs our lending activities, stipulating that, under the balance principle, the liquidity deficit between issued bonds and loans must not exceed 100% of own funds. Our internal liquidity risk policy imposes stricter limits than those set out in the Executive Order on Bond Issuance.

The balance principle permits pre-funding up to the total of all loan offers and CET1 capital. We invest any surplus liquidity from pre-funded ship covered bonds in assets as outlined in CRR, Article 129. Surplus liquidity from the issuance of ship mortgage bonds is invested in short-term secure and liquid bond securities in accordance with the Act.

Loan commitments are pre-funded in advance of disbursement.

Encumbered assets

By law, any assets in the cover pools are encumbered to secure the issued covered bonds. This ensures that the bondholders have a preferential claim on these assets in case of a default.

The Act and the Executive Order mandate that covered bond issuers provide supplementary collateral if falling ship values cause the loan-to-value (LTV) ratio to exceed statutory lending limits. Liquid assets meeting this supplementary collateral requirement are encumbered for LCR determination purposes.

Derivatives are subject to counterparty credit risk, and to mitigate this risk, most of them are concluded under a bilateral credit support annex (CSA). Assets that we pledge as security under such CSA agreements cannot be freely used or liquidated by us, as they serve to secure obligations under the CSA agreement.

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

Our asset encumbrance is monitored daily and reported to the Danish FSA quarterly.

As at 31 December 2024, encumbered assets accounted for 83.3% of the DKK 58.788 billion in total assets plus any collateral received that may be subject to encumbrance.

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

Refinancing risk

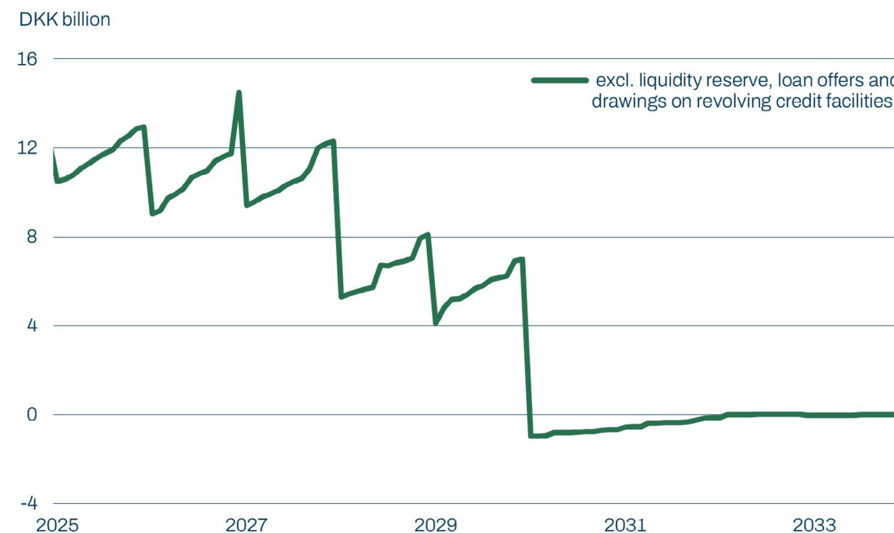
Future funding mismatches may arise, as our loans and funding are not matched on a loan-by-loan basis. These mismatches are actively managed and rebalanced on an ongoing basis.

We ensure sufficient liquidity coverage for all existing loans and credit commitments until expiry through issued bonds, derivative contracts and available own funds.

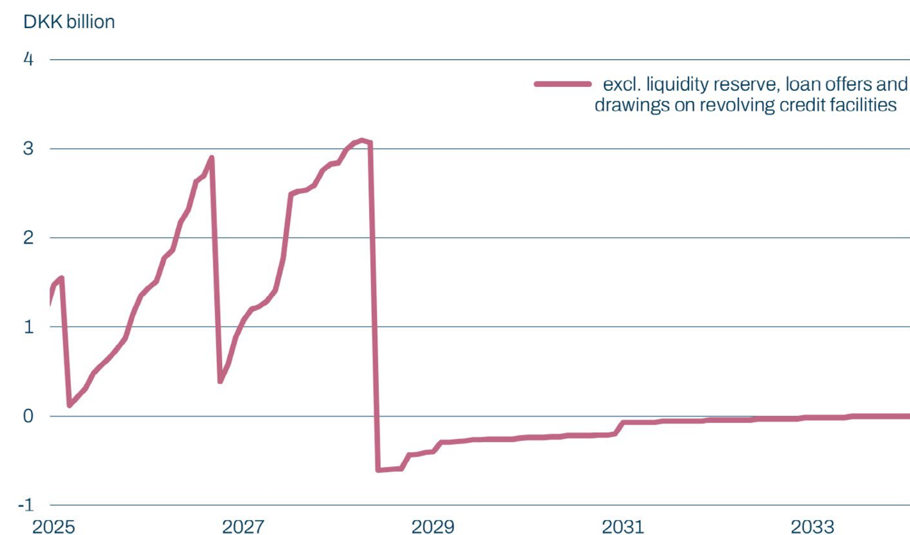
While a potential downgrade of our external rating would not impact our strong liquidity position, it could result in higher funding costs for new loans yet to be offered.

The charts illustrate the primary liquidity mismatch between current funding and lending

Net liquidity in Capital Centre Institute in General



Net liquidity in Capital Centre A



before accounting for our DKK 9.1 billion liquidity reserve. Including this reserve, we see positive net liquidity in all periods as of 31 December 2024.

Stress testing

We conduct a regular stress test programme per EBA guidelines on institutional stress testing. As part of this programme, we perform a monthly liquidity stress test to ensure we have sufficient liquidity coverage to sustain our business model and meet all financial obligations.

The liquidity stress test assesses the resilience of our short-term liquidity in a stressed scenario where we lack access to our usual funding sources. It examines the impact of simultaneous shocks to various interrelated risk factors, including cross-currency rates, interest rates, credit spreads and loan losses. The results are used to manage and adjust internal liquidity limits.

We review the underlying assumptions and parameters of the stress test at least once a year. The latest review confirmed that the current framework is adequately conservative.

Our stress testing validates that the existing limit structure is robust enough to handle these risk exposures.

Contingency plans

We have developed a liquidity contingency plan to comply with the Executive Order on Governance for Credit Institutions. This plan includes a range of potential actions to enhance our liquidity position in a stress scenario. The contingency plan will be activated if predefined triggers are met.

Other liquidity risk indicators

In conjunction with our liquidity stress test, we calculate regulatory liquidity indicators daily, including the 30-day LCR, the NSFR and the 180-day liquidity coverage buffer. These indicators are essential tools for daily asset-liability management.

Our liquidity risk policy, defined by the Board of Directors, establishes minimum limits for the LCR and NSFR ratios that are more stringent than regulatory requirements.

The Treasury department manages the LCR daily, while the Risk Management department is responsible for monitoring and reporting adherence to the liquidity risk policy. Risk Management reports these indicators to the Danish FSA monthly for the LCR and quarterly for the NSFR and the 180-day liquidity coverage buffer.

The LCR is a key regulatory requirement under the CRR regulation. It ensures that we maintain an adequate unencumbered HQLA to meet our liquidity needs for a 30-calendar-day liquidity stress period.

The NSFR, another regulatory indicator under the CRR regulation, addresses the balance between funding needs and the stability of funding sources, ensuring we use stable medium- and long-term funding to support our lending operations over a full calendar year. Our business model inherently maintains a high and stable NSFR level.

According to the Act, we must maintain a 180-day liquidity coverage buffer in each cover pool. The buffer must cover the maximum cumulative net liquidity outflow over the next 180 days. The quality of the assets used to meet this requirement aligns with the HQLA regulations in the LCR.

As at 31 December 2024, the LCR was calculated at 224%, and the NSFR was calculated at 189%.

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

$$\text{Net stable funding ratio (NSFR) formula} = \frac{\textit{Available amount of stable funding}}{\textit{Required amount of stable funding}} \geq 100\%$$

Risk Report

Operational risk *management*

Operational risk *management*

KEY DEVELOPMENTS IN 2024

Our Operational Excellence programme continued to improve the robustness of our operating environment. We had no IT security incidents in 2024

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. This includes risks such as fraud, human error, system failures and natural disasters.

Governance and responsibilities

The operational risk policy mandates that operational risk should be kept low overall. We assess operational risk based on the likelihood of an event occurring and the potential loss resulting from that event.

Due to its nature and characteristics, operational risk is best mitigated and managed as part of daily business activities. Each business area is responsible for the day-to-day management of operational risk. The Risk Management department coordinates these activities to ensure coherence, consistency and effectiveness across all our departments.

Our operational risk policy aims to foster a culture where openness and awareness of operational incidents are integral to the daily work of all employees. The Risk Management department ensures that the Executive Board and the Board of Directors are briefed regularly on key risk areas.

As part of our operational risk management, operational risk events are systematically recorded, categorised and reported. Operational events are divided into three main groups by potential or actual loss:

- Small events (less than DKK 25,000)
- Medium-sized events (less than DKK 5 million)
- Large events (Equal or more than DKK 5 million)

Based on management judgment, events can be reclassified to a more severe category if they pose a higher latent but unrealised risk.

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

Recording operational risk events must include information about the product type, process and risk involved and a plan of action in the case of more severe events.

Compliance

Operational risk includes compliance risk, which is governed by its own set of guidelines. Our Head of Compliance oversees this area. An annual assessment of compliance risk levels is presented to both the Board of Directors and the Executive Board.

Our Compliance department operates independently, assessing and reporting on the implementation of applicable legislation, practices and market standards and any instances of non-compliance. This helps mitigate the risk of sanctions, reputational damage and potential financial losses for our counterparties.

The Compliance department adopts a risk-based approach to identifying areas for review.

Money-laundering risk

DSF has established policies, business procedures and controls regarding anti-money laundering (AML) and know your customer (KYC). Furthermore, extensive efforts are made to ensure compliance with requirements pertaining to proof of client identity. The business model significantly limits the risk of DSF being used for money laundering and terrorist financing.

The AML function ensures that we comply with the Danish Act on Measures to Prevent Money Laundering and Financing of Terrorism, the EU Funds Transfer Regulation, and EU anti-terrorism regulations. The AML function is anchored in the Compliance department and reports directly to the Executive Board and the Board of Directors. The annual compliance report to the Board of Directors provides an update on AML and KYC.

Sustainability/ESG risk

Sustainability/ESG risks refer to the environmental, social and governance factors affecting our business activities and financial performance. This includes, but is not limited to, evolving regulatory ESG frameworks and ESG risks related to our stakeholders. Among these, climate-related risks are currently evaluated as the most significant due to their profound and wide-reaching impact across industries and regulatory landscapes.

The shipping industry's environmental emissions are difficult to abate, and no easy decarbonisation strategies exist. Although transportation by ship is by far the most effective way to transport goods in global supply chains, shipping does have a high level of absolute emissions, which means that our lending portfolio's financed emissions figures are also high.

The shipping industry continues to advance on its decarbonisation journey, guided by global and regional regulatory efforts to enhance energy efficiency and encourage the adoption of alternative fuels. Industry leaders are spearheading initiatives such as green corridors, while many shipowners are focusing on retrofitting existing vessels. However, these innovations are still in their early stages. Multiple decarbonisation strategies are being explored and no clear pathway has been identified in terms of alternative green fuels.

We are managing the transition by targeting a net zero emissions portfolio by 2050. To achieve this, we have set near-term targets to align the loan book with the Poseidon Principles trajectories. The Poseidon Principles are a framework for assessing and disclosing the climate alignment of ship finance portfolios. As a signatory, we have committed to annually reporting our portfolio climate alignment and implementing the Poseidon Principles in our internal policies, procedures and standards. The Poseidon Principles framework has provided valuable, data-driven insights into the environmental performance of our shipping portfolio. Leveraging this data has led to concrete actions, such as introducing loans with sustainability incentives. We aim to increase the share of the loan book with sustainability incentives to 35% in 2025.

From 2025, we will only offer new loans to clients who are actively engaged in the shipping industry's transition according to our internal sustainability rating framework. Sustainability ratings form part of the credit approval process and are an essential tool for managing ESG risks in the portfolio. New and existing clients are rated annually to assess how they manage sustainability-related risks and opportunities. We are in the process of revising the framework more extensively, reflecting the rapid and wide-ranging improvements in ESG data and reporting.

Further, we participate in industry initiatives such as the Responsible Ship Recycling Standards. Failure to scrap vessels responsibly can result in significant human costs, environmental degradation, and serious reputational risks for shipowners. Thus, responsible ship recycling is key to mitigating environmental, human health, and safety risks.

To prepare the organisation for the Corporate Sustainability Reporting Directive (CSRD), we have performed a double materiality assessment. This assessment has enhanced our understanding of our ESG impacts, risks and opportunities. We focus on improving data availability and quality, implementing robust assurance processes, and ensuring that ESG data is effectively used to inform decision-making and drive sustainability initiatives. In 2024, the organisational anchorage of our sustainability efforts has been integrated into the Innovation & Research team. The new organisational structure has allowed us to enhance our data collection, data architectures and reporting processes.

For further information, please see our Annual Report.

IT security

IT security risk refers to the risk of loss or disruption due to vulnerabilities in our IT systems, including unauthorised access, data theft, system failures or cyberattacks. It encompasses hardware, software, networks and data protection risks.

Information and information systems are vital to our business, making IT security essential for ongoing operations and credibility. The IT & Digitalisation department oversees IT security measures and reports on them to the Executive Board and the Board of Directors, who review these.

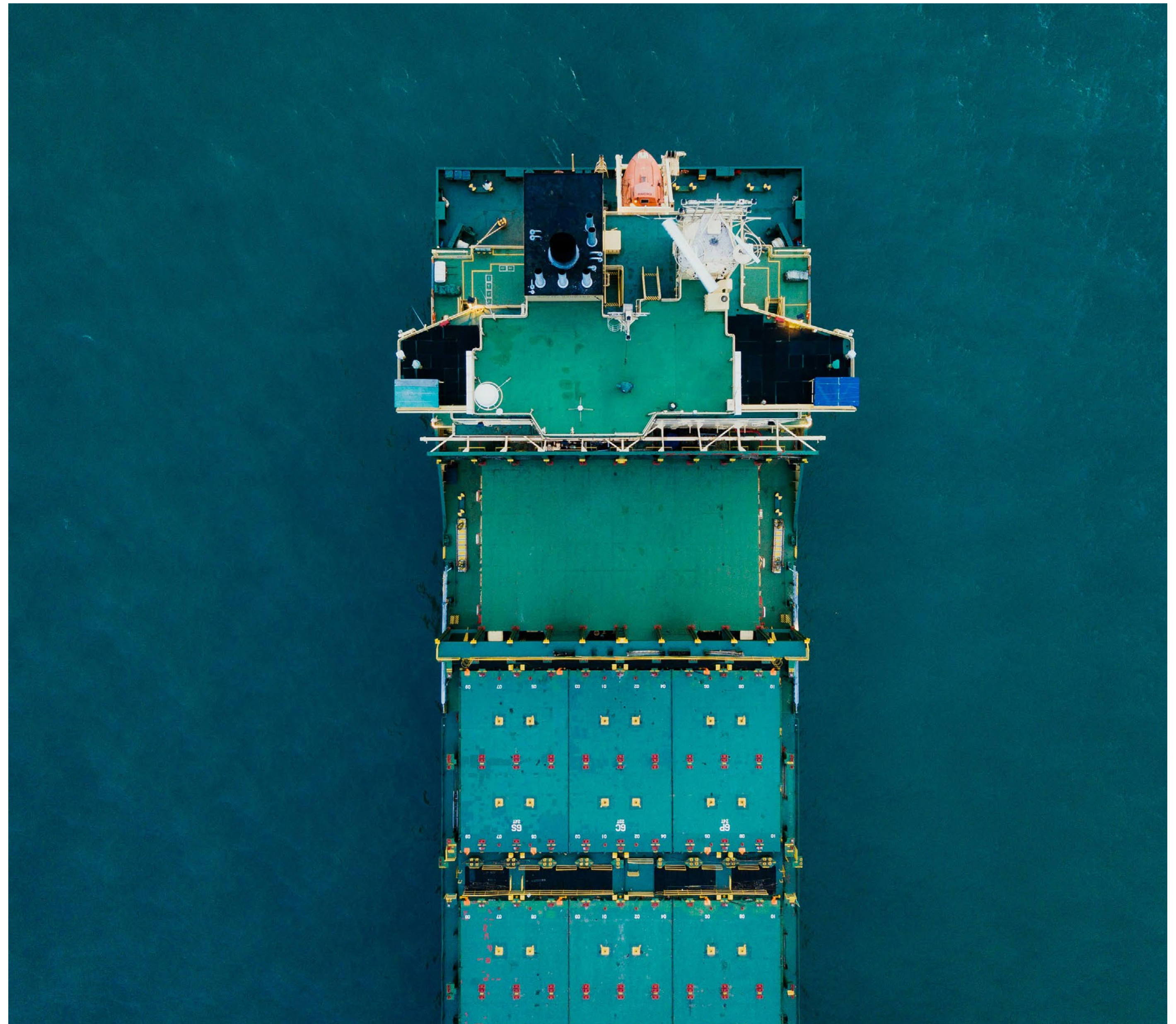
IT & Digitalisation operates within a defined security and risk tolerance level to ensure a secure and reliable IT infrastructure that consistently supports our daily business activities. The Board of Directors sets targets for IT security adequacy. The IT & Digitalisation department is responsible for adhering to the adopted IT security level and contingency plan. It ensures and monitors that our IT activities are well-protected against internal and external threats and ensures compliance with legislative and internal requirements.

Our IT security priorities are guided by regulatory requirements and the need for robust daily operations. Automation and continuous capacity adjustments ensure secure and stable operations. Our IT security efforts include developing contingency plans and recovery procedures and periodically testing these measures to ensure satisfactory operation during extraordinary events.

In our IT risk assessment, we critically assess and describe all our systems. The description includes support and error-handling requirements for each single risk event. System availability and stability levels are determined and reviewed regularly, and IT security is tested frequently.

We view cybersecurity risk as the most critical aspect of IT security that cannot be entirely eliminated. To minimise exposure, we implement various initiatives to maintain and enhance security while continuously updating our knowledge of cyber threats to prioritise these efforts. We continually work to raise and maintain employee awareness of potential threats.

We collaborate with external partners to monitor and periodically test our cybersecurity defences, ensuring our infrastructure remains protected against current threat levels.



Risk Report

Capital *management*

Capital *management*

KEY DEVELOPMENTS IN 2024

The capital ratio for DSF remained at the same level at 23.6% at year-end 2024 (2023: 23.6%). DSF's internal capital adequacy requirement, including buffers, amounted to 13.1% at year-end 2024 (2023: 13.3%).

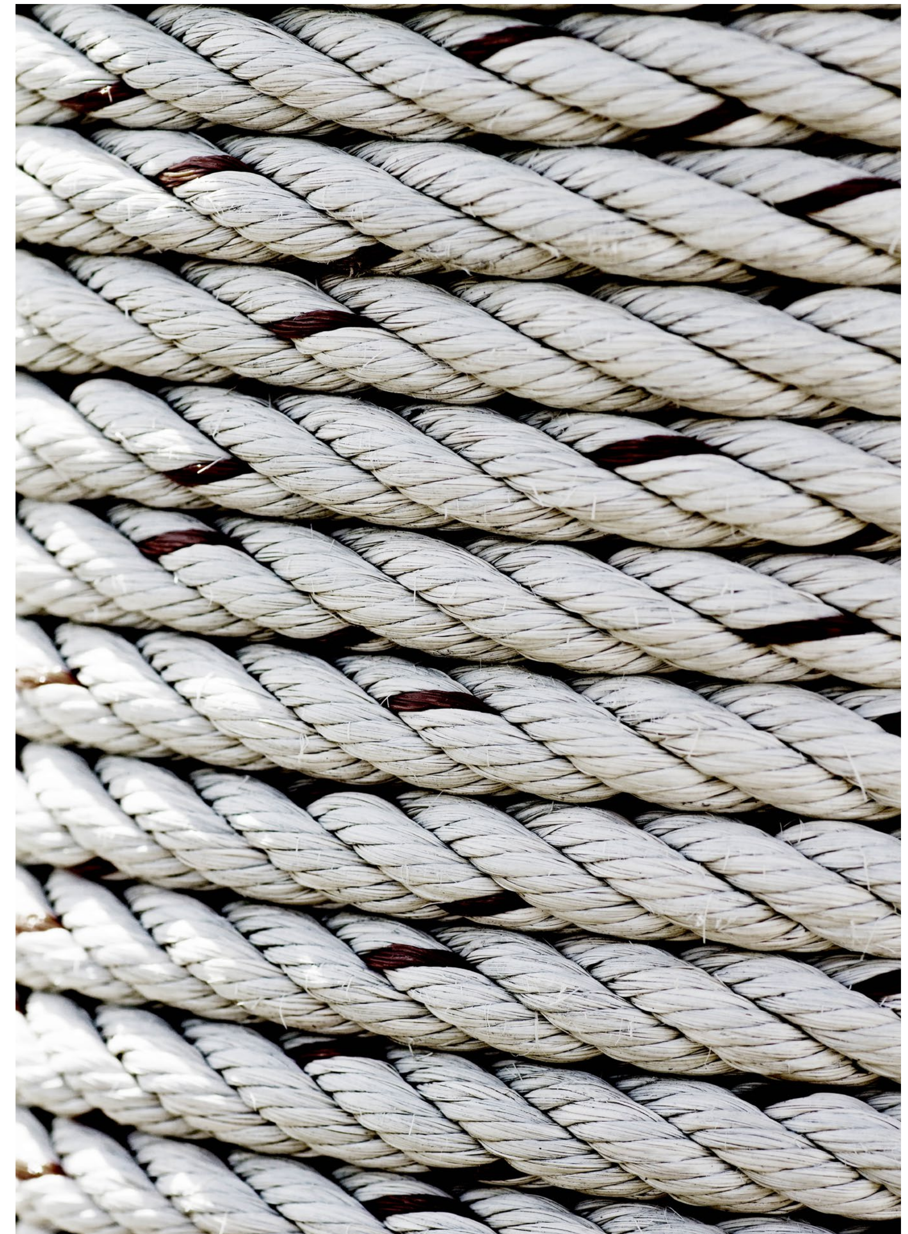
Adequate own funds are defined as the minimum amount of capital required to ensure only a remote risk of DSF becoming distressed or insolvent during a 12-month period such that bondholders could be exposed to a potential loss. Bondholders are subject to further protection ensured by law, as non-acceleration clauses apply in the event of bankruptcy.

Available own funds

DSF's own funds amounted to DKK 8,914 million at year-end 2024 (2023: DKK 9,952 million). DSF's own funds consist of Common Equity Tier 1 (CET1) capital in the form of share capital, tied-up reserve capital and retained earnings from previous years.

The tied-up reserve capital was established in 2005 when DSF was converted from a foundation into a limited liability company. The amount is unchanged at DKK 8,343 million.

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



Capital requirements

DSF's capital requirement is calculated based on the 8+ approach and the Danish FSA's guidelines on Internal Capital Adequacy Assessment Process.

The Danish FSA has issued guidelines containing benchmarks for stress tests, etc. These benchmarks define the limits within which the Danish FSA assesses an institution's risks as being covered by 8% of the total risk exposure amount. If these limits are exceeded, the institution is required to increase its adequate own funds.

DSF shall have own funds at least equal to the sum of the own funds requirements associated with each of the risk types defined as Pillar 1 requirements, Pillar 2 requirements and the combined capital buffer requirement.

Adequate own funds and internal capital adequacy requirement

DKK MILLION / %	2024	2023
Total risk exposure amount	**37,840**	**42,093**
Pillar 1 requirements (8% of total risk exposure amount)	**3,027**	**3,367**
Pillar 2 requirements		
Earnings	-	-
Growth in lending	-	-
Credit risks		
- Credit risks for large clients in financial difficulty	0	0
- Other types of credit risk	-	-
- Concentration risks	40	37
Market and liquidity risks	492	574
Operational and control risks	-	-
Leverage risk	-	-
Other risks	-	-
Total adequate own funds	**3,560**	**3,979**
Total capital less deductions	8,914	9,952
Total adequate own funds	3,560	3,979
Capital conservation buffer	946	1,052
Countercyclical capital buffer	446	577
Excess capital	**3,962**	**4,344**
Solvency ratio (%)	23.6	23.6
Internal capital adequacy requirement	9.4	9.5
Capital conservation buffer	2.5	2.5
Countercyclical capital buffer requirement	1.2	1.4
Internal capital adequacy requirement, including combined capital buffer requirement	13.1	13.3
Excess capital	**10.5**	**10.3**

Pillar 1	Pillar 2	Combined capital buffers

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

Pillar 1 requirements

We apply the standardised approach for the calculation of the total risk exposure amount and the own funds requirement for credit and market risks. In the standardised approach, the applicable risk weights to calculate the risk exposure amount are predefined. In addition, we apply the basic indicator approach to calculate the risk exposure amount for operational risk.

Credit risk
According to the standardised approach, loans generally carry a risk weight of at least 100%. The security value of the ship mortgage collateral cannot be deducted, and for capital adequacy purposes the loans are thus treated in the same way as unsecured loans.

As shown in the table, the majority of our risk exposures have a risk weight of 100%.

As at 31 December 2024, no construction loans were present in the portfolio.

Credit risk exposure by risk weight

Risk weight DKK MILLION	Credit risk exposure (weighted) 2024	Own funds requirement 2024	Credit risk exposure (weighted) 2023	Own funds requirement 2023
0	-	-	-	-
10	1,279	102	1,732	139
20	741	59	160	13
50	676	54	692	55
100	28,715	2,297	33,375	2,670
150	239	19	-	-
200	-	-	-	-
250	-	-	1,013	81
Total credit risk exposure	**31,650**	**2,532**	**36,972**	**2,958**

Pursuant to the Executive Order, the following loans or shares of loans each carry a risk weight of more than 100%:

- Pursuant to section 21(3), construction loans carry a risk weight of 200% if total construction loans do not exceed 125% of the excess capital coverage. If total construction loans exceed 125%, the excess amount must be deducted from Tier 1 capital. Construction loans are secured through the client's liability, assignment and subrogation in the construction contract and assignment of the shipyard's collateral for payments according to the construction contract.
- Loans in default, cf. the definition in Article 127 of the CRR (equivalent to internal DSF Ratings 11 and 12) carry a risk weight of either 100% or 150%.
- Under certain conditions, we may grant loans exceeding 70% of the value against other collateral and/or against additional reservations of our own funds. The maximum deduction is determined in DKK at the date of approval.
- Where the client either has an external rating corresponding to credit quality steps 5 and 6, the loan carries a risk weight of 150%.

Counterparty risk on derivatives and calculation of capital
We apply the standard approach, SA-CCR, to calculate derivatives exposures. We similarly apply the SA-CCR method to determine the exposure value for counterparty risk.

DSF's counterparty credit risk amount was calculated at DKK 738 million as at 31 December 2024.

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

Credit valuation adjustment (CVA)
We use the standardised approach for calculating the CVA charge, which allows the use of risk mitigation techniques such as netting and collateral.

Counterparty risk on financial derivatives is reduced through netting agreements, margin calls and collateral provided in accordance with standard documentation from the ISDA and the ICMA. Bilateral collateral agreements (CSAs) have been signed with the majority of our financial counterparties, so that collateral is received or posted automatically if the positive market values of the respective exposures exceed a specified minimum threshold.

The CVA charge amounted to DKK 469 million as at 31 December 2024.

Collateral and guarantees
We may receive the following types of financial collateral and guarantees:

- Guarantee deposits
- Securities (debt instruments, investment fund units), primarily listed; or
- Government and credit institution guarantees

We have operating procedures for managing and valuing collateral, which form an integral part of the regular risk-monitoring process.

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

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

CVA charge - standardised approach

DKK MILLION	2024	2023
Exposure – unweighted	1,669	1,532
Exposure – weighted	469	411
Own funds requirement	38	33

Funded credit protection

	Exposure (weighted)	
DKK MILLION	2024	2023
Deposits in cash or cash assimilated instruments	40	40
Debt securities issued by central governments or central banks	-	-
Debt securities issued by institutions	-	-
Total financial collateral	**40**	**40**

Market risk
We apply the standardised approach (FRTB SA). The final implementation of FRTB is expected to apply from 1 January 2026 .

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

We assess the own funds requirement for operational risk quarterly. If the requirement is deemed to be higher than the level mentioned below, we adjust the own funds reservation accordingly.

Risk exposure amount and own funds requirement

DKK MILLION	Exposure (weighted) 2024	Own funds requirement 2024
Debt instruments, specific risk		
Total specific risk *)	2,056	164
Debt instruments, general risk		
Total general risk	2,154	172
Shares, etc.		
Total shares, etc.	0	0
Foreign currency positions		
Total long foreign currency positions	357	29
Total amounts for market risk	**4,567**	**365**

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

DKK MILLION	2024	2023	2022	Average
Accounting items				
Interest income	8,284	5,026	2,314	5,208
Interest expenses	(7,824)	(4,664)	(1.687)	(4,163)
Dividends on equity investments	-	-	-	
Fee and commission income	21	15	14	17
Fee and commission expenses	-	-	-	
Market value adjustments	141	175	(206)	37
Sum of accounting items	622	552	435	536
Risk exposure amount (weighted) under the basic indicator approach	**1,154**	**1,050**	**813**	**1,006**

Summary of Pillar 1 requirements
The following table details the risk exposure amounts and own funds requirement for each exposure category.

Risk exposure amount

	Risk exposure amount (weighted)		Own funds requirement	
DKK MILLION	**2024**	**2023**	**2024**	**2023**
Credit risk				
- Central governments or central banks	-	1,013	-	81
- Regional governments or local authorities	-	-	-	-
- Public sector entities	-	-	-	-
- Institutions	1,417	852	113	68
- Corporates	28,355	32,155	2,268	2,572
- Covered bonds and mortgage bonds	1,279	1,732	102	139
- Exposures in default	239	492	19	39
- High-risk exposures	-	-	-	-
- Exposures with short-term credit assessment	-	-	-	-
- Equity exposures	-	-	-	-
- Other items	360	728	29	58
Total credit risk	**31,650**	**36,972**	**2,532**	**2,958**
Of which, counterparty risk	738	720	59	58
Market risk				
- Debt instruments	4,210	3,216	337	257
- Shares, etc.	0	18	0	1
- Foreign exchange risk	357	425	29	34
- Commodity risk	-	-	-	-
Total market risk	**4,567**	**3,660**	**365**	**293**
Credit valuation adjustment (CVA)	**469**	**411**	**38**	**33**
Total operational risk	**1,154**	**1,050**	**92**	**84**
Total risk exposure amount	**37,840**	**42,093**	**3,027**	**3,367**

Pillar 1	Pillar 2	Combined capital buffers

Pillar 2 requirements
While Pillar 1 entails the calculation of risks and capital requirements on the basis of uniform rules for all credit institutions, Pillar 2 considers the individual characteristics of a given institution and covers all relevant risk types, including risks not addressed under Pillar 1.

Pillar 2 requirements

Own funds requirements for specific risk areas
We base our calculations for the Pillar 2 requirements and our total adequate own funds on a number of predefined risk areas and other relevant risk elements:

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

A capital requirement deemed adequate to cover the underlying risks is determined for each risk area. Institutions must decide whether other elements of risk should be considered when calculating adequate own funds. Additionally, stress testing is used to determine, among other things, whether they will require additional capital within the next 12 months.

Credit risk
A conservative loss estimate should be made for each loan for large clients in financial difficulty. For this purpose, a large client is defined as a client whose total credit risk exposure accounts for more than 2% of our own funds corresponding to DKK 178 million.

Financial difficulty is defined as being either credit-impaired (Stage 3) or showing significant signs of weakness since initial recognition without being credit-impaired (Stage 2), corresponding to rating steps 1 and 2c on the Danish FSA rating scale.

Danish FSA rating steps 1 and 2c refer to clients with a DSF Rating between 9 and 12 on our 12-point internal scale (12 being the weakest, denoting that a client is in default). A detailed description of the Danish FSA rating steps is provided in Annex 7 of the Danish FSA's instructions for financial reports for credit institutions, etc.

Pursuant to the guideline method for calculating capital charges for large clients in financial difficulty, our Pillar 2 add-on amounted to DKK 0 million as at 31 December 2024.

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

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

Pursuant to the Executive Order on a Ship Finance Institute, additional capital is required in the event that the loan-to-value is between 60% or 70% at the time a loan is added to Capital Centre A. There were no such loans in 2024, and hence no such Pillar 2 capital reservation was made.

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

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

Based on the current financial standings of our financial counterparties, we conclude that the Pillar 1 requirement adequately covers the capital requirement concerning "other credit risk associated with financial counterparties".

Credit risk concentration
Concentration risk is calculated with respect to single-name concentration and sector concentration pursuant to the Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need.

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

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

With respect to single-name concentration, we must consider any imbalances in the distribution of exposure sizes in the loan portfolio, irrespective of credit quality. We apply the calculation method stipulated in the guidelines with adjustments approved by the Danish FSA. The Pillar 2 add-on for client concentration has been calculated at DKK 40 million.

Market risk

According to the guidelines published by the Danish FSA, mortgage banks and similar institutions are exempt from Pillar 2 add-ons regarding market risk. We nonetheless assess our market risk based on the guidelines and increase the Pillar 2 add-on for interest rate risk and spread risk accordingly.

Interest rate risk is the risk of incurring a loss due to a change in interest rates. The Pillar 2 add-on for interest risk in the banking book as at 31 December 2024 was calculated at DKK 73 million.

Spread risk arises from spread movements between individual bonds and the general level of near-risk-free interest rates. The Pillar 2 add-on for spread risk as at 31 December 2024 was calculated at DKK 315 million.

Market risk related to DSF's domicile property arises from a volatile real estate market. A Pillar 2 add-on of DKK 100 million was made at year-end 2024.

Foreign exchange rate risk is the risk of incurring a financial loss due to changes in currency exchange rates. The Pillar 2 add-on for foreign exchange risk as at 31 December 2024 was calculated at DKK 5 million.

Liquidity risk

The balance principle limits the risk that we may assume. Limits specified in our internal policies further mitigate the risk.

Collateral obligations to derivatives counterparties do impose a need for liquidity. These are carefully managed and evaluated through risk management tools, including stress tests.

Mortgage banks and similar institutions are exempt from Pillar 2 add-ons with respect to liquidity risk. We nevertheless assess our liquidity risk based on the guidelines and conclude that the Pillar 1 requirements cover this.

Operational and control risk

Operational risk and control risks under Pillar 2 include business risk, i.e. external factors negatively influencing the business model.

Business risk would most likely arise from lower credit margins following increased competition or from structurally higher funding costs due to e.g. new regulatory requirements that jeopardise the covered bond status, LCR eligibility or repo access of our bonds. These risks are considered to be adequately monitored and managed.

Reputational risk can affect the size of the risk premium related to bond issuance. We manage this risk by applying an overall conservative approach and holding substantial capital and liquidity reserves.

No Pillar 2 add-ons for operational and control risk were made at year-end 2024.

Earnings risk

Mortgage lenders with core earnings representing less than 0.1% of loans and guarantees before loan impairment charges and market value adjustments must consider whether this increases the internal capital adequacy requirement. Core earnings relative to loans and guarantees amounted to 1.1% in 2024.

Earnings stability is also part of the internal capital adequacy assessment, along with the level of earnings. Our earnings capacity should be assessed in relation to our dividend policy and access to capital. The stress test results show that we will not require additional capital within the next 12 months, even in a severe stress scenario.

We find that the Pillar 1 requirements are sufficient to cover the risk relating to our earnings.

Risk from growth in lending

The Danish FSA defines total year-on-year lending growth of 10% or more as potentially exposing an institution to higher-than-normal credit risk. Consequently, institutions with lending growth at this level or above must allocate additional capital. Our expected annual rate of growth in lending from 2024 to 2025 is 20%. It is expected that lending in 2025 will be brought back to the previously realised level in 2023 and the years before, as we saw a temporary reduction in the loan book in 2024. Beyond the return to a normalised level, underlying growth is not expected to exceed 10% this year. We do not expect to issue loans to peripheral segments or industries. Hence no additional capital has been allocated for 2024 to cover risk from growth in lending.

Other risks

Institutions must assess whether a Pillar 2 add-on is needed for strategic risk, group risk, and external risk.

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

Pillar 1	Pillar 2	Combined capital buffers

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

- **Capital conservation buffer**
  In 2024, the capital conservation buffer was 2.5% of the total risk exposure amount.
- **Systemic risk buffer**
  The systemic risk buffer only applies to SIFI institutions in Denmark.
- **Countercyclical capital buffer**
  The institution-specific countercyclical capital buffer may be applied by the authorities if lending growth results in higher macroprudential risk. This buffer may be between 0% and 2.5% of the total risk exposure amount.

Combined capital buffer requirement

Based on the geographical distribution of credit risk exposures, the capital requirement for the countercyclical capital buffer was calculated at DKK 446 million as at 31 December 2024. The capital requirement pertains exposures to clients domiciled in the below countries, which have set the following countercyclical capital buffer rates:

- Belgium: 1.00%
- Chile: 0.50%
- Denmark: 2.50%
- Faroe Islands: 1.00%
- Germany: 0.75%
- Great Britain: 2.00%
- Hong Kong: 1.00%
- Iceland: 2.50%
- Luxembourg: 0.50%
- Netherlands: 2.00%
- Norway: 2.50%
- Sweden: 2.00%

The geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer is provided in Annex 10.

All EU member states can implement a systemic risk buffer applying to domestic exposures. The requirement may apply to the entire sector or to individual subsectors.

The systemic risk buffer prevents and mitigates long-term, non-cyclical systemic or macroprudential risks not covered by the Capital Requirements Regulation (CRR). Since the Danish systemic risk buffer rate is only applied to systemically important financial institutions, it is not relevant for DSF.

In accordance with the Executive Order on Management and Control of Banks, etc., we have prepared a capital contingency plan as part of the recovery plan, containing a catalogue of possible courses of action to strengthen our capital position in a critical situation.

The capital contingency plan would take effect in the unlikely event of predefined triggers being activated.

Leverage ratio

The leverage ratio is defined as Tier 1 capital relative to total balance sheet assets (including off-balance sheet items). It does not factor in loan collateral or other credit risk mitigants.

As of 31 December 2024, the leverage ratio was calculated at 13% for DSF, which is considered at a comfortable level.

According to the CRR regulation, the leverage ratio should not be lower than 3%. Therefore, there is no need for DSF to increase the internal capital adequacy requirement to reduce leverage. In addition, policies that contain a total leverage ratio target are a requirement when the leverage ratio is less than 7%. In our market risk policy, the leverage ratio target is more stringent, at a minimum of 10%.

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

Supplementary collateral and overcollateralisation

Pursuant to the Executive Order, the issuance of covered bonds in Capital Centre A requires DSF to post supplementary collateral for loans exceeding an LTV limit of 60% in the event of declining ship values.

The LTV ratios are closely monitored, and the capital centre maintains a collateral buffer should ship values decline.

The general need for supplementary collateral for Capital Centre A was low throughout

Institution-specific countercyclical capital buffer

DKK MILLION	2024	2023
Total risk exposure amount	37,840	42,093
Institution-specific countercyclical buffer requirement, DKK million	446	577
Institution-specific countercyclical buffer requirement, %	1.2	1.4

2024. At its peak, it accounted for 1.2% of issued bonds. On average, supplementary collateral accounted for 0.2% in 2024.

As at 31 December 2024, there was no need for supplementary collateral.

The capital requirement for Capital Centre A consists of the mandatory 8% of REA available. As at 31 December 2024, Capital Centre A had a cover pool ratio of 23.8%, which is well above the capital requirement.

Risk Report

Management *declaration*

Management *declaration*

The Board of Directors of Danish Ship Finance A/S (Danmarks Skibskredit A/S) approved the Risk and Capital Management Report for 2024 on 27 February 2025.

The Board of Directors finds that DSF's risk management procedures are adequate and provide assurance that the risk management systems in place are adequate in relation to DSF's risk profile and strategy.

The risk tolerance defined by the Board of Directors is managed via applicable policies and limits.

A review of the business model and policies shows that the overall requirements set out in the model for specific risk areas are fully reflected in the particular limits of the individual policies.

DSF maintains solvency and liquidity well in excess of minimum requirements and seeks to ensure it has an appropriate and robust capital base supporting its business model.

The Board of Directors finds that DSF's overall risk profile in relation to its business model, business strategy and key metrics is compatible with DSF's risk governance and accurately reflects the risk tolerance defined by the Board of Directors.

The Board of Directors made its assessment on the basis of DSF's business model, the DSF strategy report, other materials and reports presented to the Board of Directors by the Executive Board, risk managers, compliance officers and the internal control officer, and any supplementary information obtained.

Board of *Directors*

Copenhagen, 27 February 2025

Eivind Drachmann Kolding
(Chairman)

Peter Nyegaard
(Vice Chairman)

Ahmed Mohamed Abdelmonem Omar
(Vice Chairman)

Marcus Freuchen Christensen

Omar Elali

Henriette Søgaard Fabricius

Povl Christian Lütken Frigast

Thor Jørgen Guttormsen

Andreas Hertz-Poulsen

Jacob Balslev Meldgaard

Christopher Rex

Danish Ship Finance A/S
(Danmarks Skibskredit A/S)

Sankt Annae Plads 3
DK-1250 Copenhagen K
T. +45 3333 9333

CVR NO. 27 49 26 49
danish@shipfinance.dk
shipfinance.dk

DANISH
SHIP FINANCE