

## **The Chairman's Report for the 2024 financial year**

2024 was an eventful year for Danish Ship Finance A/S. The sale of Danish Ship Finance Holding A/S was successfully concluded, and I would like to take the opportunity to welcome the company's new majority owners, Magellan Capital Holdings PLC. The transaction was completed in the first part of July.

An ownership change is a good opportunity to reflect on the strategic direction of the company and the Board of Directors engaged in highly productive discussions about the future trajectory of Danish Ship Finance. The discussions affirmed the long-term objectives of providing the best-in-class financing solutions to clients, expanding our offering to ship owners and facilitating the transition towards greener shipping. Objectives that must be pursued while remaining focused on maintaining a sound credit quality and an even more diversified client base. The discussions also lead to several concrete strategic initiatives that are expected to strengthen the core business areas of Danish Ship Finance further.

The ownership change allowed the Group structure to be streamlined by merging our holding company, Danish Ship Finance Holding, into Danish Ship Finance. This reorganisation has resulted in a simpler and more transparent structure, now consisting solely of the operating company, Danish Ship Finance A/S.

Magellan takes a long-term view of the industry which serves a business like ours well, navigating the sometimes-turbulent shipping markets. The entire organisation and the Board of Directors look forward to the continued cooperation with Magellan in the coming years.

Turning to the financial performance of 2024, we delivered another very satisfactory result. The net profit for the year amounted to DKK 414 million, which was within our previously published guidance. The previous two years brought about robust net profits that were strongly supported by significant reversals of loans previously written off in tandem with a continued reduction in the amount of non-performing loan exposures. In 2024, reversals of loan impairment charges including amounts previously written off contributed DKK 147 million to the result. Our non-performing exposure has been reduced to just one client, representing an exposure of no more than DKK 190 million. DSF's loan book exhibits highly robust credit quality and maintains a best-in-class loan loss track record.

The industry continues to work on its transition towards a more sustainable future, and in 2024, it reached a milestone with around half of tonnage on order comprising dual-fuel capable or dual-fuel 'ready' vessels. We view this as unequivocally positive for the sustainable evolution of the shipping industry, even if the predominant second fuel choice remains the transition fuel LNG while end-state fuels, such as methanol and ammonium, still take up much smaller shares.

I would like to highlight a few of the strategic targets that guide our work in supporting the transition to a more sustainable shipping industry. The overarching objective is to achieve a net zero loan book by 2050 and one of the short-term targets supporting this goal is the target that more than 50% of new loans must have sustainability incentives. In 2024, 37% of new loans had sustainability incentives, hence, the target was not met. We have, however, decided to expand the scope of the target to encompass the entire loan book, not just new lending, and aim for 35% of the loan book to have sustainability incentives in 2025. Another target is to only make new loans to clients that are actively engaged in the sustainable transition. In 2024, we refined our sustainability rating framework and implemented it in our assessment of shipowners'

engagement. I will not go through all the strategic targets now but instead invite you to read more about them in the Annual Report 2024 available on the website.

## **Shipping markets**

Overall, the shipping markets performed well in 2024 with freight rates at levels above those of the previous year and the Clarksea market index reached the top 30% highest rates since the year 2000. This was backed by strong earnings in the Tanker markets until June whereafter strong Container earnings kept the index at high levels. Towards the end of the year weaknesses did however start to materialise as Tanker markets cooled off and the Dry Bulk sector struggled to regain momentum, which could be the beginning of a more challenging period ahead.

Shipping markets have experienced several disruptive events over the past five years. In 2024, shipowners and operators had to respond to the risk of attacks in the Red Sea by rerouting vessels around the Cape of Africa, which increased travel distances and generated inefficiencies in supply chains. World seaborne trade volumes were estimated to have increased by 2.4% in 2024 and distance-adjusted demand by 3.8%, driven by the Container, Gas and Product Tanker segments which have experienced longer voyage distances due to the Red Sea crisis.

Contracting of new vessels increased in 2024, driven by a new ordering spree for Container vessels and a continued appetite for Tankers and Gas Carriers. The order book now accounts for around 15% of the fleet, unevenly distributed across segments.

## **Lending**

It is the ambition to grow the loan book back towards DKK 40 billion, but unfortunately, we did not get closer to this goal in 2024. Although we made DKK 8.3 billion of accepted loan offers, got nine new clients and disbursed loans of DKK 5.8 billion, the strong earnings in several shipping segments prompted clients flush with cash to make extraordinary pre-payments on loans. Pre-payments amounted to DKK 7.0 billion in 2024. Consequently, at year-end 2024 the loan book stood at DKK 27.4 billion, which was 14% below the year-end 2023 figure. Net income from lending amounted to DKK 384 million, DKK 51 million lower than in 2023.

## **Funding**

2025 started out with a very positive development on the funding side as S&P announced an upgrade of our covered bond rating to AA- with a Stable Outlook. During 2024, DSF's all-in USD funding costs had been significantly reduced as spreads tightened and the rating upgrade further added to this trend. Although we had ample liquidity throughout the year, we remained active in the market, issuing new bonds and buying back existing, shorter-dated, bonds following our established pre-funding strategy.

At year-end 2024, we had DKK 39 billion of issued bonds outstanding with an average maturity of three years, of which 23% were denominated in EUR.

## **Investments**

The developments in the financial markets where central banks started to lower interest rates on the back of more acceptable inflation levels supported our investment portfolio of mostly 'AAA'-rated fixed-income securities. The investment portfolio generated a very satisfactory return of 4.0% equal to DKK 395 million pre-tax, a strong performance.

## Financial performance

Net profit for 2024 ended at DKK 414 million which as mentioned was within the guided range. Excluding the accounting effects related to the merger, the result would have exceeded guidance. Non-performing loans have steadily decreased over the past eight years, with no defaults in the past three years. At year-end 2024, the weighted average loan-to-value ratio after ECL charges was 37%, with 100% of the loan book secured within 60% of vessel values. The NPL ratio dropped to 0.7%, down from 2.8% in the previous year. The ECL allowance account, at 1.9% of credit exposure, provides ample protection against future loan losses.

Operating costs landed at DKK 196 million, benefitting from positive one-off effects due to the partial reversal of performance-based compensation provisions from previous years. Costs in 2024 were thus DKK 10 million, equal to 5%, lower than in 2023.

As a consequence of the ownership change, DSF paid a total of DKK 1,741 million in dividends in 2024. In addition to the ordinary dividend, two extraordinary dividends were paid to Magellan in relation to the acquisition. The result for 2024 generated a dividend of DKK 62 million to the Danish Maritime Fund and we are pleased that total dividend contribution to the fund since inception now have reached more than DKK 1 billion.

## Balance sheet

On the balance sheet, the smaller loan book was the main driver behind the decline in total assets from DKK 64.2 billion in 2023 to DKK 58.3 billion in 2024.

The capital ratio was 23.6%, significantly more than the 13.1% regulatory requirement.

## Remuneration

According to the Danish Financial Business Act, the Chairman of the Board shall address the management's remuneration in the past financial year as well as expectations for the current and coming financial year. I will allow myself to refer to the recently published Remuneration Report 2024, which is available on the company website for details.

The Remuneration Policy ensures that incentive bonuses are generally tied to the return for A shareholders. The Executive Board was awarded, on average, 85% of the bonus permissible under the Remuneration Policy, reflecting partial achievement of collective and individual performance targets and the financial return to class A shareholders for the financial year 2024.

According to the legislation, it is also my duty to express expectations for any adjustments in the remuneration for the next year. We expect to adjust the Executive Board's remuneration in line with prevailing market conditions.

## Board evaluation

The Board of Directors carried out a self-evaluation in 2024, assessing their competencies. The findings and conclusions were subsequently presented to and discussed by the Board of Directors. The aim of the evaluation was to ensure, among other things, that the composition of the Board of Directors and the special competencies of each Board member enable the Board of Directors to perform its tasks effectively. The results of the latest evaluation were good overall and that the Board of Directors covers a broad spectrum of competencies.

In connection with the ownership change, three members of the Board of Directors were substituted by two representatives from Magellan, hence, a new evaluation will be conducted in 2025 to establish which areas for the new Board of Directors to work on.

## **Corporate culture**

As the Chairman, I also have to mention our approach to ensuring a healthy corporate culture, originating from an amendment made to the Danish Financial Business Act. We continue to support the objective and actively work to constantly improve our corporate culture. The main focus is on communication and dialogue, employee well-being, preventing conflicts of interests, anti-money laundering and correct handling of insider information and GDPR.

In 2024, the organisation held internal seminars focusing on establishing a feedback culture to further improve the way we work with each other. Another focus area was creating awareness of the daily tasks in different departments, thereby gaining a better understanding of the requirements that others face and developing a stronger common culture.

All new employees receive a copy of the Policy on a healthy corporate culture during onboarding and the Executive Board annually addresses the topics on at least one of the employee briefings following the Board meetings.

## **Closing remarks**

2025 marks the beginning of a new chapter in Danish Ship Finance's history with a new long-term owner onboard. The sales process of Danish Ship Finance Holding lasted for almost three years which undoubtedly placed an extra workload on many employees for a long period of time. Hence, I'm very pleased that the focus now can be on continuing to strengthen Danish Ship Finance as a company. I would like to thank all employees for their diligent work, not just in supporting the sales process but also in executing all the daily tasks required to make us the obvious choice for our clients and finance the transition towards a more sustainable shipping industry.