

Danish Ship Finance

Sustainability Report 2018

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Foreword from the Executive Board

As Chief Executive Officer of Danish Ship Finance, I believe we have a duty to demonstrate corporate responsibility. We should actively contribute to creating good conditions for our employees, respecting human rights, considering the environment and climate and combating corruption. This is an integral part of our business and will continue to be so going forward. In a rapidly changing global environment, ensuring responsible business practice is a way to remain successful and contribute to overall sustainable economic development.

Like many other organisations, we are stepping up our efforts to embed sustainability more deeply into our operations. It is important to ensure that Danish Ship Finance continues to develop its business practices, and in many ways, we view these efforts as a means to future-proof the organisation. In 2018, we began to upgrade our sustainability approach and the topic is receiving increasing management attention. A lot still remains to be done, but it is a work in progress, which I believe is of particular importance.

In our work, we have taken inspiration from the important international efforts made by the United Nations through the Ten Principles of the UN Global Compact, the UN Guiding Principles on Business and Human Rights and the UN Sustainable Development Goals. In this context, we have defined four key performance indicators (KPIs), to which we intend to dedicate special focus in the years ahead.

Danish Ship Finance recognises the importance of transparency. Therefore, this annual report comprehensively covers the entire sustainability area, including our Communication on Progress (COP) report, which is submitted to the UN Global Compact Office.

Erik I. Lassen
Chief Executive Officer

Introduction

Danish Ship Finance's purpose is to provide ship financing in Denmark and also internationally (provided that such activities do not unnecessarily limit the company's Danish operations). The company's vision is to be the obvious choice in ship finance. In order to achieve this, Danish Ship Finance aims to run a sustainable business that delivers long-term value for its customers, shareholders and investors, with a focus on responsible business conduct.

The company has defined the following set of values:

- Focusing on customers' needs
- Prioritising credit quality over short-term returns
- Acting as a trustworthy and stable business partner
- Developing its business to meet the needs of its stakeholders
- Accomplishing common goals through collaboration

Danish Ship Finance ensures that its sustainability policies are in accordance with its values, and that they complement each other well. The company is highly committed to continuously integrating these values and sustainability initiatives into its everyday operations, as this is an important way of ensuring that it is able to continue to create value for all stakeholders.

Danish Ship Finance strives to address sustainability issues that are meaningful to the company and the markets in which it operates. It intends to focus both on sustainability initiatives for in-house use and on efforts related to any indirect impact it might have through the activities of its customers.

Assessment of sustainability initiatives in 2018

Danish Ship Finance's commitment to corporate responsibility and sustainability continued to form an integral part of the company's activities in 2018. While the company complies with applicable regulations and strives to meet international standards for sustainability and respect for human rights, it is aware that this is an ongoing process.

Danish Ship Finance's sustainability efforts in 2018 can be summarised as follows:

- Danish Ship Finance increased its management focus on sustainability and dedicated more resources to embedding sustainability into its operations. This will continue to be an important focus area going forward.
- In accordance with one of the conclusions from the strategy review conducted in 2018, the company gave strategic priority to advancing its sustainability initiatives.
- Danish Ship Finance signed a call for action in support of decarbonisation of the shipping industry, engaged with other banks to establish a system for financial institutions to disclose the alignment of their shipping portfolios with climate goals, and commenced partnerships with several working groups to analyse how to increase sustainability and embed circular economy principles in the shipping industry.
- Danish Ship Finance focused on minimising its indirect impact on the environment through proactive, future-oriented dialogue with stakeholders.
- Danish Ship Finance continued its intensive efforts to create a workplace that can attract and retain the most talented and dedicated employees.
- The KPIs regarding the well-being of employees showed a slight decline in the first three categories and an increase in the number of sick days. Despite the negative development in 2018, Danish Ship Finance's general level remained high compared with similar companies, and it was still within the limits set for the KPIs.

Danish Ship Finance will continue its sustainability initiatives in 2019, both internally and with regard to its stakeholders.

Legal framework

Regulations and international standards

Danish Ship Finance reports on its corporate social responsibility in accordance with sections 135 and 135a of the Danish Executive Order on Financial Reports for Credit Institutions, etc. ("Executive Order on Financial Reports"). The company's sustainability reporting is consistent with the "comply or explain" principle.

Global Compact

The UN Global Compact is an initiative that sets out ten general principles to encourage businesses to commit to sustainability and which provide a good starting point for them to create suitable policies. The principles are based on internationally recognised conventions on human rights, employee rights, the environment and anti-corruption.

Based on the above reporting on the company's policies, principles, initiatives and results, Danish Ship Finance estimates it complies with all ten principles to the extent that is necessary and possible for a financial company domiciled in Denmark.

Guiding Principles on Business and Human Rights

Ensuring that human rights are respected is an important responsibility, and Danish Ship Finance has therefore decided to adopt the UN Guiding Principles on Business and Human Rights. These principles were endorsed by the UN's Human Rights Council in June 2011.

The guiding principles state how governments and business enterprises can conduct their operations and undertake strategic planning to avoid infringing human rights. A distinction is made between the efforts of governments and business enterprises, but it is essential to note that the principles are equally relevant to small and larger enterprises, and also that enterprises should not only focus on their own efforts, but – importantly – should also place certain requirements on their stakeholders.

The guiding principles underline, however, that the expectations placed on business enterprises will depend on their size and the nature and context of their operations.

The UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) are a call for action on 17 specific topics aimed at protecting the planet. The topics can be divided into three major groups: climate change, environmental protection and social needs (education, health, job opportunities, etc.).

The goals are not only to be used in national political initiatives; businesses are also expected to participate and set internal goals for their efforts by choosing the topics where they believe they can contribute to positive change.

Danish Ship Finance will include the SDGs as a point of reference for its sustainability efforts going forward, and will also encourage stakeholders to endorse and work actively to advance the agenda related to the SDGs.

Internal guidelines

Danish Ship Finance has drawn up the following internal sustainability guidelines:

- A sustainability policy (adopted by the Board of Directors and available on the company's website)
- Business processes for setting targets
- A policy for the under-represented gender
- A stress prevention policy
- An anti-bullying policy
- A gifts and hospitality policy
- Guidelines in the personnel handbook to prevent discrimination based on race, religion and gender and guidelines to prevent corruption

Sustainability at Danish Ship Finance

The company has been formally practising sustainability since 2009 with a focus on the following topics:

1. Human rights
2. Human resources
3. Environment and climate
4. Corruption and unusual gifts

The purpose of the sustainability efforts is to contribute to adding value to society at large and to the company itself. The strengthening efforts around sustainability complement Danish Ship Finance's vision to be the obvious choice in ship finance, and to create long-term value for its customers, shareholders and investors. Danish Ship Finance believes that the ongoing integration of sustainability into its culture and daily operations is an important step towards ensuring that it remains an attractive business partner to all stakeholders.

While regulation and commercial sentiment still has some way to go before matching the momentum in the global sustainability agenda, Danish Ship Finance seeks to ensure that its conservative risk profile is maintained through an increased focus on sustainability. As a financial institution providing credit to an inherently international and volatile

industry, the company recognises its exposure to environmental, social and ethical risks through the activities of its customers. In this respect, there are multiple aspects of the business that are exposed to sustainability risk. Danish Ship Finance is strongly focused on anticipating and managing both direct and indirect risks related to sustainability that could potentially have financial, legal or reputational consequences.

The company intends to ensure value-adding sustainability through:

- A good working environment
- Motivated employees
- Prevention of stress
- Future-oriented dialogue with current and potential customers
- Minimising any harmful impact on the environment
- Guidelines to counter corruption and bribery
- Expectations and demands in relation to stakeholders

Since 2017, Danish Ship Finance has defined four key performance indicators (KPIs) for its sustainability efforts, 2018 being the first full year in which the KPIs were applicable. Targets and results are set out in section 6 below.

Sustainability and customers

Due to the nature of its business as a financial services provider, Danish Ship Finance's largest potential impact is through interaction with its customers. Thus, while not neglecting the ongoing improvement of its own activities, the company encourages its customers to endeavour to become more sustainable and aims to support its clients' sustainable business practices for the long term.

The shipping industry handles around 90% of transported goods in the world and is central to the global economy as a facilitator of global trade. While shipping is widely considered to be among the most efficient forms of commercial transport, the industry has a negative impact on the environment through CO₂ emissions, accounting for an estimated 2.5% of global CO₂ emissions, SO_x and NO_x emissions, waste and the risk of pollution through unintentional discharges in the sea.

Danish Ship Finance is directly and indirectly exposed to the activities of its customers, and although customers are responsible for their own activities and decisions, the company remains fully responsible for the decision to engage or disengage with any customers. Danish Ship Finance is confident that considering responsibility and sustainability in this decision process improves the quality of the portfolio and its long-term prospects.

Several measures are already in place to ensure that the company's customers meet the highest standards.

First and foremost, Danish Ship Finance expects all of its customers to operate their businesses in accordance with national, regional and international legislation as set out by port states, flag states, classification societies and the International Maritime Organisation (IMO). This is stipulated in the loan agreements.

When engaging with a new customer, Danish Ship Finance carefully considers its reputation and track record. Regulatory know-your-customer procedures are always carried out in accordance with the law. Customers must meet requirements stipulated by Danish Ship Finance in terms of flag state and classification societies. Prudent behaviour is evaluated through monitoring of the customer's performance in port state control inspections. Physical inspections of the customer's vessels are also carried out on a spot-check basis. In addition, as Danish Ship Finance is a proponent of traditional relationship banking, it spends a fair amount of time getting to know the customer's management before progressing with any relationship. Together with the inevitable financial due diligence, these measures allow Danish Ship Finance to ensure that it only enters into business relationships with the most reputable ship owners.

As discussed in last year's edition of this report, many ship owners place responsibility and sustainability at the core of their operations. This includes a strong focus on safety, health and training of employees, and efforts to reduce any adverse environmental impacts by lowering fuel consumption and waste volumes, purifying ballast water and cutting CO2 emissions. Further, given the international nature of both their employees and operations, ship owners in general place particular emphasis on human rights and anti-corruption controls.

In the past year, the focus on sustainability in the shipping industry has only strengthened. In April 2018, the International Maritime Organisation (IMO) reached an agreement to set international targets to cut CO2 emissions from the shipping sector and reduce the negative impact of the shipping industry on the environment. The target is at least a 40% cut in emission intensity by 2030 and 70% by 2050, and at least a 50% absolute reduction in emissions compared to 2008 levels by 2050. In addition, the industry is preparing to meet the new global 0.5% sulphur cap requirement by 2020 to reduce emissions of SOx into the atmosphere.

Regulatory scrutiny of the environmental impact of the shipping industry and businesses' and end-consumers' focus on prioritising sustainable business partners and products are expected to continue to intensify in the coming years. Danish Ship Finance is convinced that a strong commitment to sustainable business practices will become a licence to operate in the shipping industry in the near future.

Thus, Danish Ship Finance will increase its focus on sustainability at its customers via constructive, future-oriented dialogue. This will be done to monitor and maintain an acceptable risk profile for the portfolio in order to ensure that the company is able to continue to deliver long-term value for customers, shareholders and investors. It intends to take an inclusive approach, without excluding ship owners that are not yet performing at a high level in terms of sustainability. Danish Ship Finance believes that the biggest impact and contribution can be made by remaining engaged with customers that may not initially meet the expected standards for sustainability performance but that are committed to entering into constructive engagement and improving.

Human resources

Talented and dedicated employees are essential to any business, which is why employees and their well-being have a high priority with respect to the sustainability initiatives. In 2018, an Human Resources department was established to ensure a consistent approach to human resources across the company.

Various goals have been defined for the human resource initiatives with the aim of facilitating high health and safety standards and value creation through motivated employees. The company also offers a range of benefits in the form of progressive retirement arrangements, part-time schemes, a health programme and a flexitime arrangement, the overall purpose of which is to create attractive and flexible working conditions.

Attractive workplace

Danish Ship Finance is a specialised company with a focus on attracting and retaining highly skilled employees. The aim is to create an attractive workplace through commitment, development and well-being, and also to ensure a professionally challenging environment and good working conditions by offering relevant staff benefits and a sensible work-life balance. The Human Resources policies provide a framework for skills development and a flexible career path.

As part of the company's efforts to be an attractive workplace, four key performance indicators (KPIs) have been defined, which are described below.

Diversity

Diversity is considered a strength that helps the company attract the best employees. The company recognises diversity and aims to ensure that everyone can pursue a career on equal terms. This includes offering flexible working conditions and a human resources policy that accommodates different employee needs.

The human resources policy is complemented by events and activities for all employees, aimed at increasing their understanding of colleagues' different views, practices, preferences, working methods and interests. These activities have been shown to improve collaboration, efficiency and, not least, job satisfaction.

Targets and policies for the under-represented gender

Board of Directors

All eleven members of the Board of Directors are men. The shareholders nominate candidates for the Board of Directors. This means that the Board of Directors has no direct influence on the nomination of candidates. However, the Board will try to influence the process wherever possible.

The publication entitled "Targets and policy for the under-represented gender on the Board of Directors and at other management levels of the company" sets out guidelines for how to increase the number of management members from the under-represented gender. In 2016, the Board of Directors set a target to have at least one female member by 2019. This target was not met by end-2018.

The Board of Directors consists of eight Board members elected by the General Meeting and three elected by employees. On an eleven-member Board of Directors, four women and seven men are considered to be a balanced gender distribution.

The company

In accordance with the rules on targets and policies for the gender composition of management, Danish Ship Finance intends to strengthen the pipeline of Board member candidates of the under-represented gender. Also, the company would like to see an increase in the share of the under-represented gender at the company's other management levels. The company strives to offer continuing professional development courses in accordance with the desires and ambitions of employees. Such training courses are available to everyone with due consideration for each individual employee's situation.

In 2016, the company set a goal to increase the number of women in management positions from one to two by the end of 2019. That target was achieved in 2018 with the appointment of two new female managers. The work to increase the percentage of managers from the under-represented gender will continue in 2019.

Health and well-being

Danish Ship Finance strives to provide an attractive setting for its employees and to help them to achieve a sensible work-life balance, for instance through its flexitime programme. All employees are covered by various insurance policies, including personal accident, dental and health insurance, and the staff canteen serves healthy and nourishing food.

Stress is recognised as a common problem in many industries. The company has adopted a stress prevention policy. Bullying, too, can have negative effects on occupational health, safety and, consequently, on employees' well-being. The company has adopted an anti-bullying policy. It moreover strongly disapproves of sexual harassment and it poses specific questions on this issue in employee surveys.

Finally, social events are organised to encourage and promote team spirit in the company, while funds are granted to a staff association, which also organises social events.

Freedom of association

Employees have the right to be a member of a union. No statistics are kept regarding trade union membership, as this is regarded as a private matter.

Whistleblower scheme

The company has established a whistleblower scheme, allowing employees who witness non-compliance with financial legislation or any other serious crime to report this anonymously to a third-party law firm, which will investigate any reports submitted. The law firm has stated that in 2018 it once again did not receive any non-compliance reports from employees.

The employees also have the opportunity to use an external whistleblower scheme by reporting suspected violations directly either to the Danish FSA via its whistleblower scheme, to the Danish State Prosecutor for Serious Economic and International Crime, or to the police.

KPIs and well-being survey

Well-being survey

To gauge both the well-being and job satisfaction of employees, the company conducts an annual employee opinion survey with assistance from an external consultant. The employees' responses are anonymous. A more comprehensive survey is conducted every second year, most recently in 2017.

In the comprehensive survey, employees are asked a range of questions concerning job satisfaction, professional challenges, management, work-life balance and internal communication. Four of these are selected as key questions that make up the short survey in even years. Two of the questions have also been selected as KPIs.

The survey conducted in December 2018 showed that employee satisfaction decreased from 2017 to 2018 but is still at a very satisfactory level.

Key performance indicators

KPIs developed as follows:

Target no. 1: The score for employee satisfaction should be at least index 75 in the annual survey.

Current status: General employee satisfaction decreased from index 81 in 2017 to index 78 in 2018. This was the second consecutive decrease, but the index value was still above the minimum target.

Target no. 2: The score for employees experiencing a healthy balance between their working life and their personal life should be at least index 75.

Current status: The score for this was index 81 in 2017, but it dropped marginally to index 77 in 2018.

Target no. 3: The score for employees not experiencing long periods of negative stress should be at least index 75.

Current status: This score decreased from index 80 to index 75 in 2018.

Target no. 4: The average number of sick days taken by employees should not exceed eight days per year.

Current status: The company registered an average of 3.8 sick days per employee in 2018, against an average of 1.9 days in 2017. The increase can largely be ascribed to a new method of calculation.

Reaction to KPIs

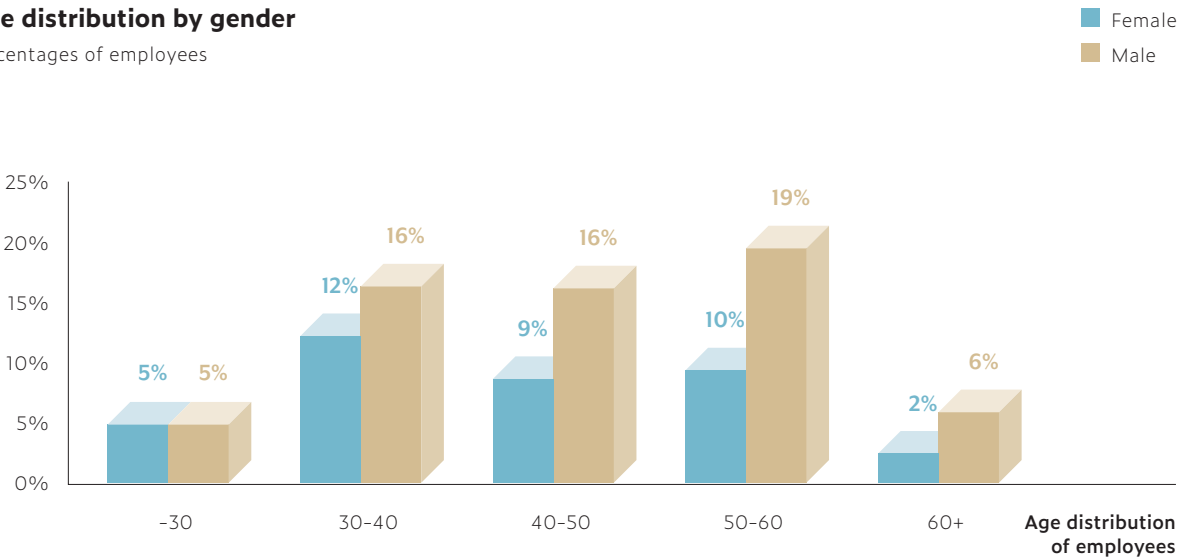
Although all scores were still above the satisfactory level of 75, the decline is noteworthy and the results were very close to the minimum target levels. Hence, the company views it as a high priority to reverse the development and endeavour to restore employee satisfaction to previous levels. Apparently, there is no single reason for the negative development. However, 2018 was a busy year in many respects and one area identified as having room for improvement is the general workload per employee.

Danish Ship Finance had 72 employees on 1 January 2018 and 82 on 31 December 2018.

Key employee statistics

Age distribution by gender

Percentages of employees



Source: Danish Ship Finance

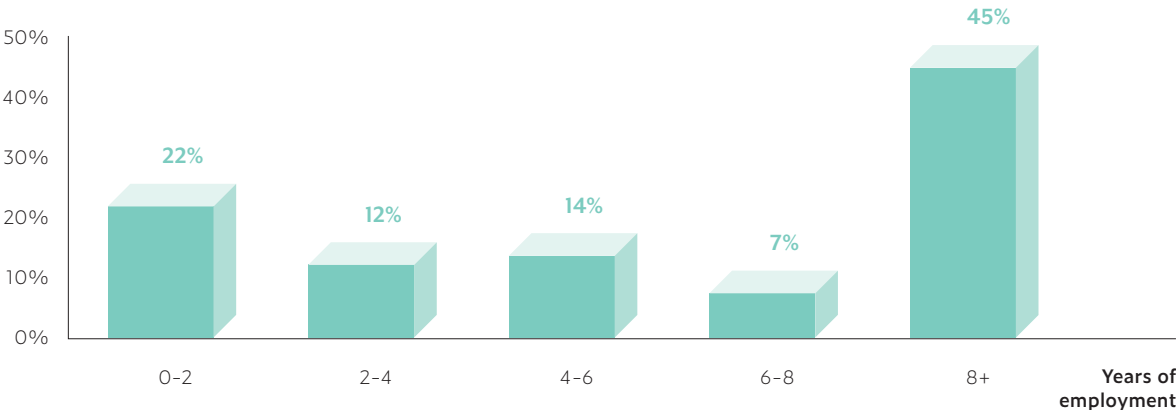
Age distribution by gender shows that most employees fall within the age group 50-60 years. The average age of all employees remains unchanged at 45 years.

As no emphasis is placed on either age or gender when hiring new staff, the company has set no goals for working actively to change the current distribution.

At the end of 2018, Danish Ship Finance had 31 female and 51 male employees, equivalent to 38% and 62% of its workforce, respectively.

Seniority

Percentages of employees

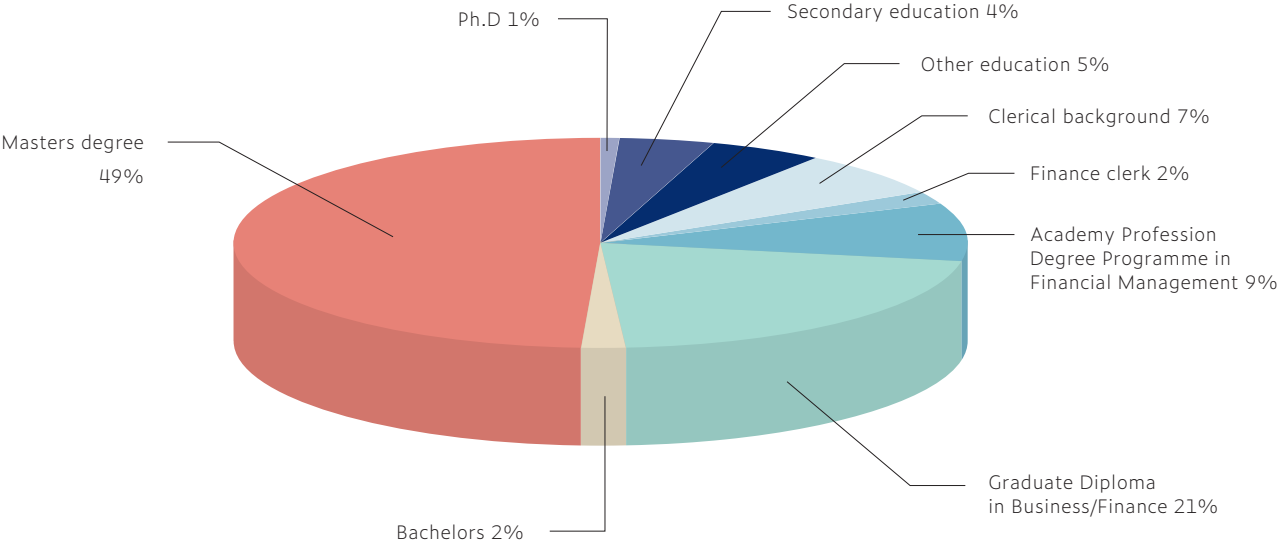


Source: Danish Ship Finance

The seniority chart above shows that 45% of employees have been with the company for eight years or more, which tallies with the high level of employee satisfaction. The average length of service is 9.5 years.

Educational background

%



Source: Danish Ship Finance

The employees generally have a high level of education and are specialists in their field. Forty employees, or 49%, hold a master’s degree (university degree or equivalent), while seventeen, or 21%, have a graduate diploma in business/finance. There is a general tendency towards an increasing level of education.

Danish Ship Finance has a consistent focus on increasing employee competency and education levels, and the amount set aside for courses and training is above the average for comparable companies. Employees have a say in whether resources should be devoted to professional, personal or management development.

Human rights

At Danish Ship Finance

Although Danish Ship Finance is a financial company subject to Danish law and all its employees work in Copenhagen, it is aware of the importance of promoting respect for human rights, not only in the company and nationally, but also internationally.

Respect for human rights is fundamental to society, as it encapsulates respect for the individual and the recognition of different outlooks on life, attitudes, religions, sexualities, ethnicities and political opinions. It is recognition of equality, including gender equality.

The company does not discriminate with respect to working conditions or terms of employment.

Expectations and demands in relation to stakeholders

A company has a responsibility to focus on respect for human rights among its external relationships. This applies to suppliers and customers alike.

In accordance with financial regulations, Danish Ship Finance does not outsource any central tasks, and its suppliers are therefore mainly restricted to those providing office supplies, cleaning articles, IT services, canteen services, window cleaning and the like. Should any of these suppliers show signs of violation of internationally recognised human rights, they will be reprimanded and the relationship with them reconsidered.

With respect to customers, Danish Ship Finance expects them to comply with any legislation they are subject to. New loan agreements generally make more specific requirements regarding the legislation they are expected to comply with.

Environment

Danish Ship Finance aims to contribute actively to improving the environment within the areas of relevance to a financial company and through constructive, future-oriented dialogue with its customers.

At Danish Ship Finance

As a financial company, Danish Ship Finance naturally does not emit chemicals, carbon dioxide, wastewater, heavy metals, endocrine disruptors or the like on an industrial scale. Nevertheless, it maintains a continuous focus on protecting the environment when purchasing products, making improvements to its offices, and replacing IT equipment, etc. Moreover, items purchased should, as far as possible, be recyclable or able to be disposed of in an environmentally-friendly manner.

Being a financial company with an already modest consumption of electricity, water, heating, etc., Danish Ship Finance could not achieve any noticeable environmental or climatic improvements by setting specific targets for energy saving. Given this, the company has decided not to introduce a separate policy or set specific targets for reducing its direct environmental impact. Instead, it will work to lessen any negative environmental impact it may have, which can often be combined with a financial saving.

No new substantial 'green' investments, installations, replacements or the like were made in 2018, as no major replacement programme for lamps, heating systems, or IT equipment, etc, was needed.

Expectations and demands in relation to stakeholders

Danish Ship Finance's loan documents stipulate that its customers are required to comply with any environmental legislation to which they are subject because of domicile, flag or the general regulation of shipping. Any failure to comply with these terms could ultimately entitle Danish Ship Finance to exercise remedies for breach of contract under the loan agreement.

Anti-corruption and unusual gifts

At Danish Ship Finance

Corruption is a broad term used to describe situations where personal interests are mixed with official interests, and includes bribery, fraudulent abuse and extortion. Danish Ship Finance works actively to fight corruption in all its forms and will never tolerate corruption.

The risk of encountering corruption, including being offered unusual gifts, is generally higher when a company is engaged in international activities than when operating in the Danish market. The company's personnel handbook contains anti-corruption guidelines.

In line with its overall sustainability strategy, the company has defined several goals for initiatives against corruption and unusual gifts. The sustainability policy stipulates that:

- Employees accepting or requesting any form of bribery will not be tolerated
- Employees may accept small gifts considered usual in a specific situation
- Danish Ship Finance only offers gifts that could be considered usual in a specific situation

The company allows employees to accept gifts valued up to DKK 1,000. However, an employee must seek prior permission from his or her immediate superior if offered a gift that could be considered unusual or that is valued at more than DKK 1,000.

No incidents of corruption or attempted corruption occurred in 2018, nor is the company aware of any gifts that did not comply with the guidelines.

Expectations and demands in relation to stakeholders

Danish Ship Finance's loan documents stipulate that customers must be compliant with applicable legislation, including the prohibition of corruption.

Once again, no incidents of corruption or attempted corruption occurred in 2018.

The Danish Maritime Fund

Every year, Danish Ship Finance pays 15% of its profits to the Danish Maritime Fund in the form of a preferred dividend. The purpose of the Fund is to provide financial support for initiatives aimed at developing the Danish maritime industry. The main areas are the environment, recruitment, education, optimisation (including business development, research and innovation), conferences and campaigns. Some projects are commercial, while others are non-profit.

The projects supported in 2018 included mapping and analysis of the number of women in the maritime industry, a number of projects related to more efficient and environmentally-friendly cleaning of ships, and projects promoting knowledge of human rights and their relevance to the maritime industry.

Prevention of money laundering and financing of terrorism

Many companies, including financial companies, are subject to the Danish Act on Measures to Prevent Money Laundering and Financing of Terrorism. The Act lays down detailed provisions that require a strong commitment from companies. Danish Ship Finance gives high priority to this area and devotes adequate resources to gathering the required documentation from its customers and to checking and verifying all relevant assessments.

Danish Ship Finance also has established policies, processes and procedures. It recently updated these in accordance with the new Danish Anti-Money Laundering Act that came into force on 26 June, 2017, introducing several controls, to be implemented both at the time of acceptance of new exposures and during the term of exposures. However, it should be noted that Danish Ship Finance does not offer accounts and normal banking transactions; it only lends against ship mortgages. In 2018, Danish Ship Finance found no reason to submit any reports to the Danish State Prosecutor for Serious Economic and International Crime.



**DANISH
SHIP FINANCE**

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

Sankt Annæ Plads 3 / DK-1250 Copenhagen K

Tel. +45 33 33 93 33 / Fax +45 33 33 96 66 / CVR no. 27 49 26 49

danish@shipfinance.dk / www.shipfinance.dk