

DANISH SHIP FINANCE 2019

› Sustainability Report

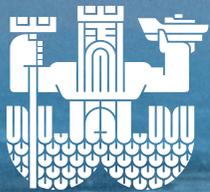


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About this report

This report provides an overview of Danish Ship Finance’s approach to sustainability. We present our sustainability progress, targets and ambitions and discuss the issues that are material to our business and our stakeholders.

This report also represents Danish Ship Finance’s Communication on Progress to the UN Global Compact and covers the financial year from 1 January 2019 to 31 December 2019. With this report, we also fulfil the requirements stated in sections 135 and 135a of the Danish Executive Order on Financial Reports for Credit and Investment Companies.

Danish Ship Finance’s annual reporting includes the Annual Report 2019, the Risk Report 2019 and this report, the Sustainability Report 2019. In addition, our Sustainability Policy is available at:

→ shipfinance.dk/the-company/corporate-governance/

We always strive to improve our reporting, and we value any feedback you may have regarding this report.

Please contact us at:

→ sustainability@shipfinance.dk



CEO statement

In many ways, 2019 was the year when sustainability rose to the top of the agenda, in society as in business, not least for us in the financial sector and for our clients in shipping. Today, there is clear consensus that sustainability and responsibility are fundamental for resilient businesses and key elements in creating trust and long-term value for shareholders.

As distributors of capital, we are inherently responsible for the impact of the activities to which we choose to allocate capital. We are acutely aware that our responsibility to focus on the most prudent and forward-thinking clients has not diminished but has in fact grown in importance, not only for reasons of resilience and risk reduction, but also because financial institutions have a unique position in terms of influencing developments in society.

Responsibility and accountability have always been and continue to be deeply entrenched in the culture of Danish Ship Finance. In recent years, we have worked to step up our sustainability efforts even further. In 2019, we ramped up our efforts significantly, and took some important steps to embed sustainability deeper into our operations. Our commitment to responsible business practices and support of the UN Global Compact Principles will continue to guide our sustainability efforts.

Our main sustainability impact comes from engagement with clients. We are increasingly engaging in dialogue with our clients about sustainability, and in the past year we have experienced unprecedented interest from clients in talking to us

"Our main sustainability impact comes from engagement with clients"

about the challenges associated with establishing sustainability as a central element of the business for both financial institutions and shipowners.

We endeavour to listen and learn from our clients. These exchanges are essential in ensuring that we remain an indispensable partner to our clients. Yet, our clients do not shape our approach to sustainability. Our overarching goal is to support our clients in the transition to a more sustainable and transparent shipping industry, and we believe close and trust-based dialogue will be instrumental in achieving this.

We reached several milestones in 2019 that will help integrate sustainability into our business further. The most significant were our decision to sign up to the Poseidon Principles as an initial signatory when they launched in June 2019 and the introduction of sustainability ratings for all our clients.

We are proud of the progress we have already made and will unhesitatingly continue our efforts to increase our own transparency and make sustainability an even more ingrained part of our business than it is today.

Erik I. Lassen
Chief Executive Officer



Danish Ship Finance at a glance

Our business is fully committed to lending to reputable shipowners, many of whom are leading players in their respective segments.

Since the company was founded in 1961, we have remained close to our Danish clients while gradually building up an international presence with a select group of clients. Today, we are proud to be a top 20 shipping financier globally and one of the largest dedicated lenders in ship financing, with gross lending of DKK 41.3 billion, of which Danish clients account for more than one-third, collateralised by 774 vessels.

The ability to issue covered bonds on competitive terms remains the second cornerstone of our business. This is supported by our strategic focus on maintaining a class-leading credit performance and robust liquidity. The resilience of our platform is evidenced by a strong investment grade 'A' bond rating (with the outlook lifted to 'Stable' in 2019) from Standard & Poor's.

We remain committed to our clients and investors as a long-term partner, with the ambition of becoming *the obvious choice in ship finance*.



On average, our Senior Relationship Managers have more than 15 years of shipping experience



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

Gross lending of DKK 41.3 billion

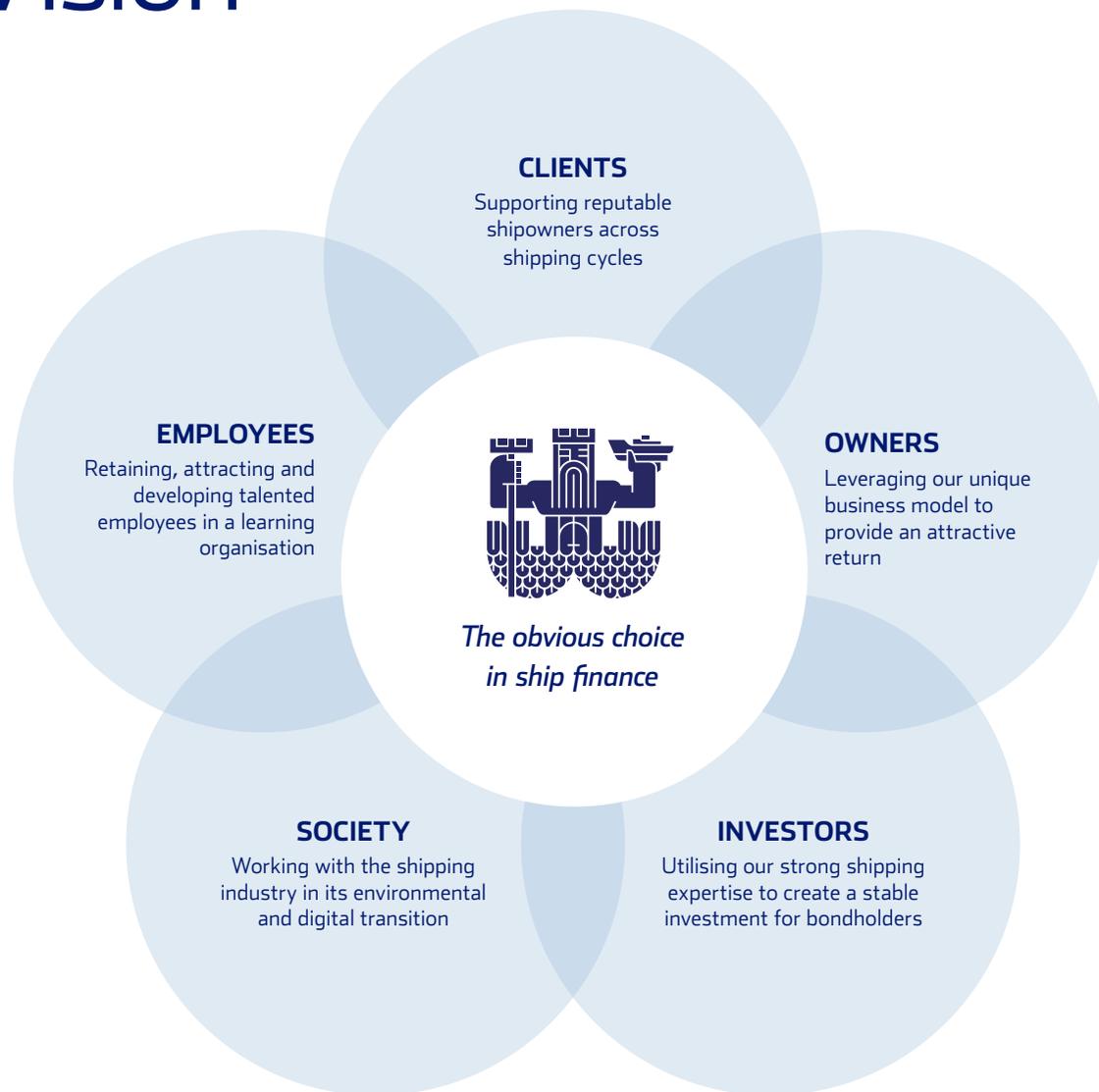


Our headquarters is located in Copenhagen, enabling us to tap into strong shipping competences



Our lean organisation enables quick decision-making processes to the benefit of clients

Vision



Sustainability highlights 2019

Established a Sustainability Office

Implemented first version of sustainability ratings on the client portfolio

Initial signatory of the Poseidon Principles

Joined the Getting to Zero Coalition

Contributed to the Danish government's climate partnerships

Sustainability strategy and direction

We are committed to acting responsibly and acknowledge that we play a key role in the transition towards a sustainable future. Sustainability and resilience are becoming interchangeable.

While we have a track record of remarkable resilience, we must take advantage of the strong momentum to embed sustainability more deeply into our business and organisation. Risks are evolving fast, and continuously increasing the focus on sustainability in our lending activities and credit analysis will be a key element in maintaining our track record of resilience in the future as well.

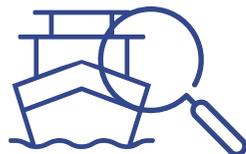
In 2019, Danish Ship Finance established a Sustainability Office, which reports directly to and works in close collaboration with the Executive Board.

The Sustainability Office is responsible for driving, developing and coordinating our corporate sustainability agenda and incorporating it into the work of the relevant departments. The Sustainability Office is a central coordinating function, supporting the organisation in introducing updated policies, processes and new initiatives to ensure integration of sustainability into operations and create a culture of ownership.

Guiding principles for our sustainability agenda



Actively engage with our employees, clients, investors and external stakeholders on sustainability and sustainable finance



Promote transparency both for ourselves and our business partners



Be a leading business partner for responsible, forward-thinking, reputable shipowners



Sustainability in the spheres of finance and shipping

A sustainable financial sector

Sustainability has become embedded in the financial sector and its regulatory framework. In the financial sector, this development has been particularly pronounced due to the increased focus on the special impact on society that the sector has and the responsibility this entails.

As distributors of capital, we have a certain responsibility to be mindful of what and who we allocate capital to. In early December 2019, Finance Denmark's Forum for Sustainable Finance published 20 recommendations to address how the Danish financial sector can become more sustainable.

In the EU, the work with the Action Plan for Sustainable Finance and particularly the Taxonomy for Sustainable Finance is progressing at breakneck speed.

The Action Plan was launched to redirect capital flows in the private sector towards sustainable investments. The new EU Commission plans to broaden this work significantly, as evidenced by its proposed European Green Deal, which targets climate neutrality for the EU by 2050.

In Denmark, the government has committed to an ambitious target to reduce emissions by 70% by 2030 compared to 1990 for the whole country and has involved businesses in its efforts to reach this goal. Through the establishment of 13 climate partnerships across industries, businesses are helping formulate the overall strategy to reach this ambitious target. Through our unique position nestled between the financial sector and the shipping industry, we are participating in the climate partnership for both sectors.

"As distributors of capital, we have a certain responsibility to be mindful of what and who we allocate capital to"

A sustainable shipping industry

When comparing shipping to other sectors such as aviation, the important distinction to make is that shipping is inextricably linked to trade. The shipping industry is essential for the continued growth and prosperity of the global economy.

Shipping is the most carbon-efficient form of large-scale goods transport that exists currently. However, because of the high volume of goods transported – approximately 85% of global trade in goods is seaborne – the negative climate impact from shipping is still substantial. The international shipping industry accounts for approximately 2-3% of total global CO₂ emissions annually. In a business-as-usual scenario, emissions from shipping are projected to rise rapidly due to increased demand for trade, and therefore must be reduced.

In 2019, the conversation in the industry was dominated by the question of how to manage the transition to decarbonisation. Individual shipowners are at very different stages on this journey, but collectively the industry is working to use all means currently available to reduce its emissions and we encourage efforts towards this goal.

During 2019, the International Maritime Organization (IMO) started the process of turning its ambitious “initial strategy on the reduction of greenhouse gas emissions from ships” from 2018 into regulation. These efforts are ongoing and are scheduled to conclude by 2023 at the latest.

In the meantime, to compensate for the length of time the IMO process will take, the Global Maritime Forum has gathered together ship finance institutions with the help of shipowners, classification societies, ship finance law specialists, NGOs and academics to create the Poseidon Principles, a pioneering initiative creating a framework for disclosing the alignment of ship finance portfolios with climate goals. Shipping is the only industrial sector in which such a regime exists.

Individual shipping companies are spending millions of dollars on innovation and research into new technical solutions that can accelerate the reduction of their climate impact. In addition, partnerships are forming, with shipowners collaborating to advance the industry’s response to climate change. Initiatives such as the Getting to Zero Coalition have been launched to further the progress towards the common goal of decarbonising shipping and have attracted a broad following. Up to now, the industry has been notoriously conservative and private, but it is now shedding this image in a collaborative attempt to transition to decarbonisation.



IMOs initial strategy

The global shipping industry is today estimated to account for approximately 2-3% of total global CO₂ emissions.

In April 2018, the IMO adopted an initial strategy on the reduction of greenhouse gas emissions from ships, setting international targets to cut CO₂ emissions from the shipping industry and reduce the negative impact of shipping on the environment.

The IMO targets 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.

"Poseidon Principles is a pioneering initiative creating a framework for disclosing the alignment of ship finance portfolios with climate goals"



Responsible client engagement

Delivering a good experience and providing attractive solutions that match our clients' needs, while acting with integrity and not compromising on our core values or obligations to the client relationship, is our most important task.

Client satisfaction

Our vision is simple: *to be the obvious choice in ship finance*. An independent client survey conducted in 2019, measuring the quality of services in ship finance, confirmed that we are on the right path.

The already high underlying scores we obtained in 2018 showed solid improvements, and reaffirmed that our long-term commitment and strong expertise in shipping are qualities highly valued by clients. Our clients rate us as the fourth-best ship finance institution globally and the second-best in the Nordics. We see this result as testament to the quality of the relationships we have with our clients, but we will continue our dedicated work to become the preferred choice in ship finance.

Careful client selection

Our client portfolio is comprised of the most prudent, top-tier shipowners. Competition for these clients is intensifying, but we remain confident that our value proposition is one of the most attractive in the industry.

Most of our clients have been with us for many years, and when we take on new clients, we are diligent in our assessment process. We take several measures to ensure that we preserve our reputation and track record before we embark on new client relationships.

Regulatory know your customer procedures are always carried out in accordance with the law. Clients must meet our internal requirements in terms of flag state and classification societies.

The extent to which new clients are deemed prudent is evaluated through monitoring of the clients' past financial performance, the track record of the management team, the alignment of incentive schemes with the interests of creditors, their performance in our internal sustainability rating and their performance in port state control inspections.

In addition, our in-house surveyor carries out physical inspections of our clients' vessels on a spot test basis – in 2019, 20 vessels were inspected – and we analyse other factors such as fuel efficiency and design specifications of the vessels in which we are mortgagee.

In addition, we spend a fair amount of time getting to know clients' management teams before progressing with any relationship. Together, these measures allow us to ensure that we only enter into business with the most prudent, reputable shipowners.

"In 2019, all our relationship managers engaged with clients specifically on sustainability issues"

Influence through engagement

We are proponents of traditional relationship banking, maintaining ongoing dialogue and strong relationships with our clients. This means we have a good grasp of what is happening with our clients. In 2019, all our relationship managers engaged with clients specifically on sustainability issues, and we managed to engage with 67% of our clients throughout the year. We will maintain our strong focus on active dialogue with clients, and we aim to engage with all our remaining clients in 2020.

We believe that we can make our most significant contribution to mitigating the shipping industry's impact on particularly the climate by addressing challenging issues and risk with our clients and engaging in constructive dialogue. Through this dialogue, we learn about their progress and difficulties, and have the opportunity to ask questions and address topics that can ultimately steer them in the right direction.

"We believe that we can make our most significant contribution to mitigating the shipping industry's impact on particularly the climate by addressing challenging issues and risk with our clients and engaging in constructive dialogue"

Key achievements and actions in 2019

- All our relationship managers engaged in dialogue with clients about sustainability issues
- We engaged with 67% of clients about sustainability issues
- Our clients rated us second in the Nordics and the fourth-best ship finance provider globally in an independent survey

Ambitions and strategy 2020

- Build responsible, long-term client relationships of which sustainability is an integral part
- Engage with the remainder of our clients about their sustainability impact
- Encourage clients to strengthen their commitment to transparency

Relevant policies

- Sustainability policy
- Credit policy

Business ethics and compliance

We are subject to the same compliance regulations as the rest of the financial sector. However, we see few transactions compared to other financial institutions, primarily because we do not take deposits or carry out cash management for clients. This makes us much less exposed to the risk of being used for fraudulent purposes.

Know your customer

Regardless of this, we have a strong compliance culture, and in conducting our client relationships diligently, the KYC procedure that we carry out in accordance with current regulations serves as our anti-money laundering and counter-terrorist financing measures. This means, among other things, that we must verify the identity of the management teams and the ultimate owners of our clients. We must do this at certain intervals throughout the client relationship and in the event of any change in management or ownership.

This partly entails relying on information provided by our clients. They must give us this information by certain deadlines; we are obliged to report any failure to do so to the authorities. For the first time ever, we reported the breach of such a deadline by one of our clients to the authorities in 2019.

Anti-corruption and bribery

We take a zero-tolerance approach to corruption and bribery and address this in our Code of Conduct, Personnel Handbook and other policies. In practice, we work to mitigate the risk of bribery and corruption through our compliance infrastructure, which includes continuous training, controls, and escalation procedures.

Whistleblowing options

Finally, Danish Ship Finance has also 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 2019 it once again did not receive any non-compliance reports.

Ambitions and strategy 2020

- Maintain our strong compliance culture
- Strengthen compliance awareness among all employees

Relevant policies

- Code of Conduct
- Guidelines to prevent corruption in Personnel Handbook
- Policy for anti-money laundering and counter-terrorist financing
- Policy for gifts and hospitality
- Disclosure policy
- Policy for data protection
- Policy for healthy corporate culture
- Sustainability policy

Sustainable finance

Danish Ship Finance, like any other business, need to take responsibility, mitigate risk and be mindful of the impact of our activities. Responsibility has always been a core value in our company and will continue to be in future.

As corporate responsibility and sustainability converge and the definition of financial risks widens, we strive to ensure that our business activities and internal processes always reflects this.

Our commitment to the Poseidon Principles

A major milestone in 2019 was our commitment to join the Poseidon Principles as an initial signatory. The Poseidon Principles are a pioneering sector-specific initiative within sustainable finance, led by ship finance institutions themselves.

They are self-imposed guidelines for responsible banks which seek to be transparent about their climate impact from financing shipping companies. By the end of 2019, 15 ship finance institutions had signed up to the Principles and more institutions are expected to announce their commitment in the coming year. Ship finance is global and ultimately the success of the Principles rests on as many institutions joining as possible.

The Poseidon Principles are designed to be aligned with the International Maritime Organization's targets for decarbonisation of shipping, but they do not contain any specific requirements regarding the performance of signatories' portfolios. Rather, the combination of comparable data and transparency

that this framework will create is expected to result in greater incentives for continuously improving the climate alignment of ship finance portfolios. Through the four principles and common definitions of key metrics, the Poseidon Principles will create a global baseline and serve to improve strategic decision making about the future composition of ship finance portfolios and how lenders work with individual clients.

To ensure strong governance, the Poseidon Principles Association has been established, and Danish Ship Finance currently has a seat on the Steering Committee of the Association.

As a signatory to the Principles, we have committed to including a covenant in our new loan agreements to secure clients' consent to share the necessary data with us. Loan agreements from before June 2019 do not include this covenant, and while we will do all we can to obtain the data from existing clients, we may not be able to report climate alignment data for our full portfolio.

By the end of 2020, we will report our first weighted average climate alignment for our portfolio alongside the other signatories to the Poseidon Principles secretariat. Our results will be published by 31 December 2020 on poseidonprinciples.org and in our Sustainability Report 2020, which we will publish in the first quarter of 2021.

The Principles have been designed to take their point of departure in individual vessels in ship finance portfolios. This is primarily due to data availability and the relative ease of applying this approach across different signatories. We will, of course, apply the Principles as prescribed and report on equal terms with the other signatories.

The Poseidon Principles

What are they?

A framework for assessing and disclosing the climate alignment of ship finance portfolios. As Signatories, we commit to implementing the Poseidon Principles in our internal policies, procedures, and standards, and to work in partnership with our clients and partners on an ongoing basis to implement the Poseidon Principles.

What is the goal?

The Principles are consistent with the policies and ambitions of the International Maritime Organization, including its ambition for greenhouse gas (GHG) emissions to peak as soon as possible and to reduce shipping's total annual GHG emissions by at least 50% by 2050 compared to 2008.

The four principles are:

1. Assessment of climate alignment
2. Accountability
3. Enforcement
4. Transparency

Read more at: → poseidonprinciples.org



The framework encourages financing of new, more energy-efficient ships. This is a development that we support. However, shipowners also free up capital by financing the equity in their existing tonnage, and this capital can be deployed for investments in energy efficiency and decarbonisation technologies. In our credit assessments, we continue to take a holistic perspective on a client's fleet and make an overall assessment on whether, on a fleet level, the shipowner is on the right path towards climate alignment and decarbonisation. If this is the case, we will continue to finance or refinance existing ships for our clients.

Sustainability ratings for the clients in our portfolio

As a specialised and dedicated shipping lender, we created the first version of a tailor-made framework to assess the progress of our clients on sustainability issues material to the shipping industry in 2019. The sustainability rating framework has been approved by our Board of Directors, and we have completed initial assessments of our full portfolio of existing clients.

The first version of our sustainability rating framework has been implemented in credit applications, for both existing and prospective clients. This means that a client's sustainability performance and the resulting rating are now one of the topics considered by the Credit Committee when assessing new deals and evaluating the expansion, continuation or commencement of client relationships.

Another consequence of the new sustainability ratings is that sustainability has become an integrated theme in the regular dialogue we have with our clients. We have also introduced more stringent demands about what information we expect clients to provide us with. We strive to create transparency and we encourage clients to share that same information publicly where possible.

It has been our experience that the conversations we are initiating about the information we expect clients to share with us and the rest of the financial sector are strengthening our client relationships and enhancing our understanding of clients' strategies and their long-term preparedness in terms of sustainability issues.

Joining the Getting to Zero Coalition

In 2019, Danish Ship Finance also joined the Getting to Zero Coalition, a partnership between the Global Maritime Forum, the World Economic Forum and the Friends of Ocean Action. The goal of the Coalition is to bring together a broad coalition of companies from the maritime, energy, infrastructure and finance sectors with the shared ambition of making zero-emission vessels commercially viable by 2030. By the end of 2019, more than 80 companies had joined the Getting to Zero Coalition, representing all links in the maritime value chain along with attracting the support of governments and NGOs.

In 2018, the IMO agreed on an ambition to reduce emissions from shipping by at least 50% by 2050. For this goal to be achieved, commercially viable zero-emission vessels need to enter the global fleet by 2030, which will require not only the vessels, but also the fuels and future fuel supply chain to be developed. This can only be done through close collaboration and collective action between the maritime industry, the energy sector, the financial sector, governments and intergovernmental organisations.

In the first phase of what is intended to be a multi-year project, the work of the Coalition will be carried out in different workstreams. We will contribute to the workstream centred around how to scale up investments in shipping's decarbonisation, how to overcome the challenges of defining green investments, the absence of a clear business case for zero-emission shipping, and the risk profile of investments in the early stages of the transition.

The outcome of this workstream is expected to be a set of recommendations and actions to unlock investments in the transition to zero-emission shipping.

Key achievements and actions in 2019

- The introduction of sustainability ratings on all clients in the portfolio and integration in credit application process
- Commitment to the Poseidon Principles and the efforts to adapt relevant business processes to prepare to deliver on the commitment of transparent reporting

Ambitions and strategy 2020

- Collect data from as many clients as possible and report our climate alignment in accordance with the Poseidon Principles
- Enhance our client sustainability ratings and integrate them further into decision-making processes
- Initiate the development of a risk management framework to increase the transparency of the climate-related risks in the portfolio
- Prepare to meet new and increasing reporting requirements
- Monitor market developments and analyse the potential to issue green bonds or similar
- Formulate a position statement on responsible ship recycling

Relevant policies

- Sustainability policy

Responsible employer

Talented and dedicated employees are essential to our business. We strive to create an inspiring and flexible work environment in which our employees feel valued and have opportunities to develop and grow.

Employee development

In 2019, we sought to step up our focus on employee development. We implemented a new tool to help both our people leaders and employees facilitate annual development reviews. The responsibility for employee development rests with that employee's immediate leader, but to ensure consistency across the company, all people leaders received training on how to conduct development processes effectively in 2019, and 85% of our employees had development reviews with their immediate leaders.

We want our employees to have opportunities to develop professionally and to gain new perspectives from outside our organisation. Therefore, we encourage our employees to participate in relevant external courses and training. In 2019, 61% of our employees participated in various external courses or training sessions. In addition, we host seminars on relevant topics by external experts and invite employees to attend inspirational speeches throughout the year.

Strategy execution and operational excellence

At the end of 2018, a new strategy setting a clear direction for the future development of the company was approved by the Board of Directors. Most employees were actively involved in executing on the strategy throughout 2019. In particular, the focus on operational excellence, a new model for project governance, and efforts to meet individual business targets have increased the workload for many of our employees, which we are monitoring closely. Our intention is that when the ongoing projects related to operational excellence have been completed, workloads should be normalised.

Onboarding of new colleagues

A number of new colleagues have joined the company over the past two years. This has created a need to review how we onboard new employees most effectively. We have updated our onboarding procedures to ensure all new employees have the best possible start in their new job.

"It is our goal to create a workplace that supports the fundamentals for well-being at work for our employees. Culture, leadership and flexibility will play a crucial role in this"

Well-being and engagement

Each year, we carry out a well-being survey among our employees. The results of the survey help determine the most important focus areas for creating and maintaining an attractive workplace for our employees. The results of the survey conducted in 2019, which had a 92% response rate, show that in terms of employee satisfaction, work-life balance and stress our performance remains at a satisfactory level. Overall, the employee satisfaction index is at 77. However, for the past three years, the results of the survey have shown a declining trend on the three main parameters that we monitor closely: employees' satisfaction, work-life balance and stress (see results on page 16). We take these results seriously and are doing our utmost to address the organisational issues and changes that might be causing the decline. Consequently, we have raised the target for employee satisfaction that we will work towards in the organisation to index 80, from 75 previously.

We know that people stay in the job longer, are more engaged, and perform better when they are happy in their workplace. It is our goal to create a workplace that supports the fundamentals for well-being at work for our employees. Culture, leadership and flexibility will play a crucial role in this.

We do what we can to be a responsible employer and support our employees in their individual situations. This means we go beyond the minimum requirements of the law and our collective agreements when, for example, employees experience longer periods of non-work-related sickness. This approach affected the average number of sick days per employee in 2019, which increased slightly compared to 2018. In general, though, our employees take very few sick days, as evidenced by the 30% of our employees who did not take any at all in 2019.

Leadership development

One of the initiatives that we believe will help improve employee satisfaction is a leadership development programme for our people leaders, which will be initiated in Q2 2020. The main objective of the programme is to create a more coherent leadership culture across the company.

Equal opportunities and diversity

Danish Ship Finance's employees are our greatest asset. We value the diversity of our employees' backgrounds, experience and personal qualities. Each employee makes a unique contribution to the company and our culture.

To ensure the success of our corporate strategy in the long term, we must have access to a diverse pool of candidates.

We are committed to providing equal opportunities regardless of gender, age, ethnicity, sexuality or any other traits that are irrelevant to the job description. Like many of our peers in the financial sector, we perform well on gender diversity for all employees but still have some way to go when it comes to diversity at management levels. In 2019, our workforce consisted of 37% women and 63% men, while 15% of people leaders were women.

We would like to improve the gender balance at all levels of the organisation, and have a target to have at least one woman represented on the Board of Directors from 2021 and to appoint or recruit at least one additional female people leader by 2021. However, despite our focus on this, we have few management positions and turnover in them is low, and therefore a position must become available before we can meet this target.

Zero tolerance of bullying and harassment

We do not tolerate any form of harassment, sexual harassment, or bullying in the workplace. It is essential for us that our employees feel safe and experience a workplace culture without any form of harassment. Each year in the annual well-being survey, we ask our employees whether they have been exposed to any type of harassment or bullying. We consider any occurrence of bullying unacceptable and have increased our focus on this issue. We strive to have a culture where employees can raise any incident of misconduct, safe in the knowledge that Danish Ship Finance will address it properly.

Key achievements and actions in 2019

- Implemented a new tool to aid the employee development process for our employees and people leaders
- Streamlined our onboarding procedure

Ambitions and strategy 2020

- Commence leadership development program for all people leaders in Q2 2020
- Ensure employee satisfaction does not drop further, but is restored to previous higher levels
- Bring down employee turnover level to at least 8%
- Maintain a healthy workplace where the average employee has less than eight sickdays per year

Relevant policies

- Code of Conduct ("Personnel handbook")
- Policy and targets for the underrepresented gender
- Anti-bullying policy
- Policy for the prevention and handling of stress
- Sustainability policy

People and governance data

Employee satisfaction survey

	2019	2018	2017	2020 TARGET
General employee satisfaction	77	78	81	80
Employees experiencing a healthy work-life balance	77	77	81	
Employees not experiencing long periods of negative stress	77	75	80	

*Employees answer questions on a scale of 1-10, and answers are converted to an index. Index 70 is considered an acceptable score

Key employee metrics

	2019	2018	2017
Total employees (FTEs)	79	80	71
Average age of employees	46	45	44
Average seniority (years)	10.3	10.4	10
Employee turnover	11.9%	7.9%	5.7%
Sickness absence* (avg. no. of days)	5.7	3.8	2
Employees receiving external training	61%	53%	63%

*Sickness absence data from before 2019 does not incl. long-term absences

Board attendance

	2019	2018	2017
Attendance rate, board meetings	89.4%	86.1%	91.0%
Attendance rate, Audit Committee meetings	91.5%	100%	100%

Gender balance

	2019	2018	2017
Employees	37%	34%	37%
People leaders	15%	15%	0%
Executive Management*	0%	0%	0%
Board of Directors	0%	0%	0%

* Share of women

Refer to our Reporting Principles on page 21 for definitions of the metrics we use.

Our own direct impact on the climate and environment

Compared to other industries, Danish Ship Finance as a financial institution has a low level of carbon emissions. Producing financial services generates much lower CO₂ emissions than producing goods. Furthermore, our relatively modest size makes our own direct impact even smaller. Nevertheless, we do what we can to reduce our own direct impact on the environment.

The main source of carbon emissions as a result of our business activities is the air travel of our employees. We serve clients across the world, but only have offices in Copenhagen. We find that meeting our clients face to face adds significant value to our client relationships and mitigates credit risk and thus we do not currently have any plans to reduce the amount of air travel related to client meetings. However, we are mindful of the necessity of air travel for other purposes. Furthermore, our travel policy stipulates certain airlines that we would prefer tickets to be booked with. As a result of this, 49% of the total air miles travelled in 2019 were with airlines that offset carbon emissions.

Otherwise, our own direct impact on the environment stems from energy use in our office building and material consumed (paper). A digitalisation project executed in 2019 related to documentation of new data entries and changes in our IT systems will reduce our paper consumption going forward.

From September 2019, we have been purchasing renewable energy from our electricity supplier.

Environmental performance	
	2019
CO₂ emission (tonnes)	682
CO₂ emissions per employee (CO₂ tonne/FTE)	8.6
Electricity consumption (MWh)	149
Heat consumption (MWh)	241
Water consumption (m ³)	5,324
Paper consumption (kg)	3,070
Air transport (1,000 km)	943

Key achievements and actions in 2019

- By choosing certain airlines and tickets, we ensured that 49% of total air travel by the company's employees was subject to carbon offsetting
- Digitalisation of logs, reducing paper consumption

Ambitions and strategy 2020

- Increase transparency and communication
- Update the travel policy
- Update our guidelines for responsible procurement
- Evaluate options to expand carbon offsetting for air travel

Relevant policies

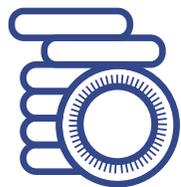
- Travel policy
- Policy for sustainability including guidelines for responsible procurement

Societal impact through the Danish Maritime Fund

Through our annual contribution to the Danish Maritime Fund, Danish Ship Finance indirectly helps fund initiatives supporting the development of the Danish shipping and shipbuilding industries and their suppliers.

The substantial contribution to the Danish shipping community through the Danish Maritime Fund helps create new jobs, foster innovation and strengthen the competitive position of Danish shipping internationally.

The shipping industry is among the most important industries in Denmark, employing more than 90,000 people and making the largest contribution to Danish exports measured in DKK.



We will make a DKK 34 million distribution to the Danish Maritime Fund based on our financial performance in 2019



Since 2005, more than DKK 740 million of profit from Danish Ship Finance has been transferred to the Danish Maritime Fund

The Danish Maritime Fund

The Danish Maritime Fund is a commercial foundation established by law in 2005 upon the transformation of Danish Ship Finance into a private limited liability company.

The objective stated in the Fund charter is i) to provide grants and financing to initiatives and activities that will grow and develop the Danish shipping and shipbuilding industries, and ii) to ensure the perpetual existence of a ship finance institution in Denmark.

The Fund's trust funds consist of a 10% permanent shareholding in Danish Ship Finance, and each year the Fund receives 15% of Danish Ship Finance's profits in the form of a preferred dividend. This is the Fund's only source of income.

Only Danish maritime companies or organisations are eligible for support from the Danish Maritime Fund.



UNs Sustainable Development Goals

Our contribution to the Sustainable Development Goals is threefold:



1. Taking action to accelerate the transition to sustainable shipping

Through our commitment to the Poseidon Principles, our active dialogue with clients, and our participation in the Getting to Zero Coalition, we seek to support, encourage and create incentives for the shipping industry's transition to a more sustainable, climate-aligned future. This contributes to SDGs 13 and 17.



2. A stable source of finance for shipping companies

We ensure a stable, perpetual source of financing for shipowners. Shipowners play a crucial role at the centre of global trade infrastructure, contributing to global economic growth through the facilitation of trade. Via our contributions to the Danish Maritime Fund, we indirectly help foster innovation in the maritime supply chain. This contributes to SDGs 8, 9 and 13.

3. Ensuring responsible business practices

We conduct business with responsibility and accountability. We respect our business partners, promote equal opportunities and ensure the well-being of our employees. Through this, we contribute to SDGs 3 and 8.

International initiatives joined

We have endorsed several international initiatives and seek to encourage best practice by following their guidelines and participating actively in them:

UN GLOBAL COMPACT

This is a UN initiative to encourage businesses to align their strategies and operations with ten universal principles building on UN conventions in the areas of human rights, labour standards, environment and anti-corruption.



UN GUIDING PRINCIPLES ON HUMAN RIGHTS

This UN initiative from 2011 is the first global standard for preventing and addressing the risk of human rights abuses linked to business activity, and continues to provide the internationally accepted framework for enhancing standards and practice regarding business and human rights.



GETTING TO ZERO COALITION

This is a multi-stakeholder initiative by the Global Maritime Forum, the World Economic Forum and the Friends of Ocean Action to unite stakeholders across the maritime, energy, infrastructure and finance sectors around the shared ambition to make zero-emission vessels commercially viable by 2030.



POSEIDON PRINCIPLES

This is a global framework for responsible ship finance initiated by the Global Maritime Forum and leading ship finance banks. The principles provide a framework for assessing and disclosing the climate alignment of ship finance portfolios and are in line with the policies and ambitions of the IMO for reduction of greenhouse gases from shipping.



Stakeholder engagement

Throughout 2019, we engaged with many of our stakeholders to address sustainability-related issues. With internal stakeholders, these were mainly related to well-being, updated sustainability policies and procedures, and information on the impact of participation in new initiatives.

We engaged with external stakeholders to increase the transparency of our sustainability efforts, inform them of the impact of new initiatives, discuss the impact of new and proposed legislation, and participate in industry collaborations.

Sustainability stakeholder engagement

Internal	<ul style="list-style-type: none"> Employees Management Board of Directors
External	<ul style="list-style-type: none"> Shareholders Clients Bond investors Finance Denmark Danish Shipping European Community Shipowners' Association Global Maritime Forum Poseidon Principles Association Getting to Zero Coalition Danish government (climate partnerships) Danish Maritime Global Compact Denmark Sea Europe and more..

Reporting principles

Below, we present our reporting principles, which cover employee and environmental data that can be found in this report.

The reporting principles have been formulated to ensure that we report data that is consistent from year to year. We aim to be fair and balanced in our reporting and we hope these reporting principles provide transparency about our performance.

Data on employees

Total employees: The number of full-time equivalent employees (FTEs) as of the end of the year.

Average age of employees: The average age of employees (excluding temporary workers and student assistants) as of year-end.

Average seniority: The average length of service of employees (excluding temporary workers and student assistants) as of year-end. The seniority of an employee is the number of full years between the start of their employment and the current calendar year.

Employee turnover: Involuntary and voluntary leavers for the full year divided by the average number of employees throughout the year. Employee turnover excludes temporary workers and student assistants. New employees are included from the month they start, and leavers are included until the month their termination/resignation/retirement is effective.

Sickness absence: The total number of sick days registered throughout the year divided by the number of full-time equivalent employees as of year-end. Employees include temporary workers and student assistants. Sick days exclude paternity/maternity leave.

Employee training: The percentage of employees who have received external training during the year in the form of courses, seminars or conferences.

Women in the workforce: The workforce is defined as all employees excluding temporary workers and student assistants.

People leaders: People leaders are defined as employees with staff management responsibilities.

Employee satisfaction: Data is based on the results of our annual well-being survey, to which all employees are invited to respond.

Data on environmental impact

CO₂ emissions are calculated on the basis of electricity, heating, water and paper consumption and air travel. The quality of CO₂ emissions factors may vary depending on the availability of specific factors. In accordance with accepted methodology we omitted renewable electricity purchased. For electricity, heating and water we used CO₂ emission factors published by our suppliers. For paper consumption we use the “the UK Government GHG Conversion Factors for Company Reporting” published by the Department for Environment, Food and

Rural Affairs (DEFRA). For air travel we use the CO₂ emissions our travel agency report for our air travel. Their model of emissions reporting is based on the emissions factor published by DEFRA.

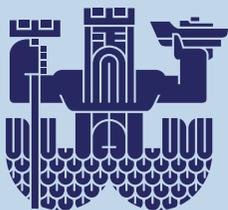
Electricity consumption: Annual electricity consumption is based on automatic data transfers to the company's supplier of electricity from smart meters and meter readings. If data for the full year is not available, estimates based on average consumption will be used.

Heat consumption: Annual heat consumption is based on automatic data transfers to the company's supplier of heat from smart meters and meter readings or calculated on the basis of statements received annually. If data for the full year is not available, estimates based on average consumption will be used.

Water consumption: Annual water consumption is based on data transfers to the company's supplier of water from meter readings. If data for the full year is not available, estimates based on average consumption will be used.

Paper consumption: Paper consumption is based on the volume of usage registered on the company's copy machines or on estimates for average consumption if consumption for the full year is not available. Paper consumption is defined as the amount of paper printed or copied on the company's premises.

Air transport: Air transport is calculated on the basis of statements from our travel agency, Egencia.



DANISH SHIP FINANCE

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

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