

Danish Ship Finance
CSR Report 2017



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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 social responsibility. We should actively contribute to creating good conditions for our employees, respecting human rights, considering the environment and climate as well as combating corruption and bribery. This is an integral part of our business and will continue to be so going forward.

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 and the UN Guiding Principles on Business and Human Rights. In this context we have defined four key performance indicators (KPIs), to which we are going to dedicate special focus in the years ahead.

Danish Ship Finance also recognises the importance of openness, which is why it is a natural decision to publish this report. The report comprehensively covers the entire CSR area, including our Communication on Progress (COP) report, which is submitted to the UN Global Compact Office.

Erik I. Lassen
Chief Executive Officer

Introduction

The object of Danish Ship Finance is to provide ship financing in Denmark. In addition, the company may provide ship financing in the international market, so long as such activities do not unnecessarily limit the company's Danish operations. The company's vision is to be the most recognised and reliable provider of financing for reputable shipping companies.

Danish Ship Finance endeavours to run a professional business with the focus on responsible business conduct. The company has defined the following set of values:

- focusing on customer demands;
- giving priority to credit quality over short-term returns;
- acting as a trustworthy and stable business partner;
- developing our business towards our stakeholders; and
- accomplishing common goals through collaboration.

Values and CSR policy have been mutually balanced. The company is highly committed to incorporating these values into everyday operations and CSR initiatives. Focus will be on CSR initiatives for in-house use and – where relevant – on addressing social responsibility in relation to the company's 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 CSR reporting is consistent with the “comply or explain” principle, plus there are requirements which, following a specific assessment, are not relevant to explain.

Danish Ship Finance has also incorporated the ten principles of the UN Global Compact and the UN Guiding Principles on Business and Human Rights.

Internal guidelines

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

- CSR policy (adopted by the Board of Directors and available on our website)
- Business processes for setting targets and policy for the under-represented gender
- Stress prevention policy
- Anti-bullying policy
- Gifts and hospitality policy
- Personnel handbook’s guidelines for preventing corruption.

CSR at Danish Ship Finance

The company has formally been practising corporate social responsibility since 2009 with the focus on the following categories:

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

The purpose of the CSR initiatives is to contribute to adding value to society at large and to the company itself. The starting point for the initiatives is that the company is a financial company whose employees are based entirely in Denmark and employed under the terms of the collective agreement concluded for the sector. All employees are working out of the company's headquarters at Sankt Annæ Plads in Copenhagen.

Value-adding CSR initiatives will be ensured through:

- A good working environment;
- Motivated employees
- Prevention of stress
- Minimising any harmful impact on the environment and the climate
- Guidelines to counter corruption and bribery
- Expectations and demands in relation to stakeholders.

In September 2017, Danish Ship Finance defined four key performance indicators (KPIs) for our CSR efforts. 2018 is the first full year in which the KPIs are applicable, but the company has chosen to disclose the target compliance level at the end of 2017. Targets and results are set out in section 6 below.

Human resources

Talented and dedicated employees are essential to any business, which is why the employees and their well-being have a high priority with respect to the CSR initiatives.

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. The aspiration is to ensure a professionally challenging environment and good working conditions by offering relevant staff benefits and an optimal work-life balance. The HR policies provide a framework for skills development and a flexible career path.

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 has a range of offers 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.

With the aim of continuing the 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 recognise diversity and aim to ensure that everyone can pursue a career on equal terms. This includes offering flexible working conditions and a human resource policy that accommodates different employee needs.

The human resource policy is complemented by events and activities for all employees that aim to increase their understanding of colleagues' different views, practices, preferences, work methods and interests. The experience is that these activities improve collaboration, efficiency and not least job satisfaction.

TARGETS AND POLICIES FOR THE UNDER-REPRESENTED GENDER

Board of Directors

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. Employees also elect three representatives to the Board.

The publication entitled “Targets and policy for the under-represented gender on the Board of Directors and at the other management levels of the company” sets out guidelines for how to increase the number of management members from the under-represented gender and sets a target. The Board of Directors decided in 2016 that at least one of the members of the Board must be female by 2019.

In 2017, it was decided to increase the number of Board members elected by the general meeting from six to eight. Following this amendment, the Board of Directors consists of eight members elected by the general meeting and three members elected by the employees. On an eleven-member Board of Directors, four female and seven male members are found to be a balanced gender distribution.

The two new members have been elected due to their knowledge and experience in shipping. No other members of the Board of Directors were replaced in 2017. Currently, the Board of Directors consists of 11 men. The 2019 target of having at least one female member on the Board was thus not achieved in 2017.

The company

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

In 2016, it was decided to strive to increase the number of women in management positions from one to two by the end of 2019. Two new managers were appointed at the end of 2017, taking up their positions in 2018. The recruitment process also included female candidates, but it was two male candidates who best met the specified requirements. The 2019 target of employing at least one more female manager was therefore not achieved in 2017.

Human resource development

Human resource development may focus on both professional and personal development. Employees have considerable influence for deciding which development and training programmes are relevant to them. The human resource development and training policy grants the widest possible scope for the individual’s professional and personal development. The policy promotes equal development opportunities for all employees in accordance with the individual employee’s wishes.

Trainee positions are regularly offered, with the aim being that trainees gain an overview of the company's business model, structure and procedures and, therefore, can take up a permanent position on completion of the programme. Throughout the programme, the trainee has a mentor who is responsible for following up on evaluations and generally providing guidance to the trainee.

To facilitate the development of each employee, appraisal interviews are held at least once a year to align expectations for future assignments and competency development. Employees may also contact the company's external HR consultant to discuss issues of relevance to the employee.

Health and well-being

Danish Ship Finance strives to provide an attractive setting for its employees as well as 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 for the company and the affected employee, and therefore the company has adopted a stress prevention policy. Bullying, too, has a negative effect on occupational health and safety and, consequently, on the employee's well-being, which is why the company has also formulated an anti-bullying policy. Moreover, the company strongly disapproves of sexual harassment and provides specific measures on this issue in the well-being surveys, see section 6.1 below.

Finally, two annual social events are organised to encourage and promote team spirit in the company while funds are granted to a staff association, which is also an organiser of 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 to report this anonymously to a third-party law firm, which will investigate any reports submitted. The law firm has stated that, again in 2017, it received no non-compliance reports from employees.

The current whistleblower scheme can only be used in the event of suspected violations of financial legislation. If employees become aware of other breaches of the law, these can also be reported directly to the Danish FSA via its whistleblower scheme, to the State Prosecutor for Serious Economic and International Crime or to the police. At the end of 2017, Danish Ship Finance applied for a permission from the Danish Data Protection Agency to extend the scheme to include economic crime, as well.

KPIs and well-being survey

Well-being survey

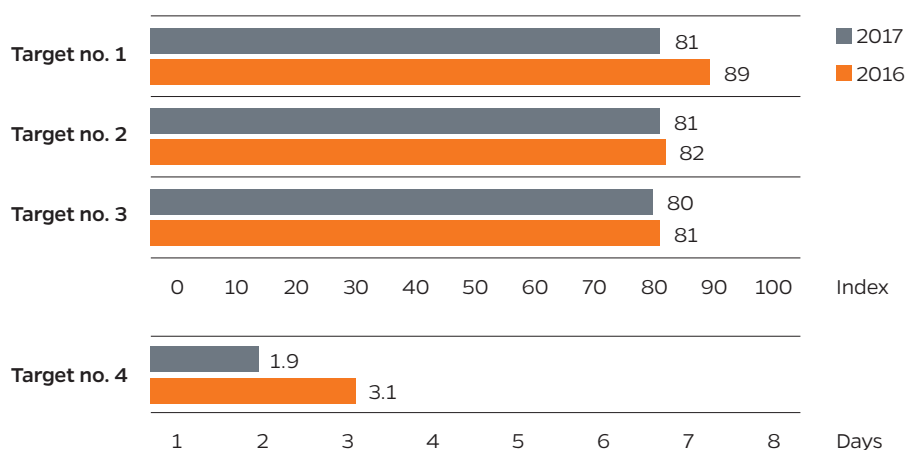
Considering the business model and both the well-being and job satisfaction of the employees, the company conducts an annual employee opinion survey with the assistance from an external consultant. The employees' responses are made anonymous.

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, which make up the short survey in even years. Two of these questions have also been selected as KPIs.

The survey conducted in December 2017 showed that employee satisfaction decreased from 2016 to 2017, but is still at a satisfactory level.

KEY PERFORMANCE INDICATORS FOR 2017



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 89 in 2016 to index 81 in 2017.

Target no. 2: At least index 75 of employees should experience a healthy balance between work life and personal life.

Current status: Index 82 of employees were of this opinion in 2016 whereas the score dropped marginally to index 81 in 2017.

Target no. 3: At least index 75 of employees should not experience long periods of negative stress.

Current status: This score decreased from index 81 to index 80.

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 1.9 sick days per employee in 2017, against an average of 3.1 days in 2016.

Conclusion

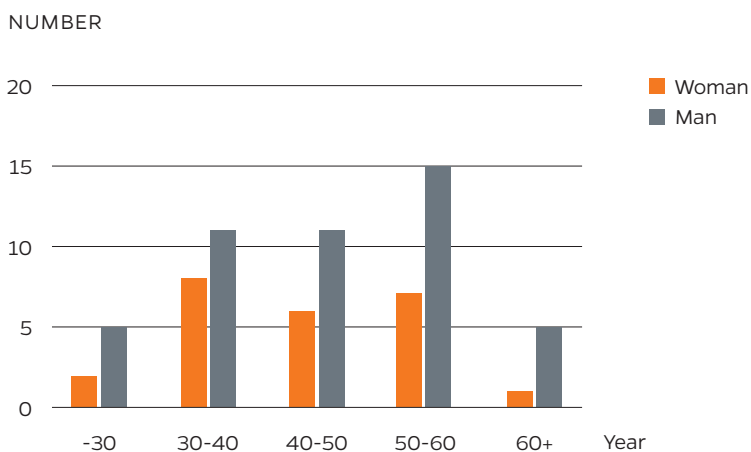
While the index figures for the work-life balance and the scores for stress are considered to be relatively unchanged, a decline in general employee satisfaction was observed. The Executive Board and the senior management will analyse the causes of the decline and implement relevant measures as and when needed. Even so, the score is still at a satisfactory level and above the target of at least index 75.

The determination of the average number of sick days per employee is new in relation to CSR reporting. The score is significantly below the average number of sick days in similar workplaces and is highly satisfactory.

Key employee statistics

Danish Ship Finance had 69 full-time equivalent employees at 1 January 2017 and 72 at 31 December 2017. During the calendar year, four people left the company and seven joined. Of these people, one person who terminated employment and one who commenced employment were employees hired for short time frames, such as messenger girls and temps.

AGE DISTRIBUTION BY GENDER

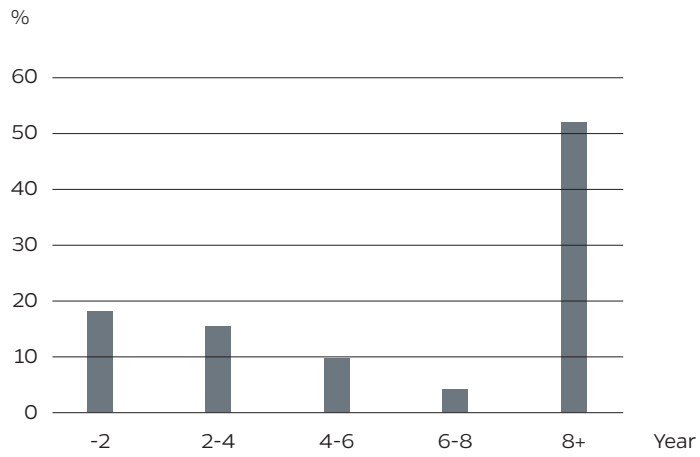


Age distribution by gender shows that most employees fall within the age groups of 30-40 years and 50-60 years. The average age of all employees remains unchanged at 44 years.

At the end of 2017, the workforce of Danish Ship Finance comprised 24 female employees and 47 male, equivalent to 37% women and 63% men.

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

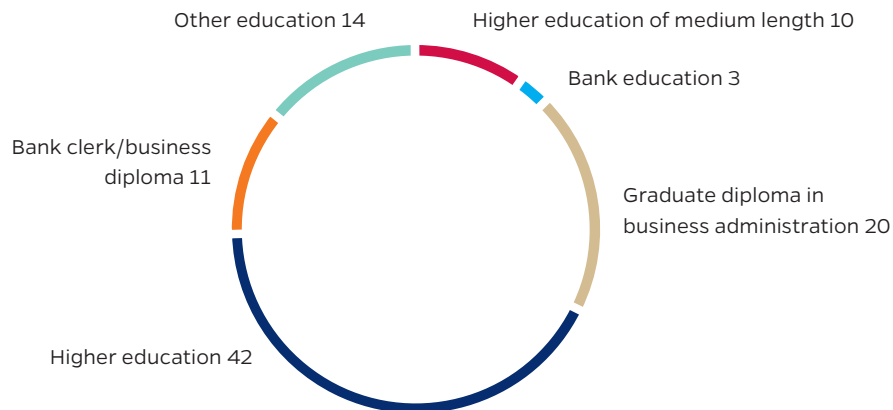
SENIORITY



The above seniority chart shows that 54% of the employees have been with the company for more than eight years, which accords with the high level of employee satisfaction. No substantial changes in any of the categories were seen in 2017. The average length of service is 10 years.

EDUCATIONAL BACKGROUND

%



The employees generally have a high level of education and are specialists. Thirty persons, corresponding to 42% of the employees, have a higher education (university degree or equivalent), 22 of whom hold economic and law degrees. Furthermore, five employees have completed a medium-cycle higher education programme, for instance an MBA degree. 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 are highly able to influence 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 that are subject to Danish law and all its employees work in Copenhagen, there is an awareness 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 our society as it covers respect for the individual and the recognition of different outlooks on life, attitudes, religions, sexualities, ethnicities and political opinions. It is a recognition of equality, including a recognition of gender equality.

The company do not discriminate with respect to working conditions and terms of employment.

Expectations and demands in relation to stakeholders

A company has a responsibility for focusing on respect for human rights among its external relations. This applies to suppliers and customers alike. No form of discrimination will be tolerated among these stakeholders either.

In accordance with financial regulations, Danish Ship Finance does not outsource any central tasks, and the company's suppliers are therefore mainly restricted to 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 relation to them reconsidered.

With respect to our customers, we expect them to comply with any legislation they are subject to. New loan agreements have to fulfill more specific requirements regarding the legislation, they are assumed to comply with.

Environment

Danish Ship Finance aims to contribute actively to improving the environment within the areas of relevance to a financial company.

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, we have a continuous focus on protecting the environment when purchasing products, making improvements to the building, replacing IT equipment, etc. Moreover, items purchased should, as far as possible, be capable of being recycled or disposed of in an environmentally friendly manner.

Being a small financial company with an already modest consumption of electricity, water, heating, etc., no noticeable environmental or climatic improvements could be achieved by setting specific targets for energy savings. Given these circumstances, the company has decided not to introduce a separate policy or set specific targets for reducing the company's environmental impact. Instead, the company will work to lessen any negative environmental impact it may have, which can often be combined with financial savings.

No new substantial 'green' investments, installations, replacements or the like were made in 2017, as a major replacement programme for lamps, heating systems, IT equipment, etc. has not been relevant.

Expectations and demands in relation to stakeholders

Our loan documents stipulate that customers are required to comply with any applicable environmental legislation to which the customer is 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 engaged in international activities than when operating within the Danish market. Our personnel handbook includes anti-corruption guidelines.

In line with our overall CSR strategy, the company have defined several goals for initiatives against corruption and unusual gifts. Hence, it follows from the CSR policy that:

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

The company accepts employees receiving gifts valued at 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 a gift representing a value of more than DKK 1,000.

No incidents of corruption or attempted corruption occurred in 2017. Nor are we aware of any gifts that did not comply with the guidelines.

Expectations and demands in relation to stakeholders

Our loan documents stipulate that customers must be compliant with relevant legislation, including the prohibition of corruption.

Once again, no incidents of corruption or attempted corruption occurred in 2017.

Prevention of money laundering and financing of terrorism

Many companies, including financial undertakings, 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.

We have also established policies, business processes and procedures, which were most recently updated according to the new Danish Anti-Money Laundering Act, which entered into force on 26 June 2017. In that connection, we introduced several controls, both at the time of acceptance of new exposures and during the term of exposures. Danish Ship Finance found no reason in 2017 to submit reports to the Danish State Prosecutor for Serious Economic and International Crime.

Global Compact

Global Compact is a UN initiative that has set out ten general principles for how businesses can engage in CSR initiatives. The ten principles form a good starting point for a company's CSR and sustainability initiatives. 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 relevant 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 incorporate 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 strategic planning to avoid infringing on human rights. A distinction is made between the efforts of governments and business enterprises. It is essential to note that the guiding principles are equally relevant to small and large enterprises alike, and it is emphasised that enterprises should not only focus on their own efforts, but – importantly – also need to place demands 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. As a Danish financial company the risk of infringing on human rights internally is extremely limited. As described above, employees are treated well and considerable attention is focused on employee well-being.

In accordance with financial regulations, Danish Ship Finance has not outsourced its operations, and our few suppliers are Danish companies with head offices in Denmark.

Prior to deciding to extend a credit facility to a customer, we acquire detailed knowledge of the customer and the customer's business methods. If this process raises doubts about the customer's observance of human rights, this will be a heavily weighted negative factor in the decision-making process.

When financing the construction of new vessels, close supervision of conditions for workers at the customer's chosen shipyard is not possible. However, if doubts are raised about a shipyard's working conditions, an inspection can be carried out prior to giving a loan offer.

Customers' focus on CSR

A widespread focus on both sustainability and corporate social responsibility is observed among shipowners. Several shipping companies have endorsed one or more of the general international standards such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights (UNGP), the UN Global Goals for Sustainable Development, the Carbon Disclosure Project (CDP) and the International Organization for Standardization (ISO) and/or specific shipping cooperation initiatives such as the Maritime Anti-Corruption Network (MACN), the Maritime Labor Convention, International Maritime Councils (BIMCO), the standard recycling contract (RECYCLECON), the Green Passport Program and the environmental initiatives under the auspices of the International Maritime Organization (IMO).

The scope of the work varies, but the core areas are generally:

1. Environment – Special efforts are made to reduce fuel consumption and the volume of waste, cut emissions of greenhouse gases and purify ballast water.
2. Health and safety – The safety of employees is a key priority. Education and training is essential, both in the day-to-day business and in exceptional situations such as accidents and pirate attacks. Employees are offered traditional courses, online teaching and onboard training. Shipping companies also stress the importance of medical checks, diet and exercise and their zero-tolerance policy for alcohol and drugs.
3. Human rights – Shipping companies usually have employees from a wide range of countries and parts of the world, and policies stipulate that neither recruitment nor working conditions may be influenced by factors such as race, colour, religion, age, sexuality, etc. The freedom of association and the right to collective bargaining are also recognised.
4. Anti-corruption – Shipping companies strongly disapprove of corruption and fraud and have established controls and guidelines for the gifts, dinners, trips, entertainment events, etc. employees can give and accept.

Moreover, shipping companies are for instance engaged in training seamen in developing countries, the prevention of bullying and harassment, handling of conflicts of interest and the establishment of whistleblower schemes.

Overall, the assessment is that the scope of CSR initiatives and the formal description of these initiatives mainly depend on the company's size.

Reporting

Danish Ship Finance prepares a report on its CSR initiatives once a year. The CSR Report is published on our website at the time of the publication of the Annual Report.

Assessment of CSR initiatives in 2017

Our commitment to CSR continued in 2017 as an integral part of the company's activities. While we comply with applicable regulations and follow international standards with respect to CSR and respect for human rights, we are aware that this is an ongoing process.

The main topics from 2017:

- Danish Ship Finance is still working intensively to be a workplace that can attract and retain the most talented and dedicated employees
- The well-being survey and KPIs showed that the well-being of our employees is still at a high level. Even so, general employee satisfaction has decreased from index 89 to index 81.
- Endeavours are still made to have at least one female member of the Board of Directors and at least one more female head of department by the end of 2019.
- Customers' CSR reports may, where relevant, be taken into account in the processing of an application.

We will continue our CSR initiatives in 2018, both internally and in relation to our stakeholders.

