



DANMARKS  
SKIBSKREDIT

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## Remuneration policy 2019

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## 1 Purpose

The purpose of the remuneration policy of the Danish Ship Finance Group (hereinafter “Danish Ship Finance”/“the company”) is to set out the guidelines for remuneration of:

- The Board of Directors
- The Executive Board
- Employees whose activities have a material impact on the company’s risk profile
- Employees in special functions
- Other employees

In compliance with the provisions of the Danish Financial Business Act, this remuneration policy provides an overall written framework for remuneration in the company which is consistent with and promotes sound and effective risk management.

The structure of the remuneration policy is based on an overall aim to attract and retain highly skilled employees and managers. The remuneration of the individual employee is therefore based on the pay level for the employee's job category, job level and personal qualifications in accordance with the conditions in the labour market. Furthermore, the company uses equity-like instruments in relation to the Executive Board and certain groups of employees to ensure focus on value creation for the long term.

The remuneration policy also aims to establish a community of interest among the owners and employees of the company. Moreover, the Board of Directors continuously focuses on ensuring that the remuneration policy has no undesirable structures which could induce excessive risk-taking.

## 2 Legal framework

The legal framework for the remuneration policy is provided by the remuneration provisions laid down in the Danish Financial Business Act and the related executive order as well as national and EU regulations (regulations based on CRD IV, etc.) that apply to the company, see the Danish Executive Order on a Ship Finance Institute.

The Board of Directors lays down the company’s remuneration policy and reviews it at least once a year to align it with the company’s performance. The remuneration policy is subject to adoption at the annual general meeting of the company.

Material risk takers at the company are identified in accordance with applicable national and EU-based rules and regulations.

### **3 Organisation**

The general meeting is the supreme body of the company.

The general meeting elects the number of members of the Board of Directors prescribed in the articles of association, etc. The Board also has employee-elected members, currently three representatives and three alternate members, who are elected for a term of four years.

#### **3.1 Board of Directors – risk takers**

Elected by the general meeting:

- Eivind Kolding (Chairman)
- Peter Nyegaard (Vice Chairman)
- Anders Damgaard
- Thor Jørgen Guttormsen
- Jacob Meldgaard
- Michael Nellemann Pedersen
- Christian Frigast
- Henrik Sjøgreen

Elected by the employees:

- Marcus F. Christensen
- Christopher Rex
- Henrik R. Søgaard

#### **3.2 Executive Board – risk takers**

The Board of Directors has appointed an Executive Board consisting of three members to undertake the day-to-day management of the company.

#### **3.3 Other risk takers**

In accordance with applicable regulations, the Board of Directors has found that the following employees, whose activities have a material impact on the company's risk profile, are also risk takers:

- Head of Credit
- Head of Treasury
- Head of Finance
- Head of Legal & Compliance
- Head of IT
- Senior Portfolio Managers, Treasury

The Board of Directors identifies material risk takers once a year based on the recommendation of the Remuneration Committee and as and when needed in connection with appointments. The Executive Board makes a review of all employees and their job responsibilities, and risk takers are subsequently identified with due consideration being given to the company's business controls.

### **3.4 Employees in control functions**

The following employees undertake control assignments:

- Employees of Internal Control
- Head of Finance
- Head of Payments & Control
- Controller, Payments & Control
- Head of Risk Management
- Risk Manager, Risk Management
- Head of Compliance
- Compliance Officer, Compliance
- Credit Controller, Customer Relations

If the remuneration of an employee involved in the company's control functions has a variable pay component, such variable pay component is not allowed to be based on the performance of the department of which the employee undertakes control.

Other considerations related to remuneration of employees in control functions are described in section 9.

## **4 Remuneration of the Board of Directors**

Members of the Board of Directors receive a fixed annual remuneration.

The Chairman receives a remuneration of	DKK 750,000
The Vice Chairman receives a remuneration of	DKK 350,000
Other board members receive a remuneration of	DKK 200,000
Committee members receive a remuneration of	DKK 150,000

Based on the recommendation of the Remuneration Committee, the Board of Directors submits proposals for changes to the remuneration of the members of the Board of Directors and of the members of the committees set up by the Board of Directors to the general meeting for adoption. The remuneration of the Board of Directors takes into consideration economic trends, the level of remuneration in similar undertakings and the scope of work, and any

recommendation for adjustment is submitted to the general meeting for adoption. The individual members of the Board of Directors may opt not to receive remuneration.

No variable remuneration is paid to members of the Board of Directors for undertaking their board duties, neither members elected by the general meeting nor employee-elected members. However, an employee-elected member of the Board of Directors may receive variable remuneration if such remuneration is related to the work performed as an employee of Danish Ship Finance.

## **5 Remuneration of the Executive Board**

The members of the Executive Board have entered into an executive service agreement with the company. Under this agreement, the fixed annual remuneration is composed of a base pay, a pension contribution of 12.75% of the base pay, a holiday supplement of 3.25%, company car, multimedia, insurance, etc.

The terms of the service agreements and adjustment of the base pay are agreed with the Board of Directors. The terms for variable remuneration of the members of the Executive Board are set out in section 6 below.

### **5.1 Termination provisions for the Executive Board and other risk takers**

The company may terminate the employment relationship with a member of the Executive Board by giving 18 months' written notice to expire at the end of a month. Members of the Executive Board are not entitled to severance pay.

As a main rule, other risk takers are not entitled to severance pay unless provided by law.

### **5.2 Criteria for granting severance pay**

Notwithstanding the provisions of section 5.1, the company may grant severance pay where specific criteria have been set out in a severance agreement and such criteria have been met.

## **6 Variable remuneration of the Executive Board, managers and other risk takers**

The Board of Directors may enter into an agreement on variable remuneration with the individual members of the Executive Board. The Executive Board may enter into an agreement

on variable remuneration with the individual managers and risk takers in accordance with the limits prescribed by the Board of Directors.

An agreement on variable remuneration may include performance contracts, one-off remuneration, retention bonus and the like. Within the scope of the applicable executive order, the Board of Directors may further approve a sign-on bonus, which may not in any circumstances exceed the cap set out in section 6.3.

## 6.1 Criteria for granting variable pay

Variable pay may be granted for retention purposes or as a reward to a member of the Executive Board, a manager or a risk taker for delivering sustained and risk-adjusted results as well as results exceeding what would be expected given the person's work experience and organisational responsibility.

The individual criteria for granting performance-based variable pay will be laid down taking into consideration performance targets, existing and future risks associated with such targets and the cost of capital, liquidity and credit risk required to obtain the results.

Subject to the overall business goals, the criteria for performance-based remuneration may include an assessment of the following parameters:

- earnings and cost trends
- loan impairment charges and write-offs
- capital structure
- liquidity and funding position
- active participation in the implementation of the corporate strategy adopted by the Board of Directors
- active organisation development ensuring that the right competencies to implement the strategy are available at all times
- compliance with regulatory and supervisory requirements
- a satisfactory trend in customer satisfaction with the services of Danish Ship Finance.

The assessment of the financial criteria in particular will focus on the results achieved relative to budgets and projections as well as developments in the markets (especially lending and funding) and the risk scenario during the year.

Non-financial criteria include compliance by the individual member of the Executive Board, the manager or the risk taker with Danish Ship Finance's internal rules and procedures as well as guidelines and business procedures applying to relations with customers and investors. In addition, it must be ensured that variable pay is granted in such a way that:

- there is an appropriate balance between fixed and variable pay components, and
- the fixed pay is sufficiently high to allow Danish Ship Finance to pursue a flexible bonus policy.

## 6.2 Instruments

Subject to compliance with applicable legislation, Danish Ship Finance may apply bonds (senior contingent notes), shares and phantom shares, which, using Total Shareholder Return (TSR) adjustment, are based on a specified index measured as the appreciation in value of the ratio between adjusted net earnings at the consolidated level for Danmarks Skibskredit Holding A/S (the “Holding Company”) and the owner-invested capital adjusted for dividends and capital contributions if applicable.

Instruments must account for at least 50% of the variable remuneration, and a considerably larger share should generally be targeted.

As part of special retention arrangements with the Executive Board and other risk takers, the company may apply warrants (max. 12.5% of the recipient’s fixed annual pay) and equity-like instruments (TSR) subject to the annual cap applicable to the Executive Board, see section 6.3 below.

## 6.3 Cap on variable pay components

The Board of Directors determines annually a maximum percentage of the variable pay component relative to the fixed salary. For members of the Executive Board, managers and other risk takers, the variable pay component must not exceed 50% of the fixed base salary including pension.

## 6.4 Deferral and lock-up

According to legislation, at least 50% of the variable pay component must be deferred and made instrument-based rather than cash-based. In determining the payout structure, the Board of Directors may lay down requirements for the deferral of larger amounts than required by legislation where this is deemed most appropriate and/or reasonable in terms of retention or business considerations.

The instrument-based components are subject to deferral for four years for members of the Executive Board, managers and other risk takers as well as lock-up for one year in accordance with applicable legislation.



## **6.5 Payout restrictions (back testing) and repayment of variable pay (claw back)**

In respect of payout of deferred variable pay, the Board of Directors must assess in relation to the Executive Board, and the Executive Board must assess in relation to other risk takers, whether the criteria for granting variable pay remain satisfied at the time of payout.

If that is not the case, the Board of Directors and the Executive Board, respectively, may decide that the deferred variable pay component is to be further deferred or cancelled in full or in part.

Furthermore, the Board of Directors and the Executive Board, respectively, may decide that the deferred variable pay component is to be further deferred or cancelled in full or in part, if:

- the economic and financial situation of Danish Ship Finance at the time of disbursement is significantly impaired relative to the time of granting;
- Danish Ship Finance fails to meet applicable capital and/or capital adequacy requirements, or there is an imminent risk thereof;
- the person concerned has participated in or been responsible for behaviour that has resulted in significant losses to Danish Ship Finance or has failed to comply with appropriate suitability and integrity requirements.

Lastly, a deferred variable pay component may be cancelled in full or in part if the variable pay component was granted on the basis of performance data which are proved to be incorrect, provided that the member of the Executive Board, the manager or the risk taker concerned should have been aware of this. In such cases, the recipient must also repay, in full or in part, the amounts of the variable pay previously disbursed on the basis of the same incorrect data.

## **6.6 Lower threshold**

The Board of Directors may assess in relation to the Executive Board, and the Executive Board may assess in relation to managers and other risk takers, subject to specified criteria, whether it is appropriate to exempt variable pay components not exceeding an aggregate annual amount of DKK 100,000 from one or more of the requirements set out in 6.4 above.

The claw back provision under section 6.5 also applies to variable pay subject to the lower threshold.

## **7 Remuneration of other employees**

The Executive Board is responsible for ensuring that the employees of Danish Ship Finance receive remuneration which continually and appropriately reflects the individual employee's responsibility and competencies, the company's business needs and general market demand.

Remuneration and conclusion of employment contracts, including as regards determination of pension contribution, severance pay, etc., generally comply with applicable legislation and Danish Ship Finance's obligations under collective agreements.

## **7.1 Variable remuneration of other employees**

In respect of other employees, the Executive Board may apply variable remuneration, including special retention programmes, within the limits prescribed by the Board of Directors.

Variable remuneration may be in the form of cash and/or equity/instrument-based remuneration, including employee share ownership plans subject to applicable legislation.

In respect of employees involved in control functions, any variable pay may not be based on the performance of the department of which the employee undertakes control. The Executive Board's assessment of the year's performance and granting of any special bonus/bonus to employees in control functions is thus made independently of results of which the employee undertakes control.

## **7.2 Criteria for granting variable pay**

Variable pay may be granted for retention purposes or as a reward to an employee for delivering sustained results as well as results exceeding what would be expected given the person's work experience and organisational responsibility.

## **7.3 Cap on variable pay components**

For other employees, the variable pay component must not exceed 50% of the fixed base salary including pension. On that basis, the Executive Board determines annually a maximum percentage of the variable pay component relative to the fixed salary.

## **8 Remuneration Committee**

The Board of Directors appoints a Remuneration Committee, which submits recommendations for the remuneration policy to the Board of Directors.

Furthermore, the Remuneration Committee monitors initiatives with respect to remuneration issues as well as compliance with the remuneration policy, see section 9.

## 9 Oversight by the Board of Directors

The Board of Directors must ensure that compliance with the remuneration policy is checked at least once annually.

The Remuneration Committee must monitor the remuneration of the Executive Board and the head of the entity monitoring compliance with risk taking limits, the head of the company's Compliance function and the part of the organisation which otherwise undertakes monitoring.

Oversight activities include verification that:

- no variable pay is granted in contravention of this remuneration policy;
- any granting of variable pay in accordance with the lower threshold provision does not exceed DKK 100,000 for the Executive Board, managers and other risk takers;
- the remuneration promotes sound and effective risk management, which does not induce excessive risk-taking and includes safeguards to prevent conflicts of interest;
- the remuneration is in alignment with the company's business strategy, values and long-term goals;
- employees pursue responsible conduct which has not resulted in significant losses;
- employees pursue decent conduct as deemed appropriate by the Board of Directors;
- the total variable pay which the company undertakes to pay does not erode the company's ability to strengthen its capital position;
- reasons for granting variable pay have been prepared in writing (spot checks).

When planning the oversight activities, the Board of Directors must ensure that employees involved in the preparation of, and monitoring of compliance with, the remuneration policy have the requisite expertise and, taking into consideration Danish Ship Finance's size, internal organisation and the scope and complexity of its activities, that they are independent of the departments at Danish Ship Finance which they are monitoring.

In pursuance of sections 6 and 7 of the Danish Executive Order on remuneration policy and remuneration in banks, mortgage credit institutions, investment companies, investment management companies, financial holding companies and investment funds, the Remuneration Committee has authorised the Head of Payments & Control to monitor compliance with the remuneration policy on its behalf.

## 10 Disclosure and reporting requirements

At least once annually, the company must disclose the information set out below concerning its remuneration policy and practices for the Board of Director, the Executive Board and other employees whose activities have a material impact on the company's risk profile:

- decision-making process in connection with determination of the remuneration policy;
- connection between pay and performance;
- key characteristics of the company's remuneration structure;
- total remuneration amount broken down by remuneration of the Board of Directors, the Executive Board and other employees whose activities have a material impact on the company's risk profile, stating the following:
  - o total pay disbursed in the financial year broken down by fixed and variable pay and the number of recipients;
  - o sign-on pay and severance pay disbursed in the financial year and the number of recipients;
  - o total amount of severance pay granted in the financial year, the number of recipients and the highest amount granted to a single individual.

This provision only applies to employees whose activities have a material impact on the company's risk profile, provided that disclosure will not involve disclosure of the individual pay of the individual employee.

Disclosure of the information must appear from the company's annual report.

In his report at the company's annual general meeting, the Chairman of the Board of Directors must give an account of the remuneration of the company's Executive Board. The account must include information on remuneration in the preceding financial year and the expected remuneration in the current and following financial years.

The account must include information on the fixed pay and the overall guidelines for incentive pay, including the conditions for earning and granting of bonus/special bonus and/or share index-linked incentive schemes, etc., as well as for pension, severance agreements and other benefits. The information about the relative percentage of the fixed pay, incentive pay and the other remuneration components must also be stated.

At the presentation of the annual report, the company must report to the Danish FSA the number of persons who, in the context of their employment or duties as a member of the Board of Directors, received a total annual pay including pension that exceeds an amount equivalent to EUR 1 million.

## 11 Adoption

The remuneration policy was adopted by the Board of Directors at the company's ordinary board meeting on 25 February 2019 and is recommended for adoption at the company's Annual General Meeting on 25 March 2019.

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Copenhagen, 25 February 2019

Eivind Kolding  
(Chairman)

Peter Nyegaard  
(Vice Chairman)

Marcus F. Christensen

Anders Damgaard

Christian Frigast

Thor Jørgen Guttormsen

Jacob Meldgaard

Michael N. Pedersen

Christopher Rex

Henrik Sjøgreen

Henrik R. Søgaard

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Adopted at the Annual General Meeting of the company on 25 March 2019

Chairman of the meeting