



Sustainability Report 2022

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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 2022 to 31 December 2022. Additionally, this year's Sustainability Report draws upon the recommendations set forth by the Task Force on Climate-related Financial Disclosures.

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. This report forms part of Danish Ship Finance's annual reporting alongside our Annual Report 2022 and Risk Report 2022. The compilation of ESG data in this report draws upon standards developed by FSR – Danish Auditors (Danske Revisorer), Nasdaq, and CFA Society Denmark (Finans foreningen).

Danish Ship Finance is not subject to the Sustainable Finance Disclosure Regulation (SFDR), but we are subject to the new Corporate Sustainability Reporting Directive (CSRD) due to the changes in the criteria for a large EU company. Large companies that were not previously subject to the reporting requirements in the Non-Financial Reporting Directive art. 19a and 29a will now have to apply CSRD from financial years starting on or after 1 January 2025 and therefore report in 2026 on 2025 data.

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*

Our vision to be the obvious choice in ship finance continues to guide all our efforts to be part of the shipping industry's transition to net zero.

The road towards this ambitious target is long and will require us to make continuous adjustments to our business, but we also perceive the transition as a commercial opportunity.

It is an opportunity not just for us, but also for our clients and those players in the industry who will provide the technical and business solutions to enable the transition. Moreover, the transition will offer the opportunity for all of us to gradually reinvent our businesses – maybe slowly at first – to make the industry more resilient and sustainable.

We believe that we can play an important role as a provider of finance to those shipowners who prepare diligently and invest in the necessary upgrades to switch to cleaner energy sources, reduce emissions, and speed up the transition to a net zero future.

In the short term, we see our role as not only working with clients whose transition is already under way, but also continuing to engage with existing and potential clients who are committed to the transition and are in the early stages of their transition.

Sustainability constitutes one of the two pillars of our corporate strategy. The importance we place on sustainability is underlined by the specific short-, medium- and long-term targets we have set.

The driving force for all of these is our ambition to facilitate real change, both internally in our organisation and in the industry at large. Over the past year, we have continued working diligently towards these targets, and have made important progress.

For example, in 2022 we met our target for at least 30% of new loans to be sustainability-linked. As a result, we have sharpened this target further, aiming for at least 50% of new lending to be sustainability-linked in 2023.

In this report, we also increase our transparency further with the publication, for the first time, of baseline data for financed emissions in our lending portfolio. Although this data should not be overinterpreted, we hope it provides further insights into our portfolio.

Within our own organisation, a particular focus area is a more equal gender distribution, and we have set a target for at least 40% of the underrepresented gender to be in leadership positions by 2025. The target is ambitious, but we think it is realistic. In addition, we have also set targets for the reduction of our own direct emissions.

We look forward to continuing our work and supporting our clients on the journey to becoming net zero.

Erik I. Lassen
Chief Executive Officer



We support efforts to increase the transparency of sustainability impacts and our efforts rest on our continued commitment to the UN Global Compact.



Danish Ship Finance *at a glance*

Danish Ship Finance is a dedicated provider of financing to reputable shipowners, focused on supporting the shipping industry in its transition towards net zero, while generating attractive returns for our shareholders.

When founded in 1961, our mandate was to finance Danish-built vessels. As shipping evolved, so did our business, and in the late 1990s we began to expand our presence outside Denmark with select international clients, although our ties to the Danish shipping community remained a priority. We consequently have a very solid market share in Denmark.

Today, while Danish clients still account for around a quarter of our loan book, we are proud to be one of the largest dedicated lenders in ship financing globally.

We strive to conduct our business in a proper and highly professional manner and to be a

long-term partner to our clients and investors. In 2022, we obtained a global no. 1 Prospera ranking in ship finance for the second consecutive year and maintained a class-leading credit performance and a very robust capital and liquidity position.

Our ability to issue covered bonds at competitive terms remains a cornerstone of our business and we are proud of our solid investment grade A (Stable) covered bond rating, which was confirmed by Standard & Poor's in 2022.



Loan book of
DKK 35 billion



Portfolio of 678
vessels



Intensity of financed
emissions was 184 t
CO₂ / per DKK million
of lending in 2022



Poseidon Principles
climate alignment
score: +5.7%



Sustainability ratings
on 100% of our loan
portfolio



37% of new loans were
sustainability-linked in
2022



29% of the
underrepresented
gender in leadership
positions



Sustainability Report

Moving towards
*a sustainable shipping
industry*

Material sustainability *topics*

Based on a thorough materiality assessment, which we revisit annually, the highlighted topics remain those we consider most significant for Danish Ship Finance.

As a niche financial institution, we find that our material sustainability topics are directly linked to those of our clients, and thus their material topics naturally become reflected in our prioritisations and our approach to sustainability.



Governance

Anti-corruption and bribery
Transparency



Social

Human rights
Safety and health



Leadership and governance

Ethics and compliance
Risk management
KYC procedures
Client sustainability ratings

The industry we fund



Portfolio's environmental performance

GHG emissions
Energy efficiency



Ship recycling

Environmental and
social concerns

Our organisation



Our footprint

Scope 1, 2 and
3 emissions (incl.
financed emissions)



Responsible employer

Diversity and inclusion
Attract and retain employees

OUR TARGETS

Sustainable finance

Long-term objective:

We are committed to supporting the shipping industry in its sustainable transition by targeting a net zero loan book by 2050

Milestones:

- 2023** >50% of new lending is sustainability-linked
- 2025** New loans only to clients who are actively engaged in the sustainable transition
- 2025** Loan portfolio is fully aligned with the Poseidon Principles trajectory

Our direct impact

Long-term objective:

We are committed to being a responsible employer with a diverse and inclusive culture and a strong focus on neutralising our direct environmental footprint

Milestones:

- 2023** Annually reduce our own direct climate impact by at least 5%
- 2024** 25% of board members to be of the underrepresented gender
- 2025** Minimum 40% of the underrepresented gender in leadership positions

Financing *the transition*

Our approach to sustainability is focused on working towards a net zero shipping industry. Achieving this overall end goal is the overriding driving force for reaching our individual targets.

Our monoline business model means we can maintain a strict focus on the shipping industry, enabling us to set forth clear and ambitious goals all centred around our vision of a sustainable, net zero shipping industry.

The ambitious targets we set in our 2022 strategy continue to guide us in our day-to-day work. At the end of 2022, we assessed our progress towards these targets and concluded that all remain relevant, but we updated our target regarding sustainability-linked loans to 50% of new lending in 2023, from 30% in 2022, to reflect the significant progress we made during the year.

Our dedicated focus on shipping has upsides and challenges. The main advantage is that our clients can be confident that we will not pivot our commercial focus towards other easier-to-decarbonise sectors.

The downside is that, unlike competitors that lend to many different corporate sectors, our future progress towards our overall target of obtaining a net zero loan book can only be achieved

through our shipping clients, with no support from progress made by clients in other sectors. This means that in the years ahead our progress may not be as smooth and linear as we would like it to be; it is likely to be slower at first before eventually speeding up as the necessary new technology is being launched. Ammonia- or methanol-ready engines could be two such new technologies.

Naturally, environmental and climate-related issues take up a great deal of our focus and work due to the nature of the industry we fund, but we still aim to take a holistic approach to the sustainability agenda.

Our framework for conducting sustainability ratings is a concrete example of our broad perspective on sustainability issues, as it takes account of environmental, societal and governance matters. We continuously adjust the framework to reflect developments in the sustainability discourse in society.

Finally, we acknowledge the necessity of critically assessing our own internal practices and procedures, so that we can continue to maintain high expectations and propel our organisation in a more sustainable direction, and set goals accordingly.

In the following section, we provide further details on our own sustainability strategy and goals, which are based on a thorough materiality assessment.

Net zero *portfolio*

Our ultimate aim is for the shipping industry to be net zero. To support this transition, we have set long-, medium- and short-term goals.

It is our overall long-term goal to have a net zero portfolio by 2050, meaning that by that date we will only be financing vessels that contribute to a net zero loan book. We consider this a sensible timeframe, due to the amount of investment needed for the industry to become aligned with this target. However, we will assist our clients in preparing for the transition by setting supporting goals and action plans. Many of the efforts that are required to achieve a net zero portfolio in 2050 are already under way, and we will continue to take the necessary steps towards realising our vision.

We have also set shorter-term goals to help us on this journey. One of the most crucial is that by 2025 we aim only to offer new loans to clients who are actively engaged in and preparing for the transition to net zero emissions.

We will continue to engage with all our clients in order to provide the necessary support and financing to help them in their journey towards sustainability.

We will use our sustainability ratings of all clients as a tool to assess their level of engagement. We will monitor the framework for the ratings continuously to ensure that our assessments are aligned with society's expectations in terms of, for example, transparency and new regulations affecting the industry. Sustainability ratings also form part of the credit approval process.

Through our continued support and by maintaining close dialogue with our clients, we expect that by 2025 the vast majority of our portfolio will be engaged in and actively contributing to the transition. Any existing clients who are not preparing at that point will have to show significant improvements before we feel comfortable providing any new loans.

We also contribute to the decarbonisation of the shipping industry through our Innovation and Research team, which supports the identification of possible pathways to decarbonisation by engaging in cross-industry collaborations. Twice a year, our team also publishes the Shipping Market Review, providing our stakeholders with specialised knowledge relating to possible pathways to zero-carbon emissions.

“It is our overall long-term goal to have a net zero portfolio by 2050”

OUR TARGETS

2050

Net zero loan book

2025

New loans only to clients who are actively engaged in the sustainable transition



Sustainable *finance*

Our strategy, Financing the transition, serves as our roadmap for how we will work to fulfil our vision of a net zero shipping industry.

The combination of medium- and short-term goals provides important milestones for us to reach in the coming years, while still maintaining our strong position in the market.

How and what we choose to finance is directly linked to the success of the shipping industry's transition. In full awareness of this, we take the necessary steps in terms of adjusting our internal instruments and processes to support the industry in this transition.

Financing the transition set forth the short-term goal for at least 30% of our loans offered in 2022 to have sustainability-linked pricing. We reached this target, with 37% of new lending having sustainability-linked pricing. Consequently, we have sharpened the target to 50% of new lending having sustainability-linked pricing in 2023. Thus, we will continue to push for loans with margin adjustments based on clients' sustainability performance.

In order to embed this feature more deeply into our new lending, we have integrated our

standard framework for sustainability-linked finance into our standard term sheet. This ensures that we discuss the feature with all clients who are seeking new financing, which in many cases means that the feature is included in final loan documentation.

Our standard framework for sustainability-linked pricing draws upon the Poseidon Principles, and thus is also a key tool for reaching our 2025 target of a portfolio that is aligned with the Poseidon Principles. The framework provides an economic incentive for clients to steadily improve the sustainability performance of their financed vessels.

“Financing the transition serves as our road map for how we will work towards our vision of a net zero shipping industry”

OUR TARGETS

2025

New loans only to clients who are actively engaged in the sustainable transition

2025

Loan portfolio is fully aligned with the Poseidon Principles trajectory

2023

50% of new lending is sustainability-linked



Our contribution

As a financial institution and part of the service sector, our main focus in terms of sustainability is on the activities we fund.

However, we also acknowledge a great responsibility to ensure that our own internal activities and processes are sustainable. We aim to maintain the same high standards as we expect from our stakeholders. To this end, our strategy also includes targets for how we develop our own organisation.

Assessing our internal activities and consumption patterns has made us determined to reduce our own direct climate impact by at least 5% annually. To achieve this goal, we need to take a holistic approach to improving in the necessary areas.

Corporate air travel remains our biggest source of emissions. We consider air travel essential for underpinning our business model and upholding client relationships. Whenever possible we will choose airlines that compensate for emissions, and we will continue to seek further ways to reduce our negative impact from this activity in 2023.

An example of one of many smaller initiatives

is our company cars. In 2022, all vehicles were replaced by electric or plug-in hybrid vehicles, improving the footprint related to our company cars.

Additionally, we strive to support the wellbeing and job satisfaction of our employees, and we aim for our organisation to reflect the society we are part of. Thus, we have set a target to increase diversity by having no fewer than 40% of leadership positions filled by the underrepresented gender by 2025. We define leadership positions as the executive management and those with staff management responsibilities who report directly to management. For board members, we aim for at least 25% of members to be of the underrepresented gender by 2024. Both of these are short-term targets and thus we find them to be ambitious, yet realistic.

“Assessing our internal activities and consumption patterns has made us determined to reduce our own direct climate impact each year”

OUR TARGETS

2025

40% of the underrepresented gender in leadership positions

2024

25% of the underrepresented gender as board members

2023

Reduce our own direct climate impact by at least 5% annually



ESG Key figures

Environmental data	Unit	2022	2021	2020	2019
CO ₂ e Scope 1	Metric tonnes	4.8	13.2	13.2	13.2
CO ₂ e Scope 2	Metric tonnes	19.6	17.7	17.3	49.8
CO ₂ e Scope 3 (excl. financed emissions)	Metric tonnes	88.6	22	36.6	129
Financed emissions (Scope 1) ¹	Million tCO ₂ e	n/a	5.8	7.6	8.0
- CO ₂ e intensity of the portfolio	tCO ₂ e/DKK million	n/a	184	275	247
Energy consumption (electricity and heat) ²	MWh	-	-	505.1	348.5
Heat	MWh	216	205		
Electricity	kWh	157,597	135,465		
Water consumption	m3	913	789	890	977
Social data					
Employees	Headcount	80	78	78	79
Gender diversity	%	36	36	34	37
The underrepresented gender in leadership ³	%	29	25	15	15
Gender pay ratio	Times	1.35	1.5	1.5	-
Employee turnover	%	8.7	8.9	11.8	11.9
Employees receiving external training	%	26	41	41	61
Sickness absence	Days per employee	4.1	4.5	3.2	5.7
Employee survey					
Employee satisfaction	Index	79	77	78	77
Healthy work-life balance	Index	81	80	79	77
No prolonged periods of stress experienced	Index	79	78	79	77
Governance data					
Gender diversity, board ⁴	%	17	25	25	0
Board meeting attendance rate	%	95	98	98	90
CEO pay ratio	Times	6.7	4.5	4.7	-

1) Only direct (Scope 1) emissions resulting from fuel oil consumption are accounted due to indirect (Scope 2) emissions' negligible impact on the sector's total carbon footprint

2) Data related to our office building only includes the building in use at Sankt Annæ Plads 3, Copenhagen. Our new office building is still under construction

3) Leadership is defined as employees with staff management responsibilities

4) All AGM-elected members of the board are male

[Please see our Sustainability policy for more details](#)

A large container ship is docked at a port. The ship's deck is filled with stacks of colorful shipping containers in shades of blue, red, and yellow. Several large yellow cranes are positioned on the ship and at the dock, ready for loading and unloading. The ship's superstructure is white with a red hull. The background shows a calm sea and a hazy sky.

Sustainability Report

Our *stakeholders*

Responsible *stakeholder management*

A range of stakeholders are crucial to the business of Danish Ship Finance. It is our most important task to generate long-term value for our stakeholders. As we are proponents of traditional relationship banking, maintaining ongoing dialogue and strong relationships is key for our long-term success.

Our stakeholders



Clients



Investors



Employees



Engaging
with society

Clients

As part of the financial sector, Danish Ship Finance has a significant responsibility in relation to the global transition towards net zero.

Financial institutions have great influence over to whom and to what activities they channel their capital. We take this very seriously, which is also why sustainability now constitutes one of the two pillars of our corporate strategy.

Our financed emissions – i.e. the vessels constituting our portfolio – account for by far the majority of the climate impact of our business. It is therefore our No. 1 priority to steer our portfolio in the right direction and support our clients in their sustainable transition.

Responsible client selection

Our most important task is to deliver a good customer experience and provide attractive solutions that match our clients’ needs, while acting with integrity and not compromising our core values or obligations to the client relationship.

Our client portfolio consists of reputable, top-tier shipowners. Competition for these clients is intense, but we are confident that our value proposition is one of the most at-

tractive 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 a number of steps to ensure that we preserve our reputation and track record before we embark on new client relationships (please see the illustration on the right).

Together, these measures allow us to ensure that we only enter into business with the most prudent, reputable shipowners. Thus, the regulatory KYC requirements for screening our customers are merely a formality, albeit a very important one. As expected, our extensive screening procedures have not revealed any problematic client relationships.

“These measures allow us to ensure that we only enter into business with the most reputable shipowners”

Checks and balances for client relationships



In-person meetings with management teams



Requirements for flag state and class society



Know-your-customer controls



Internal sustainability ratings



Physical inspections of vessels



Track record of management



Management's incentive schemes not to be misaligned with the interest of the lenders



Energy efficiency and design specification of vessels

Poseidon Principles

Climate-aligned portfolio

In 2019, we were a founding signatory of the Poseidon Principles initiative, and this year we reported our third portfolio climate alignment score as part of our commitment to the initiative¹.

Our portfolio climate alignment score in this year's reporting was +5.7%, almost identical to the +5.6% we reported the year before. Our 2021 climate alignment score was again marked by continuous Covid-19-induced impacts on shipping, from supply-chain disturbances, to higher-than-normal waiting times, elevated shipping speeds and port congestion resulting from the increasing shipping activities following the easing of Covid-19 restrictions around the world.

We are on the right track, but we acknowledge that the result shows we still have further to go before we are aligned with or below the trajectory.

We will face difficult decisions in the coming years and will potentially forgo business that used to be common practice, as this could be a necessity for us to reach our goal of having a Poseidon Principles-aligned portfolio.

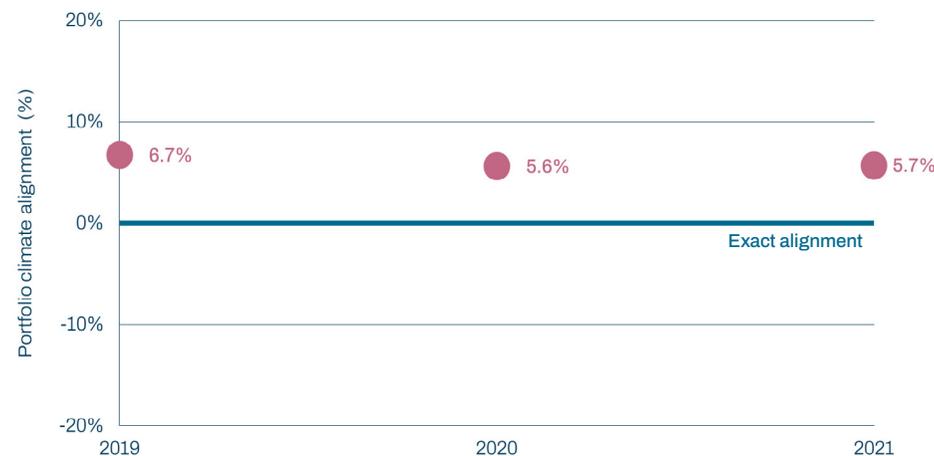
1) The score of our portfolio is based on the underlying data that shipowners reported to the IMO 2022, and the score therefore reflects the performance of the in-scope vessels in our portfolio in 2021.

Looking ahead, we hope to continue our positive collaboration with clients as we embed the reported data more deeply into our credit and risk assessments.

Finally, during 2022 it was agreed by the Poseidon Principles Steering Committee, where we have a seat, that the ambition of the initiative and work towards adjusting the Principles' trajectories should be significantly accelerated in line with net zero commitments by 2050 once a methodology to support this becomes publicly available and can be approved by the Association. It was also decid-

ed during 2022 that the existing trajectories will be re-evaluated following the expected adoption of the Revised IMO GHG Strategy at MEPC 80 in July 2023, including raising the levels of ambition.

Poseidon Principles portfolio climate alignment results



2025

Portfolio fully Poseidon Principles-aligned

It is our target that by 2025 all our financed vessels will be climate-aligned in accordance with Poseidon Principles trajectories





Key interpretations of client performance

Our portfolio climate alignment score is the result of large variations between the performance of individual vessels and clients, both within and across different shipping segments. Vessel characteristics and trading patterns vary greatly between segments, as do shipowners' business models.

All these differences impact the degree to which an owner is in control of a vessel's performance. Furthermore, the underlying data¹ behind the results indicates that outliers do greatly influence the results. Based on the insights we have obtained from working with the Poseidon Principles data, we will initiate discussions with clients about how their vessels are performing and how this impacts our portfolio.

We believe that the adoption of the Poseidon Principles will have an increasing impact on our lending criteria.

In the near term, leading up to our 2025 target of a Poseidon Principles-aligned portfolio, we will seek to establish a closer dialogue with those of our clients whose vessels contribute most negatively to our portfolio alignment. As we depend on our clients for reaching our 2025 target, we try to actively influence our clients as much as we can.

At the same time, we appreciate that the transformation will take time. We will therefore continue to support and assist owners in this process. We believe that working with

clients who are on the right path will have a bigger long-term impact on the decarbonisation of shipping than abandoning responsible clients with the sole purpose of accelerating our own alignment.

“We believe the adoption of the Poseidon Principles will have an increasing impact on our lending criteria”

1) Underlying data is based on the Annual Efficiency Ratio (AER) that currently is the best tool we have considering data availability. In the future we hope that more accurate metrics, such as Energy Efficiency Operational Indicator (EEOI), that takes into account actual transport work, and not just a proxy for transport work, will become available to form the basis for the underlying data.

POSEIDON PRINCIPLES:

Climate-aligned and decarbonisation trajectories

Climate alignment measures the difference (as a percentage) between a vessel's carbon intensity and the carbon intensity required to be in line with the vessel's decarbonisation trajectory.

A decarbonisation trajectory is a representation of how many grams of CO₂ a single ship can emit to move one tonne of goods one nautical mile (gCO₂/tnm) over a particular time horizon. There is one decarbonisation trajectory for each ship type and size category. This ensures that ships are compared on an apples-to-apples basis given that carbon intensity varies as a function of ship type and size.

[Read more here](#)



POSEIDON
PRINCIPLES

Sustainability-linked *loans*

In 2022, we continued the push for more new loans to be sustainability-linked. Our efforts have been well received among several clients, and we are seeing a clear change in mindsets as our clients become familiar with the concept, recognising that adhering to the underlying principles can bring benefits.

We believe that sustainability-linked loans will become best practice among leading ship-owners in the coming years, and we look forward to expanding our loan book with more sustainability-linked facilities.

For 2022, our target was for at least 30% of all new lending to have sustainability-linked pricing. We reached this target at 37%, and find this result encouraging. We have updated our target for 2023 to at least 50% of new lending being sustainability-linked.

By the end of 2022, the proportion of our total loan book that had sustainability-linked pricing was 20%.

By including our sustainability-linked loan framework in our standard term sheet, we ensure that we discuss the concept in all new transactions. We find that this is an effective way of increasing familiarity with the concept among clients who are still considering to join the initiative. It also ensures that we include the terms in transactions with clients who are

already comfortable with the concept and are prepared to commit to these new terms.

The framework has an incentive-based structure, meaning that the margin on a loan can be either reduced or increased, depending on the reported results. By taking this approach, we ensure that our framework supports the continuous progress made by our clients. Moreover, our framework for sustainability-linked loans is directly linked to the AER targets and trajectories set by the Poseidon Principles.

Going forward, we will continue to work with expanding sustainability-linked pricing in our loan book whenever we negotiate new transactions or refinancings. This should ensure clients have the same incentives as us, helping us reach our ambitious target to have our portfolio climate-aligned in accordance with Poseidon Principles trajectories in 2025.

“We ensure that our framework supports the continuous progress made by our clients”

2023

50%
sustainability-linked loans

It is our target that by 2025 all our financed vessels will be climate-aligned in accordance with Poseidon Principles trajectories



Financed *emissions*

Our financed emissions – i.e. the vessels constituting our portfolio – account for by far the majority of the climate impact of our activities. It is therefore our No. 1 priority to steer our portfolio in the right direction and support our clients in their sustainable transition.

Maritime transport is one of the harder-to-abate sectors in the global economy, and its current reliance on fossil fuels is visible in the vessels' carbon footprints.

We intend to be as transparent and show as much relevant climate data about our portfolio as possible. The calculation of our financed emissions is based on the data collected directly from clients for the purpose of reporting under the Poseidon Principles. We use the methodology developed by Finance Denmark (FIDA) in its sector guidelines for CO₂ disclosures¹, since the Partnership for Carbon Accounting Financials (PCAF) does not currently include specific guidelines for shipping.

By disclosing this data, we hope to provide stakeholders with valuable information, and also to contribute to overall transparency re-

garding the impact of lending books in the financial sector.

Our methodology differs slightly from that suggested by FIDA. Due to data constraints in the attribution factor, we use the ratio between the outstanding amount and the current ship value. We note that other banks who have published similar data have made the same methodology adjustments.

The inclusion of ship values in the calculation has its drawbacks. Ship values are highly volatile – a case in point is the movement in ship values over the last three years. This makes individual years' results for financed emissions difficult to analyse in isolation, as they can be greatly influenced by movements in ship values from year to year (see illustration). Therefore, we urge readers to interpret the data with caution, always analyse trends over several years, and seek to understand movements in underlying data affecting the results.

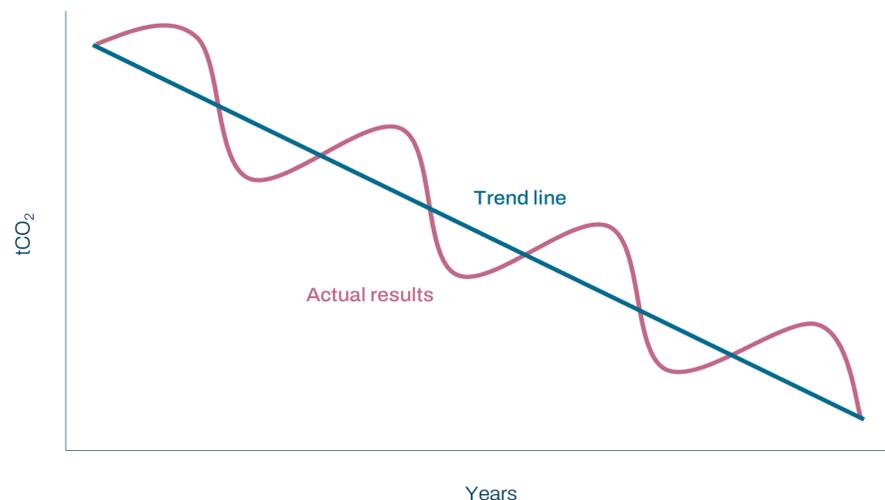
¹ Please refer to Finance Denmark's (FIDA) [guidelines for CO₂ disclosures](#) for a detailed methodology.

Financed emissions

	2021	2020	2019
Absolute emissions (Million tCO₂e)	5.8	7.6	8.0
CO₂ intensity per DKK million exposure (tCO₂e / DKKm)	184	275	247
Portfolio coverage	85%	84%	79%

The share of the lending book not covered relates to vessels not included in the scope for the Poseidon Principles and of this a negligible share in each year relates to vessels included in the scope for Poseidon Principles that we were unable to obtain the relevant data for. GHG emissions data is based on fuel consumption by each vessel, i.e. the PCAF data quality score is 2.0. We use FIDAs suggested methodology, but with end of year market values.

Expected development in financed emissions



Sustainability ratings

In recent years, we have assigned sustainability ratings to our clients. The purpose of the sustainability ratings is to enhance dialogue about sustainability with clients, more specifically to push for broader transparency in their information-sharing. The dialogue with our clients is part of our advocacy for a more sustainable shipping industry.

We have received positive feedback on our approach from clients, and our experience is that working systematically with the ratings as part of our credit assessment provides an important extra layer of insight.

Since 2019, when we introduced our sustainability ratings, we have seen our portfolio of clients greatly increase their level of transparency from their individual starting points. Besides our active dialogue with clients about increasing transparency, this is also a reflection of the huge development the industry has undergone in recent years as sustainability and climate have become key priorities in the industry.

The rating framework is a valuable tool allowing us to get to know new clients and has also helped us learn more about long-standing clients. Moreover, it helps us in our endeavour to only lend to shipowners who are progressive in terms of the sustainability agenda, and to those with the most solid and viable business models.

The sustainability rating of each client forms part of our credit assessment and underpins the importance of sustainability performance

in relation to our willingness to finance clients. Additionally, the information we gather from each client to arrive at a sustainability rating gives us a better understanding of the client's strategic approach to sustainability. This understanding is crucial for us to engage in constructive and meaningful dialogue with the client.

Sustainability rating framework

We assess clients' internal policies, processes and available data through which they document their performance based on the parameters below:

Environment	Fuel consumption and energy efficiency
	GHG emissions (particularly CO ₂ emissions)
	Pollution prevention
Social	Safety and health
	Human rights
Governance	Anti-corruption and bribery
	Organisational anchoring of sustainability
Ship recycling	Ship recycling policies
Quality of information	Public reporting and other information shared

We have assigned sustainability ratings to

100%

of our lending portfolio



Investors

Our investors form a key group of stakeholders. Danish Ship Finance is subject to increased regulation and requirements for transparency, as are our investors.

In the same way that we raise the bar for our clients in terms of sustainability performance, our investors raise the bar for us. This means that we too must provide our investors with insights into our sustainability approach, e.g. action plans, targets and metrics. These expectations from investors increase every year, and we put our absolute best efforts into delivering satisfactory information.

It is a top priority to engage actively with our investor base, predominantly institutional investors in Northern Europe. In this regard, it is especially relevant for us to maintain transparency in relation to our sustainability efforts, in order to ensure that we remain an attractive investment. We constantly seek to improve our transparency level, and as such we continued our dialogue with investors around our sustainability efforts in 2022. In this report, we seek to further increase transparency by disclosing our financed emissions for the first time. We will continue these efforts in 2023, and regularly provide our investors with sustainability updates.

Our investors fund the transition

In striving to fulfil our intention to finance the transition, we have set a range of climate-related targets to support the journey to a net zero shipping industry by 2050. This means that our investors, by funding us, are also helping to fund the transition.

“We put our absolute best efforts into delivering satisfactory information”



Employees

Our employees are our greatest asset at Danish Ship Finance. That is why we strive to support their wellbeing and job satisfaction.

In recent years, our business and employees have been greatly impacted by the Covid-19 pandemic. Although we are now back to a “new normal”, even the beginning of 2022 was again defined by the pandemic as cases rose and working from home was reintroduced for a brief period.

Over the past few years, the increased prevalence of working from home has created new requirements for employers. Working from home offers great flexibility for employees but can also challenge their sense of belonging.

In order to address this, we have paid special attention to the onboarding of new employees, both during the recruitment process and after they have joined us. We have made extra efforts to maintain continuous dialogue between new employees and HR, and we have established well-defined and structured introduction programmes for all new employees, ensuring they have a good start in our company. We experienced a high level of retainment in 2022.

Employee wellbeing

We returned to a new normal in 2022, and apart from a brief period at the beginning of the year, we have all been back in the office. Working from home up to two days per week enables employees to have increased flexibility in their working day. We find that many of our employees appreciate this increased flexibility. Since our staff's return to the office after a few turbulent years, we have prioritised efforts to strengthen our team spirit, arranging multiple events, both professional and social throughout the year.

Diversity

We are pleased to announce that we increased the percentage of women in leadership positions (just below the executive management level) to 29% in 2022, from 25% in 2021. We are proud of this and hope to make further progress in the coming years. The Executive Board is not included in these data.

We value the diversity of our employees' backgrounds, experience, qualifications, and personal qualities. Each employee makes a unique contribution to our organisation and culture. We recognise that there is still room for improvement in terms of reflecting the composition of society in our organisation. We also recognise that diversity goes

beyond gender, and we believe that a more diverse workforce in all aspects will improve our overall performance.

We strive to always have at least one person from each gender represented in all final recruitment rounds for leadership position. With this in mind, we have set a target for 40% of management positions (executive management is included in this target) to be held by women by 2025, as well as 25% of annual general meeting-elected board positions by 2024.

We increased the percentage of women in leadership positions from 25% in 2021 to 29% in 2022

8 DECENT WORK AND ECONOMIC GROWTH



5 GENDER EQUALITY



The Danish *Maritime Fund*

Through our contribution of 15% of our annual net profit to The Danish Maritime Fund, we indirectly fund initiatives supporting the development and growth of the Danish shipping and shipbuilding industries and their suppliers.

The grants and seed funding from The Danish Maritime Fund are particularly earmarked for activities in the Danish maritime sector that strengthen the green and digital transition, as well as for activities that focus on accommodating the UN Sustainable Development Goals.

Supporting maritime start-ups

The Danish Maritime Fund has enhanced its focus on supporting maritime start-ups. In order to accelerate the green transition of the Danish shipping industry, the fund will spark innovation and strengthen digitalisation through new seed funding that opened for applications from 2022.

Examples of supported projects

In 2022, The Danish Maritime Fund supported a project by Renable ApS to enable certifiable circular recycling of vessels in order to combat the challenges related to the environment and conditions for workers. The purpose of the project is, amongst other things, to create a certifiable process for recycling and enable tracking of individual subparts of the vessels.

The Danish Maritime Fund also supported the project “Offshore Power Generator Vessel” by Offshore Energy Solutions. The aim of this project is to reuse and repurpose large Container, Tanker, or Bulk vessels to capture green energy from waves to enable cost-effective production of green electricity.

Based on our financial performance in 2022, the Danish Maritime Fund will receive a proposed preferred dividend of DKK 83 million.

Since 2005, **DKK 879 million** of profits from Danish Ship Finance has been transferred to the Danish Maritime Fund.

THE DANISH MARITIME FUND

The Danish Maritime Fund is a commercial fund established by law in 2005 upon the transformation of Danish Ship Finance into a private limited liability company. The Fund was at the time awarded 10% of the share capital in Danish Ship Finance. Each year the Fund receives 15% of Danish Ship Finance’s net result after tax as a preferred dividend (limited at DKK 83 million per year).

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

Danish Ship Finance is not involved in the operation of the Fund or the distribution of grants.

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

[Read more here](#)

DEN DANSKE
MARITIME FOND



Engaging *with society*

Initiatives joined

Engaging with various stakeholders in society is a priority for Danish Ship Finance in order to accelerate the transition of the shipping industry.

Engaging with a wide variety of both national and global stakeholders is therefore viewed as essential on all levels throughout our organisation, and we put a lot of effort into maintaining cross-industry relationships through dialogue during 2022.

Poseidon Principles

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 a reduction of greenhouse gases from shipping.



POSEIDON
PRINCIPLES

UN Global Compact

An initiative aimed at encouraging businesses to align their strategies and operations with ten universal principles for building on UN conventions in the areas of human rights, labour standards, the environment and anti-corruption.

WE SUPPORT



UN Guiding Principles on Human Rights

The first global standard for preventing and addressing the risk of human rights abuses linked to businesses' activities. It continues to be the internationally accepted framework for enhancing standards and practices regarding businesses and human rights.



Getting to Zero Coalition

A multi-stakeholder initiative by the Global Maritime Forum, the World Economic Forum and 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.



GLOBAL
MARITIME
FORUM | Unleashing the
potential of the global
maritime industry

Responsible Ship Recycling Standards

The Responsible Ship Recycling Standards (RSRS) is an initiative for banks. The RSRS is aimed at promoting responsible ship recycling and minimising the dangers associated with hazardous materials onboard.



Call to Action for Shipping Decarbonisation

Signatories call on governments to work together with industry to deliver policies and investments needed to reach critical tipping points in the decarbonisation of global supply chains and the global economy.

17 PARTNERSHIPS
FOR THE GOALS





Sustainability Report

Our footprint

Our footprint

As a financial institution, Danish Ship Finance has a low level of direct carbon emissions compared to, for example, companies producing goods.

Furthermore, our relatively modest size makes our own direct impact even smaller. However, this does not diminish our responsibility to do what we can to reduce our footprint by improving our internal procedures and activities.

We strive to live up to the same high standards as we expect from our stakeholders, and so to accommodate the goals set forth in our strategy Financing the transition, we have already implemented several changes in our organisation, with the aim of reducing our climate impact by at least 5% annually and will continue to look for more areas where we can make improvements.

Air travel

Danish Ship Finance is a relationship-based financial institution and we find that meeting our clients in person adds significant value to our relationships and thereby mitigates credit risk.

Air travel is therefore the main source of carbon emissions as a result of our business activities. In 2022, our travel activity rose again as the pandemic lost its grip. In some regions, we are still not able to travel as freely as before, and here in-person meetings have been replaced by virtual meetings, which have been a good substitute but are of less value, we find, than face-to-face meetings.

We therefore expect to resume a lot of our previous travel activity, although we will still seek to reduce our emissions where we can. For example, we aim to arrange our travel through companies that have a clear focus on sustainability in order to keep our impact as low as possible.

Car transportation

A planned renewal of the small fleet of company cars was carried out during 2022. The combustion engine cars were all replaced by electric or plug-in hybrid vehicles during the year. This has allowed us to significantly reduce direct CO₂ emissions related to car transportation.

We have a partnership with Viggo, a company that provides taxi services for companies using entirely zero-emission vehicles. Through this partnership, we will eliminate all direct CO₂ emissions stemming from our work-re-

lated driving, as we will be using electric taxis.

Green electricity

For our office building we purchase renewable energy from our electricity supplier.

“In 2023, we will continue to take action to reduce the climate impact of our organisation by at least 5% annually”





Sustainability Report

Ethics *and compliance*

Ethics *and* compliance

Know your customer (KYC)

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 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 forward the information by certain deadlines; we are obliged to report any failure to do so to the authorities. In 2022, the mandatory compliance training of employees was in the form of e-learning and scheduled in-person training at our offices for the relevant employees.

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 relevant policies. In practice, we work to mitigate the risk of bribery and corruption through our compliance procedures, which includes continuous training, controls, and escalation steps.

Whistleblowing

Finally, we have a whistleblower scheme, allowing employees who may have witnessed non-compliance with financial legislation or any other serious crime to report this anonymously to a non-related law firm, which will then investigate any reports submitted. The law firm has stated that in 2022 it once again did not receive any non-compliance reports, and neither did any employees make use of our whistleblower scheme during the year.

Data privacy and security

We update our policy on data privacy annually in order to ensure continuous alignment with applicable national and international governmental regulation. Our policy contains descriptions on procedures for issues such as money laundering, personally sensitive information, data on employees, etc.

Tax

Danish Ship Finance contributes to society by conducting business based on accountable and fair principles. This also applies to the areas of investment and tax. We are a substantial corporate income taxpayer in Denmark, and tax for the year represented an expense of DKK 166 million in 2022, corresponding to an effective tax rate of 20%. We believe responsible tax practice is a vital part

of being a responsible business and are committed to avoiding aggressive tax planning.

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
- Code of conduct for business relations

For additional and more detailed information about our work on corporate governance, read more here:

[Corporate governance](#)



Sustainability Report

Reporting *principles*

Reporting *principles*

ESG figures

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

Employees:	The number of employees as of the end of the year, excl. student assistants
Gender diversity:	Number of women in full-time workforce / full-time workforce
Underrepresented gender in leadership:	Share of the underrepresented gender in leadership. Leadership is defined as employees with staff management responsibilities
Gender pay ratio:	Median male salary/median female salary
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
Employee training:	The percentage of employees who have received external training during the year in the form of courses, seminars, or conferences
Sickness absence:	The total number of sick days registered throughout the year per full-time equivalent employees as of year-end Employees include temporary workers and student assistants. Sick days exclude paternity/maternity leave
Employee satisfaction:	Data is based on the results of our annual well-being survey, to which all employees (excluding the Executive Board) are invited to respond. Response rate was 89% in 2022



Reporting principles

Data on environmental impact

CO₂ emissions are calculated on the basis of electricity, heating, and paper consumption in our existing office building and corporate air travel as well as company cars. In accordance with accepted methodology, we omit renewable electricity purchased. For the calculation of CO₂ emissions we use the available methodology from the Danish Business Authority.

Electricity consumption:	Annual electricity consumption is based on automatic data transfers to the company's supplier of electricity from smart meters and meter readings
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
Water consumption:	Annual water consumption is based on data transfers to the company's supplier of water from meter readings
Paper consumption:	Paper consumption is based on the volume of usage registered by the company's copy machines Paper consumption is defined as the amount of paper printed or copied on the company's premises
Air transport:	CO ₂ emissions related to our transportation is calculated on the basis of statements from our travel agency, Egencia

Task force on *climate-related Financial Disclosures*

Task Force on Climate-Related Financial Disclosures is established by The Financial Stability Board, setting forth recommendations for more effective climate-related disclosures, enabling stakeholders to get a

better understanding of the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

Task Force on Climate-related Financial Disclosures

Governance		References	page
a.	Describe the board's oversight of climate-related risks and opportunities	<ul style="list-style-type: none"> CEO statement Moving towards a sustainable shipping industry 	3 5-10
b.	Describe management's role in assessing and managing climate-related risks and opportunities	<ul style="list-style-type: none"> Moving towards a sustainable shipping industry 	5-10
Strategy			
a.	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	<ul style="list-style-type: none"> Material sustainability topics Financing the transition Financed emissions 	6 7-9 18
b.	Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning	<ul style="list-style-type: none"> Moving towards a sustainable shipping industry Clients (Poseidon Principles, sustainability ratings, sustainability-linked loans, financed emissions) 	5-10 14-19
c.	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including 2 degrees C or lower scenario	<ul style="list-style-type: none"> Poseidon Principles (climate-aligned portfolio) 	15-16

Task force on climate-related Financial Disclosures

Task Force on Climate-related Financial Disclosures

Risk Management

a.	Describe the organisation's processes for identifying and assessing climate-related risks	<ul style="list-style-type: none"> • Clients (Responsible client selection, Poseidon Principles, Financed emissions) • Sustainability ratings 	14-16, 18 19
b.	Describe the organisation's processes for managing climate-related risks	<ul style="list-style-type: none"> • Clients (Responsible client selection, Poseidon Principles, Financed emissions) • Sustainability ratings 	14-16, 18 19
c.	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	<ul style="list-style-type: none"> • Sustainability ratings 	19

Metrics and Targets

a.	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	<ul style="list-style-type: none"> • Financing the transition • ESG key figures 	7-10 11
b.	Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas emissions (GHGe), and the related risks	<ul style="list-style-type: none"> • ESG key figures 	11
c.	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	<ul style="list-style-type: none"> • Financing the transition 	7

Sustainable *Development Goals*

The Sustainable Development Goals are a call for action by all countries – poor, rich and middle-income – to promote prosperity while protecting the planet. They recognize that ending poverty must go hand-in-hand with strategies that build economic growth and

address a range of social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection.

SDG	Targets	Actions	Focus	Page
5 GENDER EQUALITY 	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life	Ambition: Minimum 40% underrepresented gender in leadership positions and 25% board members	<ul style="list-style-type: none"> • HR • Executive Board and other leadership positions • Board of Directors 	
8 DECENT WORK AND ECONOMIC GROWTH 	8.8 Protect labor rights and promote safe and secure working environments for all workers	Signatory to Responsible Ship Recycling Standards in 2021	<ul style="list-style-type: none"> • Requirements integrated in standard term sheet and loan agreements • Participate in the quarterly meetings with other members to develop the initiative 	23
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes	Up to 15% of our net income after tax is transferred to The Danish Maritime Fund	<p>The Fund's allocation policy determines that donations must, among other things, primarily be directed towards:</p> <ul style="list-style-type: none"> • Activities aimed at optimization, automation, and digitalization of the maritime sector • Activities promoting a green transition of the Danish maritime cluster • Activities in the maritime sector that support the UN's 17 SDGs, for example for the environment, climate, circularity, innovation or equal opportunities 	22

Sustainable Development Goals

SDG	Targets	Actions	Focus	Page
12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	12.6 Encourage companies to adopt sustainable practices and to integrate sustainability information into their reporting cycle	Client advocacy aiming to increase transparency in sustainability information	Sustainability ratings	19
13 CLIMATE ACTION 	13.2 Integrate climate change measures into national policies, strategies, and planning	Call to Action for Shipping Decarbonization	Urging national governments to take immediate actions prior to COP26, e.g. set a target for zero emission shipping by 2050	23
17 PARTNERSHIPS FOR THE GOALS 	17.16 Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries	<ul style="list-style-type: none"> • UN Global Compact • UN Guiding Principles on Human Rights • The Danish Maritime Fund • Poseidon Principles • Getting to Zero Coalition • Responsible Ship Recycling Standards 	Continue participation in the Steering Committee under Poseidon Principles, working to further increase ambition level	15-16 22 23



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