Translation from Danish by Danish Ship finance A/S (*Danmarks Skibskredit A/S*) of a statement dated 12 July 2021 from the Danish Financial Supervisory Authority (*Finanstilsynet*). In case of discrepancies, the Danish version prevails.

Statement on inspection of Danish Ship Finance A/S

In October 2020, the Danish Financial Supervisory Authority (the FSA) carried out an inspection of Danish Ship Finance. The inspection involved the credit area and consisted of an assessment of, in total, 35 exposures taken out in the second quarter of 2020, including the company's 20 largest exposures. In addition, the company's relevant policies, business procedures and reporting were reviewed.

Summary and risk assessment

Danish Ship Finance is characterised as having a small number of large customers and an essential concentration in the shipping industry.

The shipping market is generally characterised by a high degree of volatility. The Offshore segment is currently extremely challenged and accounts for a considerable share of the company's weak exposures and write-downs. This underlines the importance of the company's policy of distributing its exposures between shipping segments.

Due to the business area in which it operates and the associated regulation, Danish Ship Finance has limited liquidity risk compared to other credit institutions. However, compared to mortgage institutions, it has greater market risk and counterparty risk. The company began issuing covered bonds in 2019, which require supplementary collateral if the primary collateral declines in value. This has created a new form of financing risk for the company, as it may be forced to issue senior debt or similar in order to finance the supplementary collateral at an unfavourable time.

The purpose of the Danish FSA's review of the company's exposures was to assess its credit management and the accounting of these exposures.

The purpose was also to assess the extent to which the Covid-19 crisis has had an impact on the company's exposures, and how the company has responded to this.

The Danish FSA's only observation in this respect was that Danish Ship Finance consistently uses the contractual residual maturity of exposures, whereas it should calculate the lifetime-PD in accordance with the Executive Order on Accounting. The company can only do this when its experience with comparable exposures makes it possible and acceptable. Danish Ship Finance has been ordered to rectify this.

As of the end of 2020, Danish Ship Finance calculated its solvency requirement at 12% (including the combined buffer requirement). Its actual solvency ratio was 22.3%.

The inspection did not give rise to any change in the solvency requirement calculated by Danish Ship Finance.