



**DANISH
SHIP FINANCE**

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Change of rating outlook

On 10 December 2014, Moody's Investor Services announced a change in the rating outlook for Danish Ship Finance. The outlook has been changed from negative to stable, and Danish Ship Finance subsequently holds a Baa2 rating with a stable outlook.

Reference is made to the attached release from Moody's.

Yours sincerely

Danish Ship Finance

Per Schnack

Appendices: Press release from Moody's

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's affirms Danmarks Skibskredit's Baa2 issuer rating, outlook changed to stable

Global Credit Research - 10 Dec 2014

London, 10 December 2014 -- Moody's Investors Service has today affirmed Danmarks Skibskredit A/S' (DSF) Baa2 long-term issuer and senior unsecured ratings and changed the outlook to stable from negative.

The outlook change to stable reflects both a stabilisation of Moody's sector outlook for the global shipping industry from negative and the reduction in the level of DSF's problem loans in the first half of 2014, following an increasing trend since 2010.

RATINGS RATIONALE

OUTLOOK CHANGED TO STABLE

The change in rating outlook for Danmarks Skibskredit A/S follows Moody's stabilisation of the outlook for the major segments of the shipping industry (Dry Bulk, Crude Oil Tankers, Product Tankers and Containers) earlier in 2014 from negative previously. The stable sector outlook reflects indications that the operating conditions in the industry are stabilising, although still challenging. Moreover, the outlook change for DSF also takes into account signs that the group's asset quality pressures are easing. While DSF's problem loans remain elevated compared to 2010 and 2011 (problem loans/ gross loans of 8.2% and 8.4% respectively), Moody's notes the reduction in the level of problem loans to 13.2% of gross loans at end-June 2014 from 15.2% at end-December 2013. This follows an increasing trend since 2010 and signals that DSF's asset quality is stabilising in line with the shipping industry's operating conditions.

RATINGS AFFIRMED

The affirmation reflects DSF's strong franchise, financial track record and Moody's view of the high likelihood of support from Danish authorities if needed, balanced against risks inherent in the concentrated nature of the bank's fully shipping focused loan book.

DSF's baa3 baseline credit assessment reflects the issuer's (1) established position as a secured lender to the shipping industry in Denmark and abroad with a 53 year track record; (2) sound financial track-record, as DSF has only once reported a negative result which was due to mark-to-market valuations of its bond portfolio; (3) strong capital position with a Tier 1 ratio of 16.9% at end-June 2014; and (4) limited asset and liability duration mismatches and strong liquidity, as funding and lending is generally maturity matched with liquid assets amounting to 37% of total assets at end-June 2014. These positive factors are balanced against (1) the group's sole focus on the inherently volatile global shipping industry, which still faces structural challenges and (2) large borrower concentration in the group's loan book. Both factors drive the need for high levels of capital and liquidity.

DSF's Baa2 long-term issuer and senior unsecured ratings also incorporate one notch uplift of systemic support, reflecting partial government ownership through the 19% stake held by the Danish central bank and the group's importance as a source of financing to the Danish shipping industry.

WHAT COULD CHANGE THE RATING -- UP/DOWN

Upward rating momentum could develop if DSF demonstrates (1) continued improvement in its problem loan levels, (2) reduced loan concentration parameters, and/or (3) more explicit support from its shareholders, which include the Danish National Bank.

Ratings could decline if (1) conditions in the global shipping industry deteriorate, leading to renewed deterioration in DSF's asset quality, (2) loan concentrations increase, and/or (3) the likelihood of government support for DSF decreases.

The principal methodology used in this rating was Government-Related Issuers published in October 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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