

An unofficial translation by Danish Ship Finance A/S (Danmarks Skibskredit A/S) from the original Danish language text of a statement from the Danish Financial Supervisory Authority (Finanstilsynet) dated 25 March 2025.

Statement on the inspection of market risk and IT at Danish Ship Finance

In September 2023, the Danish FSA carried out an inspection of Danish Ship Finance A/S. The inspection focused on the institution's management of market risk, counterparty risk, interest rate risk outside the trading book and IT.

Subsequently, there has been a long dialogue about the inspection's conclusions with Danish Ship Finance.

Summary and risk assessment

During the inspection, the FSA reviewed Danish Ship Finance's organisation, policies, guidelines and authorizations, business procedures and controls in the areas mentioned as well as the institution's positions in and outside the trading book.

Danish Ship Finance lends in US dollars and hedges the currency risk with derivatives. Danish Ship Finance issues bonds in Danish kroner and euros, and the capital base is calculated in Danish kroner. If the exchange rate between US dollars and Danish kroner changes significantly, the lending volume measured in Danish kroner will also change. This means that the institution's capital requirement, which is calculated in Danish kroner, will change significantly, while the institution's own funds will remain unchanged. This entails a risk that Danish Ship Finance's capital ratio will fall suddenly due to changes in the US dollar exchange rate over which the institution has no influence.

Danish Ship Finance has received an order regarding the structural currency risk to which the institution is exposed. Danish Ship Finance must ensure that the calculation of the solvency need includes all abnormal risks, including structural currency risk.¹

Danish Ship Finance's framework and guidelines in the market risk area have some shortcomings, which means that there is a risk of the institution taking risks that exceed management's risk appetite.

Danish Ship Finance has therefore been ordered to ensure that the institution's market risk policy and guidelines are updated so that currency risk, interest rate risk outside the trading book and other significant risks are adequately identified and limited².

Danish Ship Finance's risk assessment in the IT area has not included probabilities of various risk events occurring. This makes it difficult for the institution to assess the extent of the IT risks facing Danish Ship Finance.

Danish Ship Finance has therefore been ordered to ensure that the risk assessment in the IT area can form the basis for the Board of Directors to assess the IT risks³.

¹ Orders issued pursuant to section 124(2) of the Danish Financial Business Act

² Orders issued pursuant to section 4(1) of the Executive Order on the Management and Control of Banks etc.

³ Orders issued pursuant to Annex 5, no. 13, of the Executive Order on the Management and Control of Banks etc.