



**DANISH  
SHIP FINANCE**

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## **Rating affirmed**

Moody's Investor Services today affirmed Danish Ship Finance's rating, and Danish Ship Finance subsequently retains a Baa2 rating with a stable outlook.

Until today, the rating was based on a BCA rating, or a so-called stand-alone rating, of Baa3 with a one notch upgrade to Baa2 because the Danish central bank is a shareholder of Danish Ship Finance.

Considering the financial performance of Danish Ship Finance, Moody's has upgraded the BCA rating to Baa2, but due to the announcement concerning a review of the company's strategic possibilities, Moody's has also removed the one notch upgrade resulting from the Danish central bank's partial ownership.

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

Danish Ship Finance

Per Schnack

Appendix: Press release from Moody's

**Rating Action: Moody's affirms Danmarks Skibskredit's Baa2 ratings; outlook stable**

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Global Credit Research - 01 Oct 2015

London, 01 October 2015 -- Moody's Investors Service has today affirmed Danmarks Skibskredit A/S' (DSF) Baa2 long-term issuer and senior unsecured ratings with a stable outlook. The rating agency upgraded DSF's baseline credit assessment (BCA) to baa2 from baa3.

The affirmation of DSF's long-term ratings at Baa2 combines a one notch BCA upgrade, reflecting improving financial performance, with the removal of one notch of government support, reflecting Moody's assessment that the probability of government support has reduced. The rating affirmation also takes into account DSF's established position in the shipping sector, effective risk management and governance, as well as its continuing financial strength despite challenging market conditions in recent years.

In line with the above considerations, Moody's has also changed the methodology it applies to DSF to the Finance Company Global Rating methodology from the previous Government-Related Issuers (GRI) methodology.

DSF's stable outlook is in line with the rating agency's stable outlook for the global shipping industry, and also reflects the stabilisation of DSF's problem loans in the first half of 2015 at 8.4%, following an increasing trend since 2010.

#### RATINGS RATIONALE

#### RATINGS AFFIRMED

The affirmation of DSF's long-term ratings at Baa2 combines a one notch BCA upgrade to baa2 from baa3 previously, and the removal of one notch of government support.

The upgrade of DSF's BCA to baa2 reflects Moody's expectation that the improvement in the ship lender's financials, including reducing problem loan levels, will continue, as well as the positive recent trend of increasing margins on the lending book. In addition, DSF maintains strong capital buffers, as illustrated by its Tier 1 ratio of 16.5% at end-June 2015, matches the maturity profile of liabilities against its assets, and reports strong liquidity with liquid assets amounting to 37% of total assets at end-June 2015.

The BCA, furthermore, is supported by DSF's (1) strong and long-term franchise as an established lender to the global shipping industry with a track record exceeding 50 years; (2) sound financial track record, with a minimal amount of credit write-offs over its lifetime; and (3) exceptionally effective risk management and the secured nature of lending with conservative approach taken to collateral values.

However, DSF's ratings are constrained by (1) the institution's monoline nature and full focus on the inherently volatile global shipping industry, which continues to face structural challenges; and (2) large borrower concentration in the loan book.

On 11 June 2015, DSF announced that it had initiated a strategic review including possibilities of an initial public offering or a sale of the company. Moody's notes that it is still uncertain whether a transaction will take place and in what form. However, the rating agency removed the one notch rating uplift for government support which was previously included in the ratings, as it considers the government's willingness to support DSF diminishing, as illustrated by Danmarks Nationalbank's potential sale of its shares in DSF.

#### RATING OUTLOOK

The stable outlook for DSF is in line with the stable outlook for the major segments of the shipping industry: Dry Bulk, Crude Oil Tankers, Product Tankers and Containers. The stable sector outlook reflects indications that while operating conditions in the industry are stabilising, they remain challenging. The outlook for DSF also takes into account that the group's asset quality pressures are easing. While DSF's problem loan ratio remains elevated (problem loans stood at 8.7% of gross loans in 2014 and 8.4% at end-June 2015), Moody's notes the stabilisation of DSF's asset quality in line with the shipping industry's operating conditions.

## WHAT COULD CHANGE THE RATING -- UP/DOWN

Upward rating momentum could develop if DSF demonstrates (1) continued improvement in its problem loan levels and/or (2) further reductions in loan concentration parameters, but would be balanced against rating constraints that follow from the risks in DSF's business profile.

Moody's would consider a rating downgrade 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) a change in ownership signals increasing risk taking or a reduction in risk mitigants, such as capital or liquidity.

The principal methodology used in these ratings was Finance Company Global Rating Methodology published in March 2012. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## LIST OF AFFECTED RATINGS

The following ratings have been affirmed:

- LT Issuer Rating: Baa2
- Senior Unsecured - Domestic Currency: Baa2

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