



The Danish Financial Supervisory Authority

Memorandum
28 October 2015

Report on inspection of Danish Ship Finance A/S

Introduction

In June 2015, the Danish FSA conducted an inspection (functional examination) of Danish Ship Finance A/S (Danish Ship Finance).

The inspection covered a range of selected areas, including the company's organisation and management, credit area, securities trading and funding, audit, risk management function, compliance function, capital adequacy, solvency and liquidity statements as well as IT security.

Summary and risk assessment

Danish Ship Finance grants loans to the shipping industry secured by a ship's mortgage, and in its capacity as a ship financing institute it is subject to specific rules and regulations in certain areas. Danish Ship Finance is notably different from other credit institutions in that it has few but large customers as well as specific shipping-industry and USD exposure.

The company's business model builds on few but large loans, and it is subject to more lenient rules in this area. The FSA has ordered the Board of Directors to adequately consider the degree to which and the circumstances under which the company will accept large loans in its portfolio.

Owing to its size, Danish Ship Finance is to some extent exempt from complying with the rules on segregation of functions of the Danish Executive Order on Governance, Risk Management, etc. for Financial Institutions. The FSA has ordered Danish Ship Finance to make an annual assessment of whether adequate compensatory measures are in place and to ensure that such measures are regularly followed up.

The FSA has also ordered Danish Ship Finance to ensure that the company clearly discloses that the framework of the company's market risk policy complies with the rules on risk profile definition of the Executive Order on Governance, Risk Management, etc. for Financial Institutions, and also that the types of financial instruments applied and the framework for each product type appear from the guidelines in the area. Danish Ship Finance must also establish liquidity limits that in every way match the defined liquidity risk profile, ensuring that the limits are at a level that is commensurate with the company's activities.

At 31 December 2014, Danish Ship Finance had a solvency need of 8.5%, while its actual solvency ratio at the same date was 16.4%.

Based on its inspection, the FSA found that there is currently no need for an add-on to the solvency need with respect to the areas examined.