Translation from Danish by Danish Ship Finance A/S (Danmarks Skibskredit A/S) of a statement dated 19 January 2017 from the Danish Financial Supervisory Authority (*Finanstilsynet*). In case of discrepancies, the Danish version prevails.

Statement on inspection of Danish Ship Finance A/S

Introduction

In September and October 2016, the Danish Financial Supervisory Authority (the FSA) conducted a review of loans at Danish Ship Finance A/S (Danmarks Skibskredit A/S).

The FSA reviewed the company's credit policy, business procedures and reporting in the area. Moreover, the FSA reviewed 25 loan exposures in total. The FSA further reviewed the rules of procedure of the Board of Directors and the written guidelines of the Executive Board with a particular focus on the credit area.

Summary and risk assessment

Danish Ship Finance grants loans to the shipping industry secured by mortgage over ships, and in its capacity as a ship financing institute it is subject to specific rules and regulations in certain areas. The institute is different from other credit institutions in that it has few and large customers and an industry concentration on shipping. Moreover, as a result of lending in USD and funding in DKK, the institute is exposed to currency exchange rate risk, which in spite of hedging has a certain impact on the institute's solvency. This is due to the fact that the value of the institute's total assets fluctuate with changes in the DKK/USD rate, even though the institute's own funds are not affected due to hedging.

Consequently, the institute has a considerable risk concentration in relation to both individual customers and the shipping industry. However, the institute's lending is distributed across the individual segments of the shipping industry in accordance with the institute's own diversification rules.

A number of shipping segments have been challenged for a number of years, among other things due to lower freight rates. The institute follows developments in the individual segments and closely monitors its customers' creditworthiness and developments in the value of the institute's mortgages. The institute generally has adequate security coverage after impairment charges. It is important that Danish Ship Finance continues this practice, especially considering the institute's mono-line business model.

The FSA generally agreed in the institute's assessment of the customers' financial strength. As a result, the review did not give rise to any changes to customer ratings. The review of the institute's loan exposures did not give rise to any further impairment charges.

The institute has fewer weak exposures among its ten largest exposures than it had at the FSA's latest review of loans in 2013. However, the institute still has a number of challenged customers.

At 30 June 2016, Danish Ship Finance had a capital ratio of 18.8% and a solvency need of 9.3% including the capital conservation buffer.

The FSA's review did not result in any changes to the solvency need.