

Announcement: Moody's reviews Danmarks Skibskredit's A2 ratings for downgrade

Global Credit Research - 25 Nov 2011

London, 25 November 2011 – Moody's Investors Service has today placed on review for downgrade the A2 issuer rating and senior unsecured ratings of Danmarks Skibskredit AS (Danish Ship Finance, DSF). The review reflects DSF's (i) vulnerability to volatility in shipping markets; (ii) very high portfolio concentrations; (iii) high reliance on market funding; and (iv) the extent to which DSF would benefit from government support in case of need.

RATINGS RATIONALE

Today's rating announcement is prompted by the continued volatility in shipping-freight rates and vessel values in 2011. Moody's expects that this volatility will continue, especially taking into account the large parts of order books that will be delivered over the next years. DSF's loan portfolio remains strongly concentrated on relatively few exposures, with one particularly large, which creates vulnerability to single-name credit events. DSF is also totally reliant on market funding. DSF holds a substantial securities portfolio equal to 36% of total assets, and its funding maturities substantially match those of its assets, provided assets perform. However, full reliance on market funding amplifies repayment risk in the event that assets do not perform in full, which is more of a concern due to the portfolio concentration.

DSF's ratings take into account the collateral position that the institution takes in its lending portfolio. Although DSF benefits from the ability to increase collateral positions when ship values fall, Moody's notes that this benefit reverses when values recover. In addition, any benefit is subject to shipping companies' ability to post additional collateral; this becomes more unreliable during periods of shipping-market volatility.

The ratings further reflect the implicit support of the Danish government, which holds a 19% stake in the institution through the Central Bank. In Moody's opinion, the rationale for high support assumptions may have weakened due to (i) the termination and non-renewal of the shareholder agreement, which limited ownership changes up to July 2010; and (ii) the Danish government's actions with regards to ailing banks in 2011, when the creditors of two banks made losses in 2011 following the use of Bank Package III.

FOCUS OF THE REVIEW

During the review, Moody's will assess DSF's full-year 2011 financial results and its ability to address the current shipping-market volatility. The rating agency will further assess (i) DSF's single-name event-risk exposure due to its loan book concentrations; (ii) the vulnerability to investor confidence due to its reliance on market funding; and (iii) its government support assumptions.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Headquartered in Copenhagen, Denmark, Danmarks Skibskredit reported total assets of DKK 81.9 billion (EUR 11 billion) at June 30 2011.

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