Annual Report 2018

Danske Hypotek AB (publ)

Contents

This document is a translation of the Swedish original. The Swedish version shall be the sole authentic version and in the event of discrepancies shall prevail.

Company executives
Per Tunestam
Chief Executive Officer,
employed since 2016

Peter Jönsson
Chief Financial Officer,
employed since 2017

Tomas Renger
Chief Funding Manager,
employed since 2017

Sophia Grönkvist
Chief Operating Officer,
employed since 2017

Joakim Olsson
Head of Credit,
employed since 2017

Jonas Wikfeldt
Senior Funding Manager,
employed since 2017

Other executives, on an assignment basis, comprise the following individuals:

Anneli Virdenäs
Chief Risk Officer,
employed in Danske Bank A/S, Sweden Branch

Arne Peterson
Head of Legal,
employed in Danske Bank A/S, Sweden Branch

Jenny Berg
Compliance Officer,
employed in Danske Bank A/S, Sweden Branch

Company Board of Directors
Glenn Söderholm
Chairman of the Board (Head of Banking Nordic, Danske Bank A/S)

Robert Wagner
Member (Head of Group Financial Steering, Danske Bank A/S)

Berit Behring
Member (Country Manager Sweden and Head of Banking SE)

Carsten Nøddebo Rasmussen
Member (CEO, Realkredit Danmark)

Kim Borau
Member (Head of Performance Management, Banking Nordic, Danske Bank A/S)

Erik Åsbrink
External member

Auditors
Deloitte AB, Auditor-in-Charge Patrick Honeth

Internal Auditor
Miriam Gyllenros
Head of Internal Audit,
employed in Danske Bank A/S, Sweden Branch

Independent inspector
The independent inspector appointed by the Swedish Financial Supervisory Authority is Sussanne Sundvall, PwC

Management's Report 2018

The Board of Directors and Chief Executive Officer of Danske Hypotek AB (publ.) (corp. ID no. 559001-4154) hereby submit the Annual Report for 2018.
The company is a wholly owned subsidiary of Danske Bank A/S (corp. ID no. 61126228).

Background on the formation of Danske Hypotek AB

The Danske Bank Group – the Nordic region's second largest banking group – has an explicit strategy to strengthen its positions in the Swedish market. Danske Bank established operations in Sweden in 1995 and conducts banking activities as a branch of the Danish Parent Company. The growth of lending in Sweden has been strong in recent years. Through its Swedish network of offices and its strong digital offering, the Swedish branch has successfully conducted mortgage loan business in Sweden for a number of years and gradually increased its market share among other things through strategic cooperation agreements with the trade unions Saco (2016) and TCO (2017). Together, these unions represent nearly two million members, which constitutes continued growth potential in lending for mortgage loans to private individuals.

Danske Hypotek is a wholly owned Swedish subsidiary of Danske Bank A/S. In 2016, the company applied for a permit to establish a credit market company, and be permitted to issue covered bonds, which was granted by the Swedish Financial Supervisory Authority in the middle of 2017. The primary purpose of establishing the company is to create long-term stable financing with regard to Swedish mortgage loans. The Swedish branch's long-term growth in Sweden is supported through the company's access to the Swedish benchmark market for covered bonds. This way, the best possible conditions are created for the Swedish branch to offer long-term competitive lending to Swedish mortgage loan customers and owners of residential properties in Sweden.

Danske Hypotek's operations

The company's operations primarily consist of acquiring Swedish mortgage loans from Danske Bank A/S so that they can constitute collateral for the covered bonds issued by the company. The company does not conduct any new lending business of its own; lending takes place in the Swedish branch. For information on the Swedish branch, please refer to www.danskebank.se.

The company began its operations shortly after it received requisite permits from the Swedish Financial Supervisory Authority in 2017. Danske Hypotek's first covered bonds were successfully issued at the end of August. It was the first time in more than ten years that a new issuer entered the Swedish benchmark market. The company's bonds received a AAA credit rating from Standard & Poor's. At the end of 2018, the company had issued a total of SEK 47.6 billion distributed over three bond maturities. The company's mortgage loans amounted to around SEK 77.4 billion at the same time.

Development of the company's operations, position and performance

Amounts in SEK million	31 Dec. 2018	31 Dec. 2017
Income statement		
Total operating income	780	189
Total expenses	-61	-27
Loan impairment charges	1.9	0
Profit before tax	717	162
Balance sheet		
Lending to the public	77,429	33,302
Total assets	80,803	35,922
Due to credit institutions	28,300	14,500
Issued bonds, etc.	48,264	19,317
Total liabilities	76,696	33,955
Total equity	4,107	1,967
Key performance indicators		
Return on equity, %	18.5	12.5
Return on total assets, %	1.0	0.7
Investment margin, %	1.4	1.2
Expenses/Income	0.1	0.1
CET1 capital ratio, %	16.1	42.0
Proportion of impaired loans, %	0.1	0.1
Loan impairment charge level	0.00	0.00
Average loan, SEK thousands	1,078	1,056
Average weighted LTV in the cover pool, %	59	51

The annual report contains a number of key performance indicators (so-called alternative performance measures - APMs), which provide further information about Danske Hypotek. The APMs are calculated from the financial statements without adjustment. See Note 30 for a list of APMs.

Coordination with Danske Bank

The company's operations are coordinated with the Danske Bank Group. A large part of the company's operations are conducted using services procured and provided through various units within the Danske Bank Group. These services are regulated through a separate general outsourcing agreement and multiple underlying service level agreements. The company pays a fee for these services. The company also has access to financing through Danske Bank A/S and has entered into derivative agreements with Danske Bank A/S to hedge its financial risks.

Expected future volume development
During the next few years, the company intends to offer more bonds and gradually continue building up its volume in the Swedish bond market. The possible rate of growth in the company's portfolio is determined partly by the maturity profile of Danske Bank's previously issued bonds, where a large part of the Swedish mortgage loans still currently constitute collateral, and partly by the rate of the new lending growth in the Swedish branch's mortgage credit business. As market demand for the company's bonds is assumed to remain strong, the company's total outstanding bond volume is expected to amount to about SEK 100 billion in a few years' time. The company will thereby be able to provide good liquidity in its bond offerings in the long term.

At present, the company's mortgage loans consist solely of mortgage loans to private individuals. In the next phase, 2020 at the earliest, the company is also planning to acquire loans to owners of multifamily properties, such as property companies and tenant-owner associations. More detailed information on the company's mortgage loans is available at www.danskehypotek.se.

Market and development
Sweden's growth gradually slowed down during the year, primarily due to falling housing investments and a damping of both household consumption and household loan growth. This took place at the same time that housing prices remained stable. An extensive supply of expensive tenant-owner apartments, a new loan repayment requirement, an interest increase from the Swedish Central Bank and stagnant real wages held housing prices down while the strong labour market worked in the opposite direction. The loan-to-value ratio in the cover pool is 59% (51%), which is relatively low and the trend on the housing market has not had any negative impact on Danske Hypotek.

Profit before tax

The 2018 operating profit for Danske Hypotek's first entire financial year was SEK 717.4 million (161.7) and net interest income amounted to SEK 825.4 million (224.1). At year-end, the lending portfolio was SEK 77,429 million (33,302). The net income from financial transactions at fair value amounted to an expense of SEK 16.6 million (23.2). Net commissions amounted to an expense of SEK 28.7 million (11.6). The figures in parentheses refer to 2017, which, however, only reflects four months as the active operations began in August 2017. The fee to the resolution fund was negligible for 2018 as the calculation of the fee is based on the financial position in 2016. Total income amounted to SEK 780.1 million (189.3) and expenses to SEK 60.8 million (27.2). Expenses consisted primarily of compensation to Danske Bank for services rendered according to applicable outsourcing agreements and personnel costs. Loan impairment charges amounted to SEK 1.9 million (0.4).

Capital adequacy

Danske Hypotek's total capital ratio and CET1 capital ratio amounted to 16.1% (42.0) as of 31 December 2018. The major change is due to the Swedish Financial Supervisory Authority decided to move the risk floor of Swedish mortgage loans from Pillar 2 to Pillar 1. This means that the risk exposure amount increases sharply. Net profit for the year is not included in the capital base. Internally assessed capital requirements amounted to SEK 1,970 million as of 31 December 2018; the entire amount is covered by CET1 capital. For more information on capital adequacy, see Note 3.

Sustainability

In accordance with Chapter 7 Section 31, the company does not prepare any statutory sustainability report. The Parent Company, Danske Bank A/S, with its registered office in Denmark, prepares a sustainability report for the Group of which Danske Hypotek is a part. The Group's sustainability report is available on Danske Bank's website, www.danksebank.com/societal-impact.

Lending

Danske Hypotek continuously acquires already granted and established mortgage loans from Danske Bank's Swedish branch, where a mortgage deed in real estate or a pledged tenant-owner right intended for residential purposes has been provided as collateral. The purpose is that the acquired loans, in part or in whole, shall be included as collateral in the cover pool that constitutes the collateral for the issuance of covered bonds.

Danske Hypotek accordingly conducts no new lending, but rather all new lending business is handled in Danske Bank's Swedish branch. All acquired mortgage loans have undergone Danske Bank's credit process and all borrowers have been deemed to be able to pay interest and instalments given interest rates that exceed by a good margin the current level at the time credit is granted.

The acquired credits are managed by Danske Bank's Swedish branch, on behalf of Danske Hypotek through outsourcing agreements. This means that notification, management of received payments of interest and instalments, extensions, credit follow-up, etc. are managed by Danske Bank's Swedish branch.

Credit portfolio
As of the end of December 2018, the total credit portfolio amounted to SEK 77,429 million (33,302). The portfolio consists of mortgage loans for residential purposes. The collateral consists of 42% tenant-owner apartments and 58% single-family homes. The revaluation of the collateral is done continuously and an update of the collateral's value is done at least once every year. The geographic distribution is concentrated to the metropolitan areas and growth areas. Repayment capacity is deemed to be very good and the risk in the credit portfolio is deemed to be low.

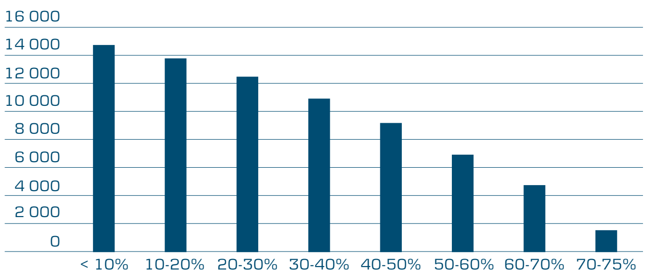
Cover pool
As of 31 December, the eligible mortgage loans is the cover pool, which constitutes collateral for the issuance of covered bonds, amounted to SEK 74,517 million, which corresponds to more than 96% of the total mortgage loan portfolio. At 31 December, the average weighted loan-to-value ratio (LTV) amounted to 59.1% and the overcollateralisation level amounted to 57%.

Cover Pool KPIs

Cover pool, SEK million	74,517
Average loan, SEK thousands	1,078
Number of loans	69,148
Number of borrowers	35,897
Number of properties	37,333
Average weighted LTV, %	59.1
Average seasoning, years	3.4

Regional distribution	Volume, SEK million	Volume, %
Stockholm	37,245	50%
Gothenburg	9,628	13%
Malmoe	4,635	6%
Southern Sweden	4,751	6%
Western Sweden	3,045	4%
Northern Sweden	3,362	5%
Eastern Sweden	11,852	16%
Outside Sweden	0	0%
Total	**74,517**	**100%**

Loan volume in cover pool by LTV interval



Funding and liquidity

Funding

Danske Hypotek's primary source of funding is through covered bonds in the Swedish benchmark market. As a complement to this, the company also has access to financing through Danske Bank A/S in the form of a loan facility. Danske Hypotek currently has three bonds in the market.

Altogether, all three bonds were very well received in the market and subsequent so-called tap issues have continuously been carried out at competitive pricing. In September 2018, Danske Bank A/S published further information on the money laundering cases in Estonia[1]. This has had a marginal impact on the pricing of Danske Hypotek's issue levels.

At 31 December 2018, the total outstanding nominal volume was SEK 47,589 million, of which SEK 13,938 million in DH2112, SEK 20,751 million in DH2212 and SEK 12,900 million in DH2312.

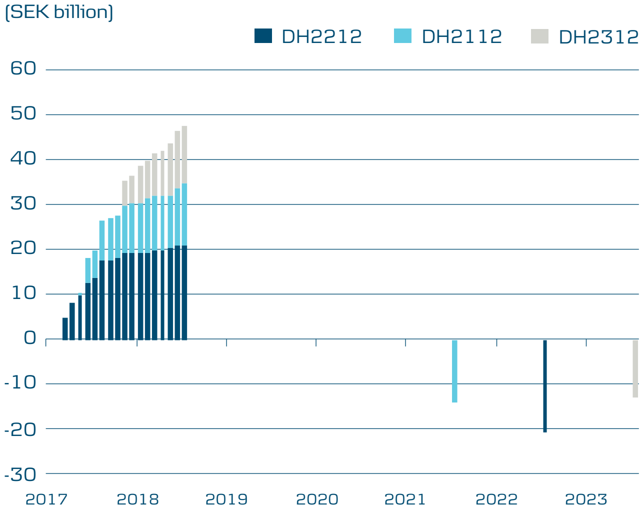
In 2019, the objective of Danske Hypotek's funding activities is to continue the work of establishing itself as a long-term issuer in the Swedish covered bond market. The strategy for this is to continuously conduct tap issues in the company's outstanding bonds and to introduce another one or two bonds in the market during the year. Danske Hypotek intends to continue acting in a clear and transparent manner in the market and thereby build confidence among investors and market participants. The aim is to thereby create long-term conditions for good liquidity and competitive pricing in the company's bonds.

Bond list, covered bonds in SEK

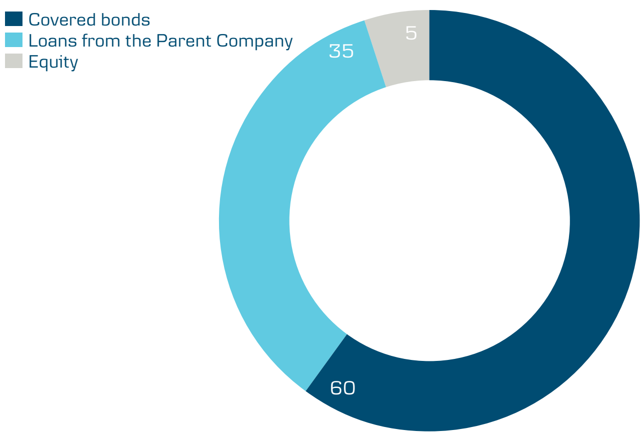
31 Dec. 2018

Loan no.	Interest terms, %	Loan date	Interest date	Maturity date	Outstanding amount, SEK thousands
DH2112	1%	6 Nov. 2017	15 Dec.	15 Dec. 2021	13,938,000
DH2212	1%	29 Aug. 2017	21 Dec.	21 Dec. 2022	20,751,000
DH2312	1%	25 April 2018	20 Dec.	20 Dec. 2023	12,900,000
					47,589,000

Issues and maturities
(SEK billion)



Funding sources
(%)

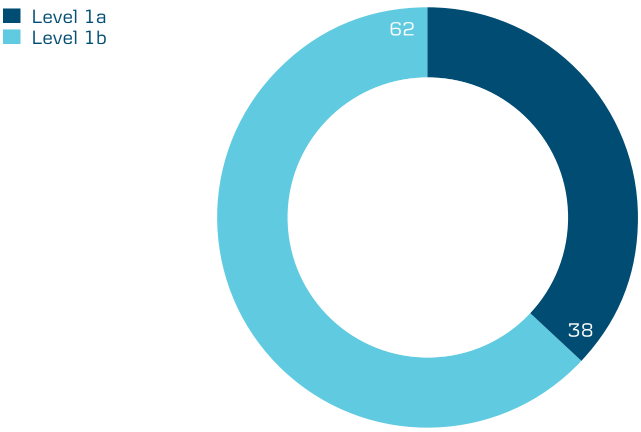


[1] For further information on the AML case in Estonia, see the Parent Company's consolidated financial statements, which are available on the Danske Bank A/S website, www.danskebank.com.

Funding programmes
Besides the Swedish benchmark programme, Danske Hypotek established an international funding programme in 2018 as a complement to the Swedish programme. The intention of the programme is not that it should actively be used in the next few years, but rather is intended to provide the company and the Group additional preparedness and diversification capacity.

Liquidity
Danske Hypotek's liquidity portfolio consists solely of highly liquid assets of very good quality. All assets have the highest credit ratings and are categorised as level 1a or 1b in the Liquidity Coverage Ratio (LCR) according to the distribution in the figure below. Danske Hypotek's level 1a assets are comprised 100% of Swedish municipal bonds and level 1b assets are comprised 100% of Swedish covered bonds. At 31 December 2018, the portfolio's market value amounted to SEK 2,205 million of which 38% are government and municipal bonds and 62% are covered bonds (all assets are in SEK). The main purpose of the portfolio is to fulfil regulatory requirements regarding LCR.

Danske Hypotek's liquidity portfolio
(%)



Rating
Danske Hypotek's covered bonds have the highest credit rating, AAA, from Standard & Poor's.

Risk management
Danske Hypotek defines risk as a potentially negative impact from an expected result. Given the activities conducted, the company is exposed to a number of risks and follows up and handles them at several organisational levels. The main risk categories are: Credit risk, Liquidity risk, Market risk and Operational risk.

As the company is a part of the Danske Bank Group, the risk management shall to the furthest extent possible be in line with and follow the Group's guidelines and policies for effective risk management. The risk management follows a division of roles and responsibility according to the principle of three lines of defence. The division of roles and responsibility between the various lines of defence provides a clear distinction in duties between risk taking functions and the independent functions for risk and regulatory compliance and for internal audit.

The company's risk taking is low and limited within the framework of the company's risk capacity. The company's risk appetite and risk tolerance are documented annually in steering documents approved by the Board. These steering documents comprise every significant risk category and contain explicit qualitative and/or quantitative risk limits all of which are within the scope of the company's risk capacity. The company's current risk situation, the so-called risk profile, is monitored and followed up continuously by the function for Risk and the respective risk owners (operational function heads). The company's risk profile in relation to risk capacity, appetite and tolerances is a continuous dialogue among management and the Board.

Principles of risk management
The company manages and evaluates its exposure to risks that the operations are exposed to in accordance with the following overall principles:

- A high risk awareness and sound risk culture shall be strived for in the entire company.
- Every employee has good understanding of the company's own operations and the risks associated with them.
- The company's strategy, business model and values are the starting points of the risk management.
- There are clear and documented internal procedures and control systems, including responsibilities and authorities.
- Operational changes, such as new/changed services or products, are reviewed according to documented processes.
- Measurement methods and system support are adapted to the operations' needs, complexity and size.
- Incident reporting in the operations takes place according to a documented process.
- There are adequate resources and expertise to achieve desired quality in both business activities and control activities.
- The function for Risk is independent and responsible for continuously identifying and reporting the significant risks that the company is or may be exposed to.
- An annual evaluation is done of what possible training needs there are in the organisation.

Risk-management process
The risk management process consists of the following steps: 1) identify, 2) measure, 3) handle, 4) control and 5) report risks. The risk management process and resulting activities comprise all lines of defence and all employees and are integrated into the operations. In addition, the activities shall be both proactive and reactive, and include on-going, recurring and annual activities. An annually recurring activity of significance to the company is its Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP) report. The risk management process

aims to both manage identified risks and to identify new risks, for example as a result of changes in products, processes and systems. Within ICLAAP, prospective risk analysis shall also be done.
The risk management process comprises the respective risk category, and how the various risks interact by calculating the total risk situation and how it develops over time. The formats for the continuous risk management process can differ between different risks. The Risk function has the responsibility of monitoring overall risk.

Risk measurement methods

Based on the company's risk profile, every identified risk category shall be quantified with a suitable measurement method for the management and control of the risk. To ensure that the risk measurement methods meet internal business requirements and external regulations, the company shall use several different and supplementary risk measurements adapted to the scope of and complexity in the activities conducted.

Risk management system

The company's risk management system makes it possible to continuously evaluate and assess the risks that the company's activities are associated with. The system is an integrated part of the company's decision-making processes and contributes to the targets of the company's activities being possible to achieve with a higher degree of certainty. The risk management system includes the strategies, processes and reporting procedures that are necessary to continuously be able to identify, measure, manage, control and report the risks that the activities are associated with. The company has also introduced methods and procedures that are required to manage the risks related to the company's operations. The company's risk management system is not only structured to comply with regulatory requirements, but also to meet internal needs and to follow generally accepted market practice. The risk management system covers both the risks that are covered by the capital requirement and other significant risks that the operations give rise to. For more information on risk management in Danske Hypotek, refer to Note 2.

Proposal on the appropriation of the company's profit or loss

The Board of Directors and CEO propose that non-restricted equity, SEK 4,056,964,720, will be appropriated as follows:

Amounts in SEK	
Retained earnings	3,495,663,208
Net profit for the year	561,301,512
Total	**4,056,964,720**
Carried forward to next year	4,056,964,720
Total	**4,056,964,720**

Regarding the company's position and performance otherwise, please refer to the following income statement and balance sheet with accompanying notes.

Corporate Governance Report 2018

Danske Hypotek is a Swedish public credit market company and wholly owned subsidiary of Danske Bank A/S, with its registered office in Stockholm, Sweden. Danske Hypotek's operations comprise the issue of covered bonds and activities associated therewith.

Board of Directors and Chief Executive Officer
Danske Hypotek's Board of Directors has the overall responsibility for the company's organisation and operations and ensures that there is a suitable structure and organisation for internal control and governance. The Board works for a sound corporate culture where good internal control is promoted. The Board also ensures that the systems for management and internal control are effective and suitable considering the operations conducted.

To ensure that Danske Hypotek's internal controls are updated, effective and tailored to the operations, the Board regularly evaluates, at least once a year, and when necessary, changes internal guidelines.

The Board of Directors regularly assesses the effectiveness of
Danske Hypotek's framework for internal control of regulatory compliance and risk management. In addition, the entire Board constitutes the Audit Committee.

The Board is elected annually at the Annual General Meeting for the period until the next Annual General Meeting has been held.

Danske Hypotek's CEO is responsible for:
- The operating management in accordance with the Board's guidelines, policy documents and other information, as well as obligations within the scope of the CEO's duties in accordance with external regulations.
- The Board's guidelines for internal control being implemented in the operations and is thereby responsible for policy documents, instructions, procedures and process descriptions being implemented and executed in the company.
- Promoting understanding of the internal regulations and encouraging a corporate culture with a goal of good and effective control.
- Ensuring that the Board receives objective, detailed and relevant information to make well-founded decisions.
- Ensuring that the Board receives regular information on Danske Hypotek's development.

Auditors
The Annual General Meeting appoints external auditors for Danske Hypotek. The 2018 Annual General Meeting appointed Deloitte AB as the auditor with Patrick Honeth as the Auditor-in-Charge.

Risk framework
Danske Hypotek has three control functions: the Risk function, the function for regulatory compliance and the internal audit function. The control functions are permanent, they have necessary resources and are independent. In this context, independent means that:

- Employees in the control functions do not perform duties related to the operations that they monitor and control.
- The functions are organisationally separated from functions and areas they control,
- The managers for each control function report directly to the Board and are regularly present at Board meetings, and
- The method for determination of remuneration of employees in control functions does not and cannot put at risk their objectivity.

The control functions' work is regulated in steering documents and annual plans for each function. The controls shall be done regularly and continuously and identified significant deficiencies and risks shall be reported to Danske Hypotek's Board and CEO.

The Risk function
The Risk function is responsible for monitoring and reporting that all material risks that Danske Hypotek is subjected to are identified and managed by relevant functions within the company. The function also checks that Danske Hypotek's internal regulations and risk management limits are suitable and effective, and is responsible for proposing changes regarding this if necessary. The Risk function also helps the company with implementations of external requirements and regulations in the risk area and contributes to a good risk awareness in the organisation. The head of the Risk function ensures that information about Danske Hypotek's risks is regularly reported to the Board and CEO.

Regulatory compliance
The function for regulatory compliance maps which risks there are of deficient regulatory compliance in the operations and ensures that these risks are managed by relevant functions within the company. The function is responsible for control of compliance to external and internal regulations and regularly evaluates that Danske Hypotek's measures regarding regulatory compliance are suitable and effective. The function also evaluates the measures that Danske Hypotek has taken to remove deficiencies in compliance and gives advice and support to Danske Hypotek's employees, CEO and Board in terms of external and internal rules. The function regularly reports, at least once a year, to the Board and CEO.

Internal audit
Internal audit reports directly to the Board and constitutes the Board's tool for ensuring that the requirements on a sound and effective internal control are met. The function is completely organisationally separate from Danske Hypotek's other functions and operations.
Internal audit regularly reviews and evaluates that the internal control of Danske Hypotek is effective and appropriate. This includes regularly evaluating the company's risk management, compliance to internal regulations, financial information and checking the other two control functions.

The function regularly reports, at least once a year, to the Board. The reporting comprises planning, review and reporting as well as proposals on measures.

Independent inspector
According to the law regarding the issue of covered bonds, the Swedish Financial Supervisory Authority appoints an independent inspector for each issuer. The inspector's mission involves monitoring the register which the issuer is obliged to maintain for the covered bonds, the cover pool and derivative agreements and that it is properly maintained and in accordance with the provisions of the law. The Swedish Financial Supervisory Authority's regulations FFFS 2013:1 describes the role and mission of the independent inspector in greater detail. The independent inspector reports directly to the Swedish Financial Supervisory Authority.

The Swedish Financial Supervisory Authority has appointed Sussanne Sundvall, Authorized Public Accountant at PwC, as the independent inspector for Danske Hypotek.

Remuneration principles
The remuneration that Danske Hypotek offers its employees shall be such that Danske Hypotek can attract and retain competent personnel. Employees shall be offered remuneration and other benefits that are reasonable and competitive in the market in which Danske Hypotek is active.

In 2018, no variable remuneration was paid out.
Fixed remuneration consists of a monthly salary that is adapted to the market and based on the employee's position, responsibilities, expertise and performance. Danske Hypotek annually does a documented analysis with the aim of identifying employees whose work has a significant impact on the company's risk profile. Danske Hypotek shall provide information on the remuneration policy on its website. Danske Hypotek's remuneration principles are in accordance with the provisions in Regulation (EU) No 575/2013 of the European Parliament and of the Council and the Swedish Financial Supervisory Authority's regulations FFFS 2014:22 and FFFS 2011:1.

Shareholders and the Annual General Meeting
The Board and auditors are elected by the Annual General Meeting. The Board is responsible to the shareholders for Danske Hypotek's organisation and management and appointing a CEO to manage the day-to-day operations. The auditors review the financial reporting and issue an auditor's report.

Every year at the Annual General Meeting, the owners of Danske Hypotek pass resolutions appointing a Board, appointing auditors, on remuneration for Board members, adoption of the income statement and balance sheet, appropriation of profits and if the Board and CEO are granted discharged from liability for the past year.

Income statement

Amounts in SEK thousands	Note	Jan.-Dec. 2018	Jan.-Dec. 2017
Interest income calculated with the help of the effective interest method.	4	794,493	208,253
Other interest income	4	687,517	174,716
Interest expenses	5	-656,574	-158,824
Net interest income/expense		**825,436**	**224,145**
Fee income		113	21
Fee expenses	6	-28,859	-11,635
Net income from financial transactions	7	-16,592	-23,219
Total operating income		**780,098**	**189,312**
General administrative expenses	8, 9, 10	-60,588	-27,091
Other operating expenses		-199	-88
Profit before loan impairment charges		**719,311**	**162,133**
Loan impairment charges	11	-1,869	-422
Profit before tax		**717,442**	**161,711**
Tax on net profit for the year	12	-156,140	-37,767
Net profit or loss for the period		**561,302**	**123,944**
Other comprehensive income		-	-
Comprehensive income for the period		**561,302**	**123,944**

Balance sheet

Amounts in SEK thousands	Note	31 Dec. 2018	31 Dec. 2017
ASSETS			
Assets			
Due from credit institutions	13	863,937	822,989
Lending to the public	14, 15	77,428,589	33,302,270
Bonds and other interest-bearing securities	16	2,264,563	1,749,800
Other assets	17, 18	201,758	5,589
Prepaid expenses and accrued income	19	44,363	41,380
TOTAL ASSETS		**80,803,210**	**35,922,028**
LIABILITIES AND EQUITY			
Liabilities			
Due to credit institutions	20	28,300,120	14,500,010
Issued bonds, etc.	21	48,263,853	19,316,870
Tax liabilities		51,878	35,495
Other liabilities	17, 22	23,119	65,420
Accrued expenses and deferred income	23	57,275	37,294
Total liabilities		**76,696,245**	**33,955,089**
Equity			
Share capital		50,000	50,000
Shareholders' contribution		3,400,000	1,800,000
Profit/loss brought forward		95,663	-7,005
Net profit or loss for the period		561,302	123,944
Total equity		**4,106,965**	**1,966,939**
TOTAL EQUITY AND LIABILITIES		**80,803,210**	**35,922,028**

Statement of changes in equity

Amounts in SEK thousands	Share capital	Shareholders' contribution	Profit/loss brought forward	Net profit for the year	Total equity
Opening balance 01/01/2018	50,000	1,800,000	-7,005	123,944	1,966,939
Restatement as a result of changed accounting principles, after tax (IFRS 9); see Note 26	–	–	-21,276	–	-21,276
Adjusted equity, 1 Jan. 2018	50,000	1,800,000	-28,281	123,944	1,945,663
Reversal of previous year's profit	–	–	123,944	-123,944	–
Shareholders' contribution	–	1,600,000	–	–	1,600,000
Net profit or loss for the period	–	-	–	561,302	561,302
Closing balance 31 Dec. 2018	**50,000**	**3,400,000**	**95,663**	**561,302**	**4,106,965**

Share capital on the balance sheet date is represented by 500,000 class A shares of a nominal SEK 100.
No change occurred during the period.

Opening balance 01/01/2017	50,000	–	–	-7,005	42,995
Reversal of previous year's profit	–	–	-7,005	7,005	–
Shareholders' contribution	–	1,800,000	–	–	1,800,000
Net profit for the year	–	–	–	123,944	123,944
Closing balance 31/12/2017	50,000	1,800,000	**-7,005**	**123,944**	**1,966,939**

Share capital on the balance sheet date is represented by 500,000 class A shares of a nominal SEK 100.
No change occurred during the period.

Cash flow statement

Amounts in SEK thousands	Jan.-Dec. 2018	Jan.-Dec. 2017
Operating activities		
Profit before tax	717,442	161,711
Adjustments for non-cash items, etc.	-178,874	-13,951
Cash flow from operating activities before changes in working capital	**538,568**	**147,760**
Change in operating activity assets		
Change in lending to the public	-44,050,959	-33,301,848
Change in other investment assets	-430,292	-1,734,140
Change in other assets	-199,152	-44,964
Change in operating activity liabilities		
Change in amounts due to credit institutions	13,800,110	14,500,010
Change in issued bonds	29,121,172	19,255,525
Change in tax liabilities	-139,757	-2,272
Change in other liabilities	-198,742	153,448
Cash flow from operating activities	**-2,097,620**	**-1,174,241**
Financing activities		
Shareholders' contributions received	1,600,000	1,800,000
Cash flow from financing activities	**1,600,000**	**1,800,000**
Cash flow for the period	**40,948**	**773,519**
Cash and cash equivalents at the beginning of the year	**822,989**	**49,470**
Cash and cash equivalents at period end	**863,937**	**822,989**

Reconciliation of liabilities attributable to financing activities

Amounts in SEK thousands	Closing balance 2017	Cash flow from financing activities	Effect of changed exchange rate*)	Change in fair value*)	Closing balance 2018
New issue	49,500	–	–	–	49,500
Shareholders' contributions received	1,800,000	1,600,000	–	–	3,400,000
Issued bonds	19,316,870	28,772,794	–	174,189	48,263,853
Total	**21,166,370**	**30,372,794**	–	**174,189**	**51,713,353**

Amounts in SEK thousands	Closing balance 2016	Cash flow from financing activities	Effect of changed exchange rate*)	Change in fair value*)	Closing balance 2017
New issue	49,500	–	–	–	49,500
Shareholders' contributions received	–	1,800,000	–	–	1,800,000
Issued bonds	–	19,378,215	–	-61,345	19,316,870
Total	**49,500**	**21,178,215**	–	**-61,345**	**21,166,370**

*) Non-cash changes.

Cash flow statement Continuation

Cash and cash equivalents	31 Dec. 2018	31 Dec. 2017
Cash and cash equivalents consist of amounts due from credit institutions	863,937	822,989
Total	863,937	822,989

Interest, etc.	Jan.-Dec. 2018	Jan.-Dec. 2017
Interest received	1,437,760	341,670
Interest paid	-625,897	-133,194
Total	811,863	208,476

Adjustment for non-cash items	31 Dec. 2018	31 Dec. 2017
Impairment charges	-75,360	-422
Changed accounting principle	-21,276	–
Unrealised changes in value	-82,238	-13,529
Total	-178,874	-13,951

Notes

Note 1 - Accounting policies

Amounts in SEK thousands unless otherwise indicated

Danske Hypotek's annual report is prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), the Swedish Financial Supervisory Authority's regulations and general guidelines FFFS 2008:25 Annual Reports in Credit Institutions and Securities Companies, the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities and statements issued by the Swedish Financial Reporting Board. In accordance with the Swedish Financial Supervisory Authority's general guidelines, Danske Hypotek applies so-called statutory IFRS. This means that the International Financial Reporting Standards and interpretations of these standards that have been adopted by the EU have been applied to the extent possible within the scope of national laws and regulations and the connection between accounting and taxation. The reporting currency is Swedish kronor (SEK).

MATERIAL REGULATORY CHANGES DURING THE YEAR
IFRS 9 Financial Instruments has been adopted for application by the EU. The standard will be applied as of 2018. The standard comprises classification and measurement, impairment of financial instruments and general hedge accounting. According to the new rules for classification and measurement, financial assets shall be classified according to fair value through profit or loss, amortised cost or fair value through other comprehensive income. No reclassifications between fair value and amortised cost occurred in the first-time application. Through the new rules on impairment, a model will be introduced based on expected loan impairment charges and not, as the earlier model in IAS 39, on occurred loan impairment charges. Expected losses are calculated either at an amount equivalent to 12 months' expected loan impairment charges or at an amount equivalent to the expected loss for the remaining maturity, depending on the degree of credit impairment. The prospective parts of the calculation of expected loss are based on impartial expectations from senior executives in the Group. The process is based on macro-economic scenarios (main scenario and best and worst outcomes) and includes an estimate of the likelihood of each scenario by the Group's macro-economic unit. These scenarios are updated quarterly and company management's approval may mean that the scenario is adjusted with the aim of also taking into account credits that are not encompassed by the macro-economic scenario.

All reservations for loan impairment charges are made for individually valued receivables whereby the company has stopped group-wise reservations as of the 2018 financial year. Existing collective reservations have been incorporated in the prospective part of the calculation of expected individual loan impairment charges.

At first-time application in 2018, loan impairment charges increased by SEK 28 million, which was recognised directly in equity and not in profit or loss. Danske Hypotek has not applied the transitional rules. The total capital ratio decreased by around 1.5% as a result of the new regulations.

IFRS 15 Revenue from Contracts with Customers was approved for application by the EU. The standard will be applied as of the 2018 financial year. IFRS 15 introduces a five-step model to determine how and when revenue recognition shall take place. The standard does not, however, apply to financial instruments, insurance agreements or leases. IFRS 15 contains expanded disclosure requirements regarding revenue. The new standard has not had any material impact on Danske Hypotek's financial statements, capital adequacy or large exposures.

UPCOMING REGULATORY CHANGES
IFRS 16 Leases has been adopted for application by the EU. The standard will be applied as of the 2019 financial year. The primary effect of the new standard is that leases to a significantly greater extent need to capitalise leases as assets and liabilities in the balance sheet, with the associated effect that the cost in the income statement will be distributed to depreciation in the income statement and interest expenses in net financial items. Danske Hypotek's assessment is that the new standard is not expected to have any significant impact on the financial statements.

RECOGNITION OF ASSETS AND LIABILITIES IN FOREIGN CURRENCIES
Transactions in foreign currencies in the nominal accounts are translated to the reporting currency on the transaction date. All assets and liabilities are measured at the reporting currency's exchange rate on the balance sheet date. Exchange-rate differences are recognised in profit or loss.

RECOGNITION OF ASSETS AND LIABILITIES ON THE BALANCE SHEET
Assets are recognised on the balance sheet when it is probable that future economic benefits associated with the asset will go to the company and when the value or cost of the asset can be measured reliably.
A liability is recognised on the balance sheet when it is probable that the company, to be able to fulfil an existing obligation, must relinquish a resource with a value that can be measured reliably.

Purchases and sales of money and capital market instruments as well as derivatives are recognised on the transaction date. Other financial assets and liabilities are normally recognised on the settlement date. Financial assets are removed from the balance sheet when the contractual right to the cash flow from the asset expires or is settled, or when the risks and advantages associated with the asset are transferred to another party. A financial liability is removed from the balance sheet when the obligation ends. Financial assets and liabilities are offset in the balance sheet when the company has a contractual right to offset the items and has the intention to settle the payments at the same time in a net amount.

CLASSIFICATION AND RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES
For measurement purposes, financial assets are divided into the following categories under IFRS 9:

1. Financial assets measured at amortised cost
2. Financial assets measured at fair value through other comprehensive income
3. Financial assets measured at fair value through profit or loss, held for trading and assets categorised at initial recognition as measured at fair value through profit or loss.

Financial liabilities are divided into the following measurement categories:

1. Financial liabilities measured at amortised cost
2. Financial liabilities measured at fair value through profit or loss

Financial assets are found in the categories Lending to the public, amounts due from credit institutions and bonds and interest-bearing securities. Financial liabilities are comprised of amounts due to credit institutions and issued securities. At initial recognition, all financial assets and liabilities are recognised at fair value. For assets and liabilities value through profit or loss, the transaction costs are booked directly in the income statement at the time of acquisition. For other financial instruments, the transaction costs are included at cost.

Financial assets measured at amortised cost
Assets in this category mainly comprise lending to the public and credit institutions. Assets in this category are measured at amortised cost when they in accordance with the company's business model are held to obtain contractual cash flows and the agreed conditions only pertain to repayments and interest. Assets in this category are measured at the discounted present value of future payment flows.

Financial assets measured at fair value through other comprehensive income
Danske Hypotek has no assets measured at fair value through other comprehensive income.

Financial assets measured at fair value through profit or loss
Assets in this category are mainly comprised of a liquidity portfolio, which mainly consists of bonds, where changes in fair value are recognised in the income statement under the item Net income from financial transactions.

Derivatives
All derivative contracts are measured at fair value. Changes in fair value are recognised in the income statement under the item Net income from financial transactions.

Financial liabilities measured at amortised cost
Financial liabilities measured at amortised cost, meaning the discounted present value of future payment flows, and comprise the financial liabilities not measured at fair value through profit or loss. Regarding bonds that have been bought back, the realised market value differences are recognised in their entirety in profit or loss at the time of buyback and are included in the item Net income from financial transactions.

Financial liabilities measured at fair value throughprofit or loss
Financial liabilities measured at fair value through profit or loss comprise issued bonds and derivative instruments.

PRINCIPLES FOR MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES
Fair value is defined as the price at which an asset could be sold or a liability settled in a normal transaction between independent market actors. For financial instruments traded in an active market, fair value is put on a par with the actual market price. The current market price is generally comprised of the current buy price for financial assets or current sales price for financial liabilities.

For financial instruments for which reliable information on market price is unavailable, fair value is determined using valuation models. The valuation models used are based on input data that can essentially be verified by market observations, such as market interest rates. When necessary, an adjustment is done for other variables that a market actor is expected to observe in the pricing.

All purchases and sales of credits from and to Danske Bank A/S's Swedish branch take place at arm's length. In connection with the acquisitions, all risks and benefits associated with the credits are transferred to the buyer.

HEDGE ACCOUNTING
Danske Hypotek utilises the option in IFRS 9 to continue hedge accounting for the hedging of fair value according to IAS 39. Hedges of fair value are applied to individual assets and to portfolios of financial instruments. The hedging instruments in these hedging packages consist of interest-rate swaps. Upon hedging of fair value, both the hedging instrument and the hedged risk are measured at fair value. Value changes are recognised directly in the income statement in the item Net profit/loss in financial transactions.

LOAN IMPAIRMENT CHARGES
Individual assessment of impairment requirements regarding loan receivables recognised at amortised cost is done continuously.

On 1 January 2018, Danske Hypotek introduced the three-stage model for the calculation of expected loan impairment charges as stated in IFRS 9. Reservations for loan impairment charges are dependent on the loss risk having increased since initial recognition. If the loss risk has not increased substantially, the credit reservations amount to anticipated losses in the next 12 months (stage 1). If loss risk increased substantially, or if a loan is overdue by more than 30 days, or if a loan is in default or otherwise uncertain, the credit reservations correspond to expected losses during the loan's remaining duration (stages 2 and 3).

The expected loan impairment charge is calculated individually for all engagements, as a function of probability of default (PD), exposure at default (EAD), and loss given default (LGD), and also includes prospective factors. The assessment of expected loan impairment charges includes predictions of future financial conditions during a sequence of years Such estimates are subject to company management and its assessments may be tied with uncertainty, which can entail significant changes in the loan impairment charges in upcoming financial years. Forecasts of future financial conditions reflect the company management's expectations and include three scenarios (main scenario, and improved and degraded outcome), including an assessment of the probability of each individual scenario. The objective of using several scenarios are modelling a non-linear impact from macroeconomic factors on the expected loan impairment charges. At year-end, the main scenario has a 70% probability, the scenarios for improved and degraded outcome each have a 15% probability. The parameters used in the scenarios are GDP, industrial production, inflation, 3-month and 10-year interest, private consumption, index for housing prices and unemployment figures.

The company's definition of substantially elevated credit risk, meaning when loans are transferred from stage 1 to stage 2 when a loan's 12-month PD increases by more than 0.5 percentage points or the loan's life-long PD is then doubled at initial recognition. For credits with an original PD higher than 1%, there is a transfer to stage 2 when the loan's 12-month PD has increased by more than 2.0 percentage points or the loan's lifelong PD has doubled. In addition to this, all loans overdue more than 30 days are moved to stage 2. Loans that are in default according to the regulatory framework are always placed in step 3. In the calculation of expected loan impairment charges, default is defined in accordance with the Capital Requirements Regulation (CRR). This includes both loans that are overdue by more than 90 days and loans where it is unlikely that the customer pays and which thereby lead to regulatory default. Factors, individually or combined, such as the borrower's clear financial problems, breach of contract, or that it is probable that the borrower will enter bankruptcy also entail that the loan is transferred to step 3.

The loan impairment charges for the period are write offs of confirmed and probable impairment charges for granted credits less recoveries and reversed previously made impairment charges. Write-offs are recognised when the loan is sold back to Danske Bank A/S.

The comparison year 2017 is recognised according to IAS 39. For Danske Hypotek, differences between recognition under IFRS 9 and IAS 39 are most prominent in the measurement of loan receivables. In accordance with IAS 39, impairment testing is done insofar as there is objective evidence that indicates that a claim's recoverable amount is below its carrying amount. Such objective evidence may be delayed or unrealised payment, bankruptcy, changed credit rating or a decline in the market value of the collateral. For a complete compilation of the company's accounting policies according to IAS 39 regarding the comparison year, refer to the pages 15-17 in the 2017 annual report.

Pledged assets
Loans included in the company's cover pool are regulated by the Covered Bonds Issuance Act and through the Swedish Financial Supervisory Authority regulations and general guidelines regarding covered bonds. Danske Hypotek's cover pool consists of loans granted against mortgages of real estate, mortgages of leaseholds or pledged tenant-owner rights, which are intended for residential purposes and are located in Sweden. The loan can be included in the cover pool insofar as the loan-to-value ratio is within 75% of the market value. No loan receivables that have been unsettled for more than 60 days are included in the cover pool.

REVENUE
Revenue is recognised in the income statement when it is likely that future financial benefits will be received and these benefits can be reliably calculated. Compensation that comprises a part of the effective interest rate for a financial instrument measured at amortised cost is allocated to periods in accordance with the effective interest method. Compensation attributable to a specific service or act is recognised as revenue in connection with the service being rendered.

Net interest income/expense
Besides interest income and expenses, net interest income/expense includes interest attributable to derivative instruments that hedge items the interest flows of which are recognised in net interest income/expense.

Net fee income
Income and expenses for various kinds of services are recognised in the income statement as commission income and commission expenses. Among other things, this means that reminder and claims fees are recognised as commission income and fees to market makers are recognised as commission expenses.

Net income from financial transactions
Here, all income and expenses that arise in a measurement of financial assets and liabilities at fair value as well as realised gains and losses are booked here.

EMPLOYEE BENEFITS
Salaries, pension expenses and other forms of direct personnel costs including social security contributions and other forms of payroll overheads are recognised as Personnel costs. Danske Hypotek has pension commitments that are secured in the mutual pension fund, Danske Bank Sverige Filials Gemensamma Pensionsstiftelse. These commitments are recognised in accordance with IAS 19's rules for defined-benefit plans. The company's commitments in respect of the fees to defined-contribution plans are recognised as an expense in profit/loss for the year as premiums are paid during the period.

TAXES
Tax for the period is comprised of current and deferred tax. Taxes attributable to the period's or earlier periods' taxable profit is recognised as current tax. Deferred tax relates to temporary differences between an asset's or liability's carrying amount and its taxable value. Tax expense is recognised in the Income Statement, in Other comprehensive income or directly in Equity depending on where the underlying transaction is recognised.

SIGNIFICANT ASSESSMENTS AND ASSUMPTIONS ABOUT THE FUTURE
The application of the company's accounting policies means in some cases that assessments must be made that have a material impact on carrying amounts. Carrying amounts are also affected in a number of cases by assumptions about the future, and always entail a risk of an adjustment of the carrying amount of assets and liabilities. The assessments and assumptions made always reflect the company's best and most reasonable perception and are subject to continuous follow-up and review. The assessments and assumptions that have a material impact on the financial statements pertain to impairment requirements for loan receivables. The estimated recoverable amount is based on an assessment of the counterparty's repayment capacity and assumptions on the sales value of the collateral.
The final outcome may deviate from original reservations for loan impairment charges.

Note 2 - Risk management

Danske Hypotek identify and manage particular risks according to the ways the company may be exposed to an adverse effects arising from these. The company is exposed to a number of risks and manages them on various organisational levels. Danske Hypotek's risk profile is low and the main risk categories are Credit risk, Liquidity risk, Market risk and Operational risk.

Credit risks
Credit risk is defined as the risk of loss due to a counterparty not fulfilling all or parts of its payment obligation to the company. The principal risk incurred by Danske Hypotek is credit risk on mortgage loans.

Danske Hypotek has no new lending business of its own, but rather acquires existing mortgage loans from Danske Bank A/S. In pace with Danske Bank's outstanding bonds, covered by Swedish mortgage loans, matures, the company intends to gradually acquire these loans with the aim of including them in the company's cover pool. During a transitional period, acquisitions will be made both continuously and in bulk through larger acquisitions. Thereafter, the acquisitions are expected to take place on a continuous basis in pace with new lending being generated in the Danske Bank Swedish branch. Initially, the company intends to acquire mortgage loans for residential purposes for private persons. In a second phase, the company intends to acquire mortgage loans to tenant associations and to companies that own multi-family dwellings for a commercial purpose.

All acquired mortgage loans have been granted and established via Danske Bank's Swedish branch. The Danske Bank Group's prudent underwriting criteria comprises, among other things, a maximum loan-to-value ratio of 85, minimum instalment requirement, and servicing requirements on interest rates well above the actual interest rate at the time of approval and maximum debt to income ratio. If the credit risk for some reason is deemed to be elevated, the granting mandate is moved to a centrally located credit department.

The Danske Bank Group grants credits on the basis of information about customers' individual financial circumstances and continuously monitors the financial situation with the aim of assessing if the customer's prerequisites have changed. Indebtedness shall correspond to the customer's financial situation based on their income, capital and assets and the customer is deemed to have a long-term repayment capacity.

The credit risk is always limited by adequate collateral being provided for the mortgage loans, which reduces the risk upon a potential default. The company's mortgage loans are in Sweden and concentrated to the metropolitan regions. The main credit risk is accordingly identified as the risks with the borrowers' creditworthiness, their ability to pay interest and instalments and the value of pledged collateral. No large exposures exist in the mortgage loan portfolio. The credit risk is limited and was low on a portfolio level as it primarily consists of mortgage loans with a low risk.

Table 1. Maximal credit exposure in the financing activities

Amounts in SEK million	31 Dec. 2018	31 Dec. 2018	31 Dec. 2017	31 Dec. 2017
	Gross amount	Net amount	Gross amount	Net amount
Due from credit institutions	864	864	823	823
Bonds and other interest-bearing securities	2,265	2,265	1,750	1,750
Derivative instruments, part of Other assets	200	200	4	4
Total	**3,329**	**3,329**	**2,577**	**2,577**

Net amounts take into consideration collateral received or other credit insurance

Customer classification

The Danske Bank Group applies customer classification models as an important tool in the credit process. The purpose of the classification is to rank the customers based on a risk level and estimate every customer's probability of default (PD). As a part of the credit process, the classification is updated continuously and upon new significant information about the customer. The Group has developed a number of classification models for assessment of the customer's PD and to divide the customers into different segments. Private customers are classified through scoring models.

The customer classification model divides the customers into 11 categories, where category 1 is the most credit worthy and category 11 represents customers that have cancelled their payments.

At the end of 2018, the average PD was 0.18%.

Collateral

The primary method for reducing credit risk is to ensure that adequate collateral is obtained for the respective mortgage loan. The company's mortgage portfolio consists of loans secured by single-family homes, tenant-owner rights and holiday homes. The collateral consists of single-family homes at 58% and tenant-owner apartments at 42%.

The market value of collateral is monitored and evaluated continuously by either internal or external appraisers, or by automatic valuation models. The automatic valuation model evaluates and updates the collateral value quarterly. The Group regularly evaluates the validity of the external data on which the valuation models build and the models are validated annually. Regardless of the valuation method, all collateral values are updated at least once annually.

For the cover pool, the weighted average loan-to-value ratio was 59.1% at 31 December 2018.

Counterparty risk

Derivative instruments are also comprised of credit risk. Counterparty risk is the risk of a financial loss on a derivative transaction due to default by the counterparty. As such, counterparty risk arises as a combination of credit risk (downgrading of the counterparty's credit rating) and market risk (the potential value of the derivative contract). The financial loss is the replacement cost, i.e. the cost to replace an existing transaction with a new transaction with similar characteristics, but at current market prices.

Counterparty risk arises for the derivatives and repo contracts that the company enters into to manage its financial risks. All risks that originate from derivatives and repo contracts are limited insofar as possible by covered ISDA and GMRA agreements with the respective counterparties. The respective contracts are offset before collateral is exchanged. This means that the company is exposed to as low a risk as possible. For more information on Derivatives, see Note 17.

Table 2. Credit exposure per classification and credit step

Amounts in SEK million

Classification	Credit stage 1	Credit stage 2	Credit stage 3	Credit impaired assets upon issue or acquisition	Total
1	334	-	-	-	334
2	14,788	5	-	1	14,794
3	26,662	52	-	28	26,741
4	17,861	164	-	14	18,039
5	8,134	810	-	30	8,974
6	3,216	1,190	-	12	4,419
7	1,406	1,795	1	59	3,260
8	102	584	-	14	700
9	6	46	-	-	52
10	89	21	0	20	131
11	6	1	53	-	60
Total	**72,604**	**4,669**	**54**	**177**	**77,504**
Reserve for expected loan impairment charges	**9**	**61**	**4**	**1**	**75**
Book value	**72,595**	**4,608**	**50**	**176**	**77,429**

Table 3. Credit exposure based on classification

The mortgage loan portfolio amounted to SEK 77,429 million as of 31 December 2018. Reserves for expected loan impairment charges amounted to SEK 75.3 million.

Amounts in SEK million	PD		
Classification	Lower	Upper	Exposure
1	-	0.01	333.7
2	0.01	0.03	14,793.5
3	0.03	0.06	26,739.5
4	0.06	0.14	18,036.7
5	0.14	0.31	8,971.3
6	0.31	0.63	4,408.5
7	0.63	1.90	3,231.6
8	1.90	7.98	680.7
9	7.98	25.70	47.1
10	25.70	99.99	130.7
11 (default)	99.99	100.00	55.3
Total exposure			**77,428.6**

Table 4. Receivables with overdue amounts

Amounts in SEK million	31 Dec. 2018
6-30 days	0.5
31-60 days	0.0
> 60 days	0.0
Total past due amounts	**0.6**
Total due under loans	**26.3**

The table above shows outstanding past due amounts. A past due loan is defined as a loan that has not been paid five days after the due date. The total outstanding amount with a past due payment of more than five days amounted to SEK 26.3 million.

Reserve for expected loan impairment charges

At 1 January 2018, the Group implemented a model that calculates expected loan impairment charges in three steps in accordance with IFRS 9. The reserve for expected loan impairment charges depends on whether or not the credit risk on a loan has increased significantly since initial recognition. If the credit risk has not increased significantly, the reserve consists of the expected loan impairment charge for the next 12 months (step 1). If the credit risk increased significantly, if the loan is more than 30 days behind in payment or if the loan is in default, the reserve is calculated based on the expected loan impairment charge on the entire loan's life expectancy (step 2 and 3). At the end of 2018, Danske Hypotek had a reserve for expected loan impairment charges totalling SEK 75.3 million.

Impaired loans

Within the Group, impaired loans are defined as credit step 3 exposure; this is a broader definition than earlier years. At the end of 2018, exposure in step 3 classified loans amounted to SEK 73 million.

Forbearance practices

Within the Group, customers can under certain circumstances be granted adjusted loan terms as a result of financial difficulties, such as if a customer has become unemployed. Adjusted loan terms are mainly granted if the customer's problems are considered to be temporary, but a restructuring can also be granted if it is considered necessary to limit the Group's losses on an exposure. Shorter and temporary payment deferment can also be a part of adjusted loan terms.

Customers with adjusted loan terms will be downgraded to a lower classification. When the customer again can manage to cover the loan without adjusted loan terms, the customer will, after a certain monitoring period, no longer be considered to have objective evidence for a loss event. When impairment requirements no longer exist, the customer will again be upgraded to a better classification.

At the end of 2018, Danske Hypotek had two loans subject to forbearance measures. Total exposure was SEK 3.9 million.

Concentration risk

Concentration risk refers to outstanding individual exposure in relation to the capital base. No large exposures over 15% of the company's capital base are accepted within the company's operations after taking consideration of exemptions according to CRR. At the end of 2018, there were no exposures in excess of 10% after taking consideration of exemptions according to CRR.

Market risk

Market risk is the risk of loss due to unfavourable changes in financial market rates or prices. As the company principally has liabilities and assets in SEK, there is thereby no currency risk and the market risk in the company consists mainly of interest-rate risk. The strategy is to interest hedge all material exposure through swaps with Danske Bank and thereby keep the risks at a low level and within the limits set by the company's Board. A parallel shift of the interest rate curve by one percentage point yields an earnings impact of SEK 33.5 million.

Operational risk

Operational risk refers to the risk of losses as a result of unsuitable or failed processes, people, systems or external events, including legal risk. Operational risk events refer to events caused by operational risk that may have caused a financial loss (a loss event) or that may have had a regulatory risk, reputation or customer impact (a non-financial event) or that may have caused a loss that was quickly recovered or could have caused a loss that was not realised (a near-miss event).

Operational risk can arise in all activities. Danske Hypotek is exposed to operational risk in the handling of new customers, implementation of new types of transactions, introduction of new products, new markets and in outsourcing of activities. Additional operational risks can also arise in changes in internal processes, personnel and systems and changes in the external surroundings. Risks are prioritised for management based on materiality. Danske Hypotek continuously works to develop the risk culture, methods, tools and procedures to effectively and proactively manage operational risks.

Danske Hypotek uses the standardised method for quantifying the capital requirement for operational risk.

Liquidity risk
Liquidity risk is the risk that the company does not have adequate financial resources on the short term to meet its obligations when they fall due for payment, or that the company can have access to these resources only at high expense.

The company strives to limit liquidity risk to the furthest possible extent. This is mainly done by the company holding a portfolio consisting of high-quality liquid assets. Continuous stress tests guarantee that the company has adequate capacity to be able to meet its payment obligations even in the extreme scenario. The liquidity risk is also kept at low levels through risk limits adopted by the company's Board of Directors.

At the end of 2018, the company had a liquidity portfolio that amounted to SEK 2,205 million and the company's liquidity coverage ratio amounted to 2,928%.

Risk management – Liquidity risk

	2018						
Amounts in SEK million	Indefinite	< 3 mos.	3-6 mos.	6-12 mos.	1-5 years	>5 years	Total
ASSETS							
Due from credit institutions	864	–	–	–	–	–	864
Lending to the public	–	55,638	111	21,023	657	–	77,429
Bonds and other interest-bearing securities	–	–	–	–	2,264	–	2,264
Other assets	246	–	–	–	–	–	246
Total financial assets	**1,110**	**55,638**	**111**	**21,023**	**2,921**	**–**	**80,803**
LIABILITIES							
Due to credit institutions	0	–	–	–	28,300	–	28,300
Issued bonds, etc.	–	–	–	–	48,264	–	48,264
Other liabilities	132	–	–	–	–	–	132
Total financial liabilities	**132**	**–**	**–**	**–**	**76,564**	**–**	**76,696**

	2017						
Amounts in SEK million	Indefinite	< 3 mos.	3-6 mos.	6-12 mos.	1-5 years	>5 years	Total
ASSETS							
Due from credit institutions	823	–	–	–	–	–	823
Lending to the public	–	32,467	154	680	1	–	33,302
Bonds and other interest-bearing securities	–	–	431	–	1,319	–	1,750
Other assets	47	–	–	–	–	–	47
Total financial assets	**870**	**32,467**	**585**	**680**	**1,320**	**–**	**35,922**
LIABILITIES							
Due to credit institutions	0	–	–	14,500	–	–	14,500
Issued bonds, etc.	–	–	–	–	19,317	–	19,317
Other liabilities	138	–	–	–	–	–	138
Total financial liabilities	**138**	**–**	**–**	**14,500**	**19,317**	**–**	**33,955**

This table shows an analysis of assets or liabilities based on the expected points in time for recovery or removal of all assets and liabilities in the balance sheet. There is no significant difference between discounted and nominal cash flows which is why the term exposure matches the liquidity exposure.

Note 3 - Capital adequacy

Capital management
The objective of capital management is to ensure effective capital use in relation to risk tolerance and development of the business. Danske Hypotek must have adequate capital for following statutory capital requirements.

Publication of the company's capital management takes place in accordance with the Swedish Financial Supervisory Authority regulatory code (FFFS 2014:12, chapter 8) and the regulations for Danske Hypotek's capital management are rooted in the Capital Requirements Regulation (CRR EU 575/2013) and the Capital Requirements Directive (CRD EU 36/2013), which can be divided into three pillars:

- Pillar I contains a set of mathematical formulas for calculations of risk exposure amounts for credit risk, market risk and operational risk. The minimum capital requirement is 8% of the total risk exposure amount.
- Pillar II contains the framework for the content of the Internal Capital Adequacy Assessment Process (ICAAP), including identification of the credit institutions' risks, calculation of capital requirements and stress testing.
- Pillar III is about market discipline and states disclosure requirements for risk and capital management.

Further periodic information in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and Commission Implementing Regulation (EU) No 1423/2013 is available at https://danskehypotek.se/financial-information

While Pillar I entails the calculation of risks and capital requirements based on uniform rules for all credit institutions, Internal Adequacy Assessment Process (ICAAP), under Pillar II, takes consideration of the individual characteristics of a specific institute and comprises all relevant risk types, including risks not covered by Pillar I.

Description of Capital
- Common Equity Tier 1 capital (CET1 capital) consists of equity after certain statutory supplements and deductions.
- Tier 1 capital consists of loans included in the Tier 1 capital. This means that it can be used to cover a loss of equity.
- Tier 2 capital consists of subordinated liabilities with certain limitations.
- Total capital consists of CET1 capital, Tier 1 capital and Tier 2 capital less certain items.

As at 31 December 2018, Danske Hypotek's capital base was SEK 3,554 million and only of CET1 capital alongside of a smaller amount as an adjustment of expected loan impairment charges. Net profit for the year of SEK 561 million is not included in the capital base.

Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP)
As a part of ICLAAP, Danske Hypotek assesses its total capital and liquidity requirement based on internal models and makes sure to use the right risk management systems. ICLAAP also includes capital planning to ensure that Danske Hypotek always has adequate capital and liquidity to support the chosen strategy. Stress testing is an important tool used for capital planning. Danske Hypotek's total capital requirements were SEK 1,970 million as at 31 December 2018. As the capital base was SEK 3,554 million, the company has a large capital surplus.

Total capital requirements and solvency need
According to Swedish legislation, every credit institution must show capital requirements and capital adequacy. The capital requirement is the total capital's size, type and composition necessary to cover the risks that an institution is exposed to. Danske Hypotek uses the internal ratings-based (IRB) approach to calculate the risk exposure amount for credit risks for household customers; for other exposures, standard methods are used. Banks that use the advanced approaches for calculating credit risk are subject to limits on the reduction of their capital requirements. The risk weight floor for mortgage loans is an example of this.

In March 2018, the Swedish Financial Supervisory Authority published suggestions of changes regarding the application of the risk weight floor for Swedish mortgage loans. The proposal meant that the risk weight floor, which was previously applied in the collective capital assessment in pillar 2, has been replaced with a fundamental capital requirement in pillar 1. The measure entered into effect on 31 December 2018, resulting in the risk weight amount increasing by SEK 12,956 million according to Article 458.

Combined buffer requirement
CRD IV introduced buffer requirements that apply besides the capital requirement. In Sweden, these requirements must be met before they are completely phased in in 2019. The buffer requirements consist of a countercyclical capital buffer, a capital conservation buffer and an system risk buffer. The capital conservation buffer and the countercyclical capital buffer is designed to ensure that credit institutions accumulate an adequate capital base during periods of economic growth to be able to absorb losses during periods of stress. The capital conservation buffer is 2.5% and the countercyclical capital buffer is currently 2% in Sweden, but is decided to be increased to 2.5% on 19 September 2019. Danske Hypotek has no system risk buffer as it is not a systemically important financial institution.

Leverage ratio
The leverage ratio is defined as Tier 1 capital as a percentage of total exposure calculated in accordance with CRR. -The leverage ratio does not take into account that different items in the credit institutions balance sheets may have different degrees of risk. -The leverage ratio on 31 December 2018 were 4.3%.

Large exposures
Large exposures are defined as exposures amounting to at least 10% of the total capital after deduction of particularly secure claims. At the end of 2018, Danske Hypotek had no exposures that exceeded 10% of its total capital.

Credit risks
Danske Hypotek targets mortgage loan customers in Sweden. Danske Hypotek's main segment is loans for household customers. The credit risk on a mortgage loan essentially originates from two factors: the risk that the borrower cannot repay the loan and the expected loss if the customer cannot repay the loan, which largely depends on the value of the property collateral. These two factors are generally designated with the abbreviations "PD" (probability of default) and "LGD" (loss given default). The higher PD and LGD, the higher risk a loan entails. The property value is determined automatically in a property appraisal model. This property appraisal model is regularly checked and subjected to annual validation.

The credit process widely builds on the two above-mentioned components and the size of the loan.

When the Danske Bank Group assesses that there is a high credit risk, the credit granting process will be assigned to the central credit department. A high credit risk may arise for less financially strong customers (high PD), but it may also be due to expectations of a high LGD if the credit entails a property type that is hard to sell and may lose a lot of its value if it must be sold in a forced sale.

Danske Bank applies customer classification models as a key tool in decisions on whether or not the loan shall be granted. Depending on the customer's loan type and customer type, the customers are classified using rating models or so-called statistical scoring models. For a corporate customer, the rating models usually build on the customer's full-year report, industry information and an assessment of the company's situation in terms of management and competitiveness. A rating expert and a credit manager assess the credit worthiness in the central credit department before it is determined. The customer's rating is translated to a PD.

Market risk
Market risk is the risk of losses since the fair value of financial assets, liabilities and items off the balance sheet vary with the market conditions. Danske Hypotek calculates, monitors and reports regularly on these risks and only has limited market risk.

Liquidity risk
Danske Hypotek finances its lending activities by regularly issuing covered bonds, which entails a limited liquidity risk. Sweden has a well-functioning bond market.

Operational risk
Operational risk is defined as the risk of losses as a result of inadequate or failing internal prices, people, systems or outer events and also includes legal risk. Danske Hypotek uses the standardised method for calculating operational risk.

Capital requirement

Amounts in SEK million	31 Dec. 2018		31 Dec. 2017	
	Risk exposure amount	Average risk weight (%)	Risk exposure amount	Average risk weight (%)
Credit risks				
Institutions	–	–	–	–
Corporate customers	–	–	–	–
Household exposure	6,249	7	2,256	7
IRB method for credit risk, total	**6,249**	**7**	**2,252**	**7**
Institutions	434	50	411	50
Covered bonds	142	10	111	10
Corporate customers	78	27	110	34
Household exposure	46	35	609	27
Other exposures	1	100	0	100
Standardised method for credit risk, total	**701**	**20**	**1,241**	**28**
Credit risk, total	**6,950**		**3,493**	
Counterparty risk, total	**368**	**50**	**26**	
Market risk, total	–		–	
Operational risk, total	**1,655**		**798**	
Additional risk weight amounts as per Article 458 (risk weight floor for Swedish mortgage loans)	**12,956**		–	
Total risk exposure amount	**21,929**		**4,317**	
CET1 capital	3,535		1,815	
Total capital	3,554		1,815	
CET1 capital ratio	16.1%		42.0%	
Total capital ratio	16.2%		42.0%	
Capital requirement*	**1,754**		**345**	

* The capital requirement is calculated as 8% of the risk exposure amount.

Capital

Amounts in SEK million	31 Dec. 2018	31 Dec. 2017
Total equity	3,546	1,843
CET1 capital before legislative adjustments	3,546	1,843
Further value adjustments	-11	-8
Negative amounts as a result of calculation of expected loss amounts	–	-20
Other legislative adjustments	–	–
CET1 capital	**3,535**	**1,815**
Tier 1 capital contribution: Instruments and provisions	–	–
Tier 1 capital contribution: Legislative adjustments	–	–
Tier 1 capital	**3,535**	**1,815**
Tier 2 capital	–	–
Positive amounts as a result of calculation of expected loss amounts	19	–
Other legislative adjustments	–	–
Total capital	**3,554**	**1,815**
Total risk-weighted assets	**21,929**	**4,317**
CET1 capital	16.1 %	42.0 %
Tier 1 capital	16.1 %	42.0 %
Total capital	16.2 %	42.0 %

Leverage ratio

Amounts in SEK million	31 Dec. 2018	31 Dec. 2017
Leverage ratio		
Total exposure for leverage ratio calculation	81,322	35,955
- of which derivatives	736	52
- of which securities	2,265	1,750
- of which off-balance sheet items	–	–
Tier 1 capital (transitional rules)	**3,535**	**1,815**
Tier 1 capital (fully phased in rules)	3,535	1,815
Leverage ratio (transitional rules), (%)	**4.3 %**	**5.0%**
Leverage ratio (fully phased in rules)	4.3 %	5.0%

Note 4 - Interest income

Amounts in SEK thousands	1 Jan. 2018 – 31 Dec. 2018	1 July 2017 – 31 Dec. 2017
Lending to the public	727,873	168,873
Liabilities to foreign credit institutions – Group companies	66,620	39,380
Interest-bearing securities – bonds	137,124	29,841
Interest-bearing securities – underlying derivative instruments	550,024	144,872
Other interest income	369	3
Total	**1,482,010**	**382,969**

Interest income regarding assets measured at amortised cost amounted to SEK 794,493 thousand (208,253) in 2018.

Note 5 - Interest expenses

Amounts in SEK thousands	1 Jan. 2018 – 31 Dec. 2018	1 July 2017 – 31 Dec. 2017
Balances with foreign credit institutions – Group companies	-20,358	-11,523
Interest-bearing securities – bonds	-361,771	-41,020
Interest-bearing securities – underlying derivative instruments	-274,220	-106,203
Other interest expenses	-225	-78
Total	**-656,574**	**-158,824**

Interest expenses regarding liabilities measured at amortised cost amounted to SEK 20,358 thousand (11,523) in 2018.

Note 6 - Fee expenses

Amounts in SEK thousands	1 Jan. 2018 – 31 Dec. 2018	1 July 2017 – 31 Dec. 2017
Activity-based fee expenses		
Securities commissions	-256	-117
Payment brokerage commissions	-16	–
Other commissions	-28,531	-11,474
	-28,803	-11,591
Portfolio-based fee expenses		
Securities commissions	-56	-44
	-56	-44
Total	**-28,859**	**-11,635**

Note 7 - Net income from financial transactions

Amounts in SEK thousands	1 Jan. 2018 – 31 Dec. 2018	1 July 2017 – 31 Dec. 2017
Capital gains/losses		
Interest-bearing securities	–	-8,231
Other financial instruments, derivatives	64,926	-1,458
Currency	3	0
	64,929	-9,689
Unrealised changes in value		
Interest-bearing securities	-257,942	45,684
Other financial instruments, derivatives	176,421	-59,214
	-81,521	-13,530
Total	**-16,592**	**-23,219**

Note 8 - Administration expenses

Amounts in SEK thousands	1 Jan. 2018 – 31 Dec. 2018	1 July 2017 – 31 Dec. 2017
Personnel costs	-10,128	-6,674
Consulting fees	-2,138	-937
Legal fees	-226	-3,770
Purchase of administrative services	-34,595	-13,322
Other expenses	-13,501	-2,388
Total	**-60,588**	**-27,091**
Specification Personnel costs		
Salaries and remuneration	-5,979	-4,296
Social security contributions	-1,923	-1,233
Pension expenses	-2,097	-1,103
Other personnel costs	-129	-42
Total	**-10,128**	**-6,674**

Note 9 - Employees and personnel costs

Average number of employees

	1 Jan. 2018 – 31 Dec. 2018	Of which men	1 July 2017 – 31 Dec. 2017	Of which men
Sweden	6	5	3	2
Total	**6**	**5**	**3**	**2**

Gender distribution in company management

	31 Dec. 2018	31 Dec. 2017
Proportion of women		
Board	14%	0%
Other executives	17%	17 %

Salaries, other benefits and social security expenses, including pension expenses

Amounts in SEK thousands	1 Jan. 2018 – 31 Dec. 2018	1 July 2017 – 31 Dec. 2017
Chief Executive Officer	1,497	1,513
of which bonus and similar compensation to the CEO	–	–
Board member, Erik Åsbrink	150	75
of which bonus and similar compensation to the Board	–	–
Other employees	4,332	2,708
Total	**5,979**	**4,296**
Social security expenses	1,923	1,233
Pension expenses	2,097	1,103
Information on severance pay to CEO	6 months' salary	6 months' salary

The Board and CEO comprise seven people. No remuneration was paid to Board members employed in the Danske Bank Group.

Other benefits

Amounts in SEK thousands	1 Jan. 2018 – 31 Dec. 2018	1 July 2017 – 31 Dec. 2017
Chief Executive Officer	–	–
Board	–	–

Loans to CEO and Board

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2018
CEO and Board	6,873	2,924
Information on assets pledged, etc. and amounts for which collateral provided	6,873	2,924

Loan terms and interest rates follow the Danske Bank Group's normal terms for personnel loans.

Pension expenses for CEO and the Board

Amounts in SEK thousands	1 Jan. 2018 – 31 Dec. 2018	1 July 2017 – 31 Dec. 2017
Chief Executive Officer	340	321
Board	–	–
Total	340	321

The company's obligations regarding pension commitments for the CEO are secured through a defined-contribution plan and recognised as a running cost in net profit for the year.

Note 10 - Remuneration and expense reimbursement for auditors

Amounts in SEK thousands	1 Jan. 2018 – 31 Dec. 2018	1 July 2017 – 31 Dec. 2017
Deloitte AB		
Audit engagement	694	700
Other auditing activities	61	31
Total	**755**	**731**

Audit assignments refers to the remuneration of the auditor for the statutory audit. This work includes the audit of the annual report as well as the accounting, the Board's and CEO's management and remuneration for audit advice that was provided in connection with the audit assignment.

Note 11 - Loan impairment charges, net*

Amounts in SEK thousands	1 Jan. 2018 – 31 Dec. 2018	1 July 2017 – 31 Dec. 2017
Lending to the public		
New and increased impairment charges	–	-938
Reversal of previously made impairment charges	–	516
Period's change in reserve, credit stage 1	5,789	–
Period's change in reserve, credit stage 2	-4,938	–
Period's change in reserve, credit stage 3	-2,720	–
Period's recoveries/loan impairment charges, net	-1,869	-422

* New accounting principle from 1 January 2018 regarding IFRS9 has affected comparability in Notes 11, 14 and 15.

Credit stage 1: Refers to expected loan impairment losses on possible defaults within the next 12 months.

Credit stage 2: Refers to expected loan impairment losses on possible defaults during the remaining lifetime. Refers to loans where there has been a significant increase of the credit risk since initial recognition.

Credit stage 3: Refers to expected loan impairment losses on possible defaults during the remaining lifetime. Refers to loans where repayment and interest have not been paid in more than 90 days, and loans deemed to be in default. Factors, individually or combined, such as the borrower's clear financial problems, breach of contract, or that it is probable that the borrower will enter bankruptcy also entail that the loan is transferred to stage 3.

Note 12 - Tax on net profit for the year

Amounts in SEK thousands	1 Jan. 2018 – 31 Dec. 2018	1 July 2017 – 31 Dec. 2017
Current tax expense	-156,140	-35,791
Deferred tax	–	-1,976
Tax on profit/loss for the period	-156,140	-37,767

Reconciliation of effective tax

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2017
Profit/loss before tax	717,442	161,711
Tax according to applicable tax rate (22%)	157,837	35,576
Non-deductible expenses, tax effect	21	13
Deferred tax for temporary differences	–	1,976
Correction, previous year's tax	-1,718	–
Other, tax effect	–	202
Reported effective tax	-156,140	-37,767

Note 13 - Due from credit institutions

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2017
Lending in SEK		
Foreign credit institutions, Group companies	863,937	822,989
Total	**863,937**	**822,989**
Average balance, loans to credit institutions, Group companies	7,783,212	4,232,238
Duration for amounts due from credit institutions		
Payable on demand	863,937	822,989
-3 months	–	–
3-12 months	–	–
1-5 years	–	–
More than 5 years	–	–
Total	**863,937**	**822,989**

The total amount Due from credit institutions refers to deposits with the Parent Company. Expected loan impairment charges have not been recognised as they are not consider to be material.

Note 14 - Lending to the public*

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2017
Lending in SEK		
Swedish households excl. sole proprietors	73,102,442	30,811,959
Swedish sole proprietors	4,326,147	2,490,311
Total	**77,428,589**	**33,302,270**
Loans at cost	77,503,949	33,302,692
Loan impairment charges for individually assessed loans	–	-422
Reserve for expected loan impairment charges (credit stage 1-3)	-75,360	–
Total	**77,428,589**	**33,302,270**
Average balance, lending to the public	51,653,969	11,753,833
Unsettled loans, etc.		
Impaired loans**	–	29,260
Loan impairment charges for individually assessed loans	–	-422
Loan impairment charges for collectively assessed loans	–	–
Impaired loans, net	–	28,838
Loan Impairment charges as % of impaired loans	–	1.44%
Proportion of impaired loans, %	–	0.09%
Unsettled receivables for which interest is recognised as revenue	–	–
Balance at start of year	–	–
Loan impairment charges for the year	–	-938
Reversed from impairment charges made during the year	–	516
Balance at year end	–	-422
Duration for lending to the public		
Payable on demand	–	–
–3 months	55,637,707	32,467,394
3-12 months	111,025	153,769
1-5 years	21,022,479	679,669
More than 5 years	657,378	1,438
Total	77,428,589	33,302,270

* New accounting principle from 1 January 2018 regarding IFRS9 has affected comparability in Notes 11, 14 and 15.

**Loans are defined as impaired when it is not likely that all contracted cash flows will be fulfilled. Each loan classified as impaired is included in the carrying amount of impaired loans by their full amounts even if the loans are covered by collateral. Receivables impaired as confirmed loan impairment charges are not included in impaired loans.

Note 15 - Lending to the public*

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2017
Credit stage 1		
Recognised gross amount	72,608,418	–
Reserve for expected loan impairment charges	-9,207	–
Book value	72,599,211	–
Credit stage 2		
Recognised gross amount	4,822,491	–
Reserve for expected loan impairment charges	-61,822	–
Book value	4,760,669	–
Credit stage 3		
Recognised gross amount	73,040	–
Reserve for expected loan impairment charges	-4,331	–
Book value	68,709	–
Recognised gross amount (credit stage 1-3)	77,503,949	–
Reserve for expected loan impairment charges (credit stage 1-3)	-75,360	–
Total	**77,428,589**	–

* New accounting principle from 1 January 2018 regarding IFRS9 has affected comparability in Notes 11, 14 and 15.

Credit stage 1: Refers to expected loan impairment losses on possible defaults within the next 12 months.
Credit stage 2: Refers to expected loan impairment losses on possible defaults during the remaining lifetime. Refers to loans where there has been a significant increase of the credit risk since initial recognition.
Credit stage 3: Refers to expected loan impairment losses on possible defaults during the remaining lifetime. Refers to loans where repayment and interest have not been paid in more than 90 days, and loans deemed to be in default. Factors, individually or combined, such as the borrower's clear financial problems, breach of contract, or that it is probable that the borrower will enter bankruptcy also entail that the loan is transferred to stage 3.

Amounts in SEK thousands	Credit stage 1	Credit stage 2	Credit stage 3	Total
Collective and individual credit reservations, as per IAS 39*			422	422
Transition effect (expected loan impairment charges, 1 January 2018)	7,527	21,021	574	29,122
Transferred to credit stage 1	12,520	-12,251	-269	0
Transferred to credit stage 2	-260	381	-121	0
Transferred to credit stage 3	-3	-33	36	0
Impairment charges for new loan receivables	7,470	35,863	1,037	44,370
Impairment charges for removed loan receivables	-1,808	-3,408	-91	-5,307
Impairment charges attributable to changes in credit risk	-16,239	20,254	3,258	7,273
Reduction of reserves for removed loan receivables	–	–	–	–
Impairment charges attributable to changes in loan receivables	–	-5	–	-5
Exchange-rate changes	–	–	–	–
Other changes	0	0	-93	-93
Total impairment charges, 31 December 2018	9,207	61,822	4,331	75,360

* All collective and individual impairment charges under IAS 39 are included in stage 3 regardless of what stage the loan was allocated to under IFRS 9. The change in the account for impairment charges is determined by comparing the balance sheet on 1 January 2018 with 31 December 2018.

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2018	31 Dec. 2017	31 Dec. 2017
Loan-to-value ratio (LTV)	Gross amount	Impairment charge	Gross amount	Impairment charge
Less than 50%	60,833,511	1,262	28,985,134	0
51 - 70%	11,961,946	42	3,667,095	0
71 - 90%	3,815,673	12	526,181	0
91 - 100%	345,096	0	41,170	0
More than 100%	547,723	74,044	83,112	422
Total	**77,503,949**	**75,360**	**33,302,692**	**422**

Note 16 - Bonds and other interest-bearing securities

Amounts in SEK thousands	31 Dec. 2018		31 Dec. 2017	
Current assets				
Swedish municipalities and county councils	859,637		655,385	
Other Swedish financial companies	1,404,926		1,094,415	
Total	**2,264,563**		**1,749,800**	
	Fair value	Nominal value	Fair value	Nominal value
Swedish municipalities and county councils	859,637	845,000	655,385	645,000
Other Swedish financial companies	1,404,926	1,360,000	1,094,415	1,030,000
Total	2,264,563	2,205,000	1,749,800	1,675,000

Note 17 - Financial instruments

Amounts in SEK thousands	Nominal amount	Positive market values 2018	Negative market values 2018	Positive market values 2017	Negative market values 2017
Interest swaps	85,535,704	200,819	21,192	4,287	63,858
Other	–	–	–	844	-844
Total	**85,535,704**	**200,819**	**21,192**	**5,131**	**63,014**
Currency distribution of market values					
SEK		200,819	21,192	5,131	63,014

Hedge accounting

		Carrying amount of the hedging derivative		Change in fair value for the calculation of the hedging efficiency
Hedging derivative	Nominal amount	Assets	Liabilities	
Interest swaps, 2018	69,419,098	194,917	11,075	230,248
Interest swaps, 2017	52,993,565	3,326	62,169	-59,846

	Carrying amount of hedged items		Change in fair value included in book value of the hedged items		Change in fair value for the calculation of the hedging efficiency
Fixed interest-rate risk that has been hedged	Assets	Liabilities	Assets	Liabilities	
2018					
Loan	21,834,576	–	4,478	–	5,831
Issued bonds	–	47,763,906	–	174,906	-236,109
Total, 2018	**21,834,576**	**47,763,906**	**4,478**	**174,906**	**-230,278**
2017					
Loan	33,291,212	–	-1,353	–	-1,353
Issued bonds	–	19,039,797	–	-61,203	-61,203
Total, 2017	**33,291,212**	**19,039,797**	**-1,353**	**-61,203**	**59,850**

Effects in the income statement	1 Jan. 2018 - 31 Dec. 2018	1 Jan. 2017 - 31 Dec. 2017
Change in fair value of hedging instruments, net	-230,278	-59,846
Change in fair value of hedged items, net	230,248	59,850
Net effect in profit or loss	**-30**	**4**

Interest-rate risk arises in the lending portfolio for loans with fixed interest for 1-5 years. Interest-rate risk for issued bonds arises when the interest on the bonds is fixed. In 2017, hedge accounting was also used for loans with fixed-interest for three months, which did not occur in 2018. Hedge accounting takes place at fair value through interest-rate swaps. Hedging pertains to interest-rate risk in the lending portfolio where fixed interest of 1-5 years is swapped to 3-month stibor, and issued bonds where fixed interest is swapped to 3-months stibor. The effectiveness of the hedge accounting is measured on multiple occasions to ensure that changes in fair value of the hedged instruments are within an interval of 80-125% of the change in fair value of the hedging derivative. The hedge effectiveness is affected by a change in fair value of the hedged instruments being measured in accordance with the relevant interest rate curve for the hedged instruments, while changes in fair value of the hedging derivatives are based on a swap curve. Adjustment of the portfolio with hedging instruments does not take place immediately, in connection with changes in the hedged items, which means that some inefficiency can arise in the hedge accounting.

Note 18 - Other assets

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2017
Tax account	939	458
Total	**939**	**458**

Note 19 - Prepaid expenses and accrued income

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2017
Interest	44,250	41,298
Personnel costs	113	82
Other	–	0
Total	**44,363**	**41,380**

Note 20 - Due to credit institutions

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2017
Liabilities in SEK		
Foreign credit institutions, Group companies	28,300,000	14,500,000
Foreign currency liabilities (EUR)		
Foreign credit institutions, Group companies	120	10
Total	**28,300,120**	**14,500,010**
Average balance, due to credit institutions, Average balance	21,376,889	11,719,050
Duration for due to credit institutions		
Payable on demand	120	10
-3 months	–	–
3-12 months	–	14,500,000
1-5 years	28,300,000	–
More than 5 years	–	–
Total	**28,300,120**	**14,500,010**

Note 21 - Issued bonds, etc.

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2017
Bonds in SEK	47,589,000	19,101,000
Total nominal value	**47,589,000**	**19,101,000**
Bonds in SEK	48,263,853	19,316,870
Total carrying amount	**48,263,853**	**19,316,870**
of which at amortised cost	48,089,664	19,378,215
Average balance issued bonds in SEK	36,699,038	4,164,430
Issued bonds at the end of the period	19,101,000	-
Nominal value issued during the year	28,488,000	19,101,000
Buy backs	-	-
Premium/discount	500,664	277,215
Hedging of interest-rate risk at current value	174,189	-61,345
Issued bonds at the end of the period	**48,263,853**	**19,316,870**

Bond list, covered bonds in SEK

31 Dec. 2018

Loan no.	Interest terms, %	Loan date	Interest date	Maturity date	Outstanding amount, SEK thousands
DH2112	1%	6 Nov. 2017	15 Dec.	15 Dec. 2021	13,938,000
DH2212	1%	29 Aug. 2017	21 Dec.	21 Dec. 2022	20,751,000
DH2312	1%	25 April 2018	20 Dec.	20 Dec. 2023	12,900,000
					47,589,000

31 Dec. 2017

Loan no.	Interest terms, %	Loan date	Interest date	Maturity date	Outstanding amount, SEK thousands
DH2212	1%	29 Aug. 2017	21 Dec.	21 Dec. 2022	13,301,000
DH2112	1%	6 Nov. 2017	15 Dec.	15 Dec. 2021	5,800,000
					19,101,000

Note 22 - Other liabilities

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2017
VAT	1,343	2,163
Personnel costs	245	243
Other	338	-
Total	**1,926**	**2,406**

Note 23 - Accrued expenses and deferred income

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2017
Interest	30,882	25,630
Fee expenses	24,444	9,876
Personnel costs	1,546	1,060
Auditing expenses	400	400
Other	3	328
Total	**57,275**	**37,294**

Note 24 - Pledged assets, contingent liabilities and commitments

Amounts in SEK thousands	31 Dec. 2018	31 Dec. 2017
Pledged assets		
Assets pledged for own liabilities	74,517,401	32,883,815
Other pledged assets and equivalent collateral	None	None
Contingency		
Contingent liabilities	None	None
Commitments	None	None

Lending to the public have been provide as collateral for the issued covered bonds.

Note 25 - Classification of financial assets and liabilities

Amounts in SEK million

31 Dec. 2018	Financial assets measured at amortised cost	Assets measured at fair value through profit or loss	Financial liabilities measured at amortised cost	Liabilities measured at fair value through profit or loss	Total	Fair value
Assets						
Due from credit institutions	864	–	–	–	864	864
Lending to the public	77,429	–	–	–	77,429	77,429
Bonds and other interest-bearing securities	–	2,264	–	–	2,264	2,264
Other assets	202	–	–	–	202	202
Prepaid expenses and accrued income	44	–	–	–	44	44
Total assets	**78,539**	**2,264**	–	–	**80,803**	**80,803**
Liabilities						
Due to credit institutions	–	–	28,300	–	28,300	28,300
Issued bonds	–	–	–	48,264	48,264	48,264
Tax liabilities	–	–	52	–	52	52
Other liabilities	–	–	23	–	23	23
Accrued expenses and deferred income	–	–	57	–	57	57
Total liabilities	–	–	**28,432**	**48,264**	**76,696**	**76,696**

Amounts in SEK million

31 Dec. 2017	Loans and receivables	Assets/liabilities measured at fair value through profit or loss	Financial liabilities measured at amortised cost	Non-financial assets/ liabilities	Total	Fair value
Assets						
Due from credit institutions	823	–	–	–	823	823
Lending to the public	33,302	–	–	–	33,302	33,302
Bonds and other interest-bearing securities	–	1,750	–	–	1,750	1,750
Other assets	1	5	–	–	6	6
Prepaid expenses and accrued income	41	–	–	–	41	41
Total assets	**34,167**	**1,755**	–	–	**35,922**	**35,922**
Liabilities						
Due to credit institutions	–	–	14,500	–	14,500	14,500
Issued bonds	–	19,317	–	–	19,317	19,317
Tax liabilities	–	–	–	36	36	36
Other liabilities	–	63	–	2	65	65
Accrued expenses and deferred income	–	–	37	–	37	37
Total liabilities	–	**19,380**	**14,537**	**38**	**33,955**	**33,955**

Note 26 - Effects of changes in accounting principles

Restatement of balance sheet 31 December 2017 upon transition to IFRS 9 on 1 January 2018

Amounts in SEK thousands	IFRS 9, 1 Jan. 2018	Transition to IFRS 9	IAS 39, 31 Dec. 2017
ASSETS			
Assets			
Due from credit institutions	822,989	–	822,989
Lending to the public	33,274,994	-27,276	33,302,270
Bonds and other interest-bearing securities	1,749,800	–	1,749,800
Deferred tax assets	–	–	–
Other assets	5,589	–	5,589
Prepaid expenses and accrued income	41,380	–	41,380
TOTAL ASSETS	**35,894,752**	**-27,276**	**35,922,028**
LIABILITIES AND EQUITY			
Liabilities			
Due to credit institutions	14,500,010	–	14,500,010
Issued bonds, etc.	19,316,870	–	19,316,870
Tax liabilities	29,495	-6,000	35,495
Other liabilities	65,420	–	65,420
Accrued expenses and deferred income	37,294	–	37,294
Total liabilities	**33,949,089**	**-6,000**	**33,955,089**
Equity			
Share capital	50,000	–	50,000
Shareholders' contribution	1,800,000	–	1,800,000
Profit/loss brought forward	-28,281	-21,276	-7,005
Net profit or loss for the period	123,944	–	123,944
Total equity	**1,945,663**	**-21,276**	**1,966,939**
TOTAL EQUITY AND LIABILITIES	**35,894,752**	**-27,276**	**35,922,028**

The entire effect of IFRS 9 pertains to a change in expected loan impairment charges.

Note 27 - Transactions with related parties

The Danske Bank Group consists of a number of independent legal companies. When trade occurs between the companies of the Group, or when one company performs work for another, settlement occurs on market-based conditions. Trade occurs in accordance with a contractual agreement between the companies unless the transactions are of an insignificant size.

Purchases and sales in the Group
- Of Danske Hypotek's total purchases, 91% (67%) related to companies within the Danske Bank Group.
- Of Danske Hypotek's total net interest, 39% (30%) related to companies within the Danske Bank Group.
- Of Danske Hypotek's total fee expenses, 23% (28%) related to companies within the Danske Bank Group.

Note 28 - Significant events after the end of the financial year

No significant events have occurred after the end of the financial year.

Note 29 - Group information

The company is a wholly owned subsidiary of Danske Bank A/S, corp. ID no. 61126228 with its registered office in Copenhagen, Denmark. The foreign Parent Company's consolidated financial statements are available on the Danske Bank A/S website, www.danskebank.com.

Note 30 - Definitions of KPIs and APMs

Exposure at default (EAD)	Total outstanding exposed value of a loan in the event of the loan's default
CET1 capital	CET1 capital is a subcomponent of the capital base and consists primarily of equity. Deductions are made for earned dividend, goodwill and other intangible assets and the difference between anticipated losses and impairment charges made for probable credit losses.
CET1 capital ratio	CET1 capital in relation to the risk exposure amount.
Liquidity coverage ratio (LCR)	This ratio describes the ability of the company's qualified liquid assets to finance the company's liquid outflow in the upcoming 30 days.
Loss given default (LGD)	What percentage of the loans granted that the company is expected to lose in the event of the counterparty's default.
Average weighted loan-to-value in the cover pool, % (LTV)	Size of loans in relation to the market value of underlying assets
Probability of default (PD)	Ratio that shows the probability of payment cancellation at the customer in accordance with the internal risk model.

Alternative performance measures

Danske Hypotek AB prepares the annual report in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as in Note 1. The annual report contains a number of alternative performance measures that the management deems provides valuable information to the reader since they are used by the management for internal governance and results follow-up and also for comparisons between periods. The APMs below are calculated from the financial statements without adjustment.

Proportion of impaired loans	Carrying amounts of impaired loans, gross, in relation to the carrying amount of amounts due from credit institutions and the public excluding reservations.
Return on total assets	Operating profit/loss after tax in relation to average total assets. The average value is the sum of the year's opening and closing value divided by two.
Leverage ratio	Tier 1 capital in relation to the total exposure measurement, where the exposure measurement includes both assets and items outside the balance sheet.
Average loan	The cover pool in relation to the number of loans.
Average weighted loan-to-value ratio	For every loan: Loan amounts (plus loans with better internal position) in relation to the market value of underlying collateral. The portfolio's loan-to-value ratio is then calculated as a weighted average.
E/I ratio	The total operating expenses before loan impairment charges in relation to total operating income.
Loan impairment charge level	Loan impairment charges in relation to total lending (closing balance)
Investment margin	Net interest in relation to average total assets. The average value is the sum of the year's opening and closing value divided by two.
Loan Impairment charges as % of impaired loans	All impairment charges in relation to impaired loans gross.
Return on equity	Operating profit/loss after tax in relation to average equity. The average value is the sum of the year's opening and closing value divided by two.

Signatures

Stockholm on

Glenn Söderholm
Chairman of the Board

Berit Behring

Robert Wagner

Carsten Nøddebo Rasmussen

Erik Åsbrink

Kim Borau

Per Tunestam
Chief Executive Officer

Our auditor's report was submitted on

Deloitte AB

Patrick Honeth
Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Danske Hypotek AB (publ) corporate identity number 559001-4154

Statement on the annual accounts

Opinions
We have audited the annual accounts of Danske Hypotek AB (publ) for the financial year 1 January 2018-31 December 2018 except for the corporate governance report on pages 9-10. The company's annual accounts are included on pages 4-36 in this document.

In our opinion, the annual accounts have been prepared pursuant to the Annual Accounts Act for Credit Institutions and Securities Companies and in all material respects present a fair view of the Danske Hypotek AB (publ)'s financial position as of 31 December 2018 and of its financial results and cash flows for the year in compliance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not comprise the corporate governance report on pages 9-10. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the General Meeting of shareholders adopt the income statement and balance sheet.

Our opinions in this statement on the annual accounts are consistent with the content of the supplementary report that has been turned over to the company's Board of Directors in accordance with Article 11 of the Audit Regulation (537/2014).

Basis for opinions
We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Danske Hypotek AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes, based on the best of our knowledge and conviction, that no prohibited services as referred to in Article 5.1 of the Audit Regulation (537/2014) have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Particularly significant areas
Areas of particular significance to the audit are those that in our professional opinion were the most significant to the audit of the annual accounts for the period in question. These areas are addressed within the scope of the audit of, and in our opinion on, the annual accounts as a whole, but we make no separate statements regarding these areas.

Assessments and estimates regarding measurement of loan receivables
Recognition and measurement of loan receivables are an area that largely affects Danske Hypotek's financial position and performance. IFRS 9 is a new and complex accounting regulatory code that requires significant assessments by the bank's management to determine the size of the reserve for expected credit losses.

Significant assessments include:

- Interpretation of the requirements to establish the size of the reserve for expected credit losses according to IFRS 9, which is reflected in the bank's model for the calculation of expected credit losses.
- Identification of exposures with significant deterioration of credit quality.
- Assumptions applied in the model for calculation of expected credit losses, such as the counterparty's financial position, expected future cash flows and prospective macroeconomic factors.

At 31 December 2018, lending to the public amounted to SEK 77,429 million with a reserve for expected credit losses of SEK 75 million. Given the lending's substantial share of the total assets, the impact the inherent uncertainty and subjectivity involved in the assessment of credit reservation needs have, and that the disclosure requirements under IFRS9 are substantial, we believe that this is a particularly significant area in our audit.

See disclosures on the credit risk presented in Note 2 in the annual accounts.

Our audit measures have comprised, but not consisted solely of:

- We have evaluated that key controls in the credit reserve process have been suitably formulated and effectively functioned during the year; including key controls for approval, registration and follow-up of loan receivables and key controls over input data and assumptions used in the models for calculation of the reserve for expected credit losses.
- We have evaluated, with the support of specialists, the modelling techniques and the model methods against the requirements in IFRS 9. We have examined the

suitability of a selection of the underlying models, which have been developed for the calculation of the reserve for expected credit losses. We have evaluated significant assumptions that formed the basis of an assessment of significant deterioration of credit quality, probability of default and loss given default.
- We have evaluated that key controls have been suitably formulated and effectively functional to assess whether or not credit commitments with a significant deterioration of the credit quality are identified in time.
- We have involved our IT specialists and formulated auditing procedures to test that identified key controls were effectively functioning during the year for the IT applications used in the calculation of the reserve for expected credit losses.
- Lastly, we have examined the completeness and reliability of the disclosures attributable to the reserves for expected credit losses to assess compliance to the disclosure requirements as per IFRS.

Information other than the annual accounts
This document also contains information other than the annual accounts and can be found on pages 2-3. It is the Board and the CEO who have the responsibility for this other information.

Our opinion regarding the annual accounts does not comprise this information and we make no statement confirming this other information.

In connection with our audit of the annual accounts, it is our responsibility to read the information identified above and consider if the information to a material extent is inconsistent with the annual accounts. In this review, we also take into account the information we collected otherwise during the audit and assess if the information otherwise appears to contain material misstatements.

If we draw the conclusion based on the work done regarding this information that the other information contains a material misstatement, we are obliged to report it. We have nothing to report in this respect.

Responsibilities of the Board of Directors and the CEO
The Board of Directors and the CEO are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the CEO are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error. In preparing the annual accounts, the Board of Directors and the CEO are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern assumption is not, however, applied if the Board and CEO intend to liquidate the company, cease operations or have no realistic alternative than to do either.

Auditor's responsibility
Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

A further description of our responsibility for the audit of the annual report is available on the website of the Supervisory Board of Public Accountants: www.revisorsinspektionen.se/revisornsansvar. This description is a part of the auditor's report.

Report on other legal and regulatory requirements

Opinions
In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the CEO of Danske Hypotek AB (publ) for the financial year 1 January 2018 - 31 December 2018 and the proposed appropriations of the company's profit or loss.

We recommend the General Meeting to appropriate the profit in accordance with the proposal in the administration report and to discharge the members of the Board of Directors and the CEO from liability for the financial year.

Basis for opinions
We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Danske Hypotek AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.
Responsibilities of the Board of Directors and the CEO
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The CEO shall take care of the operating management according to the Board's guidelines and instructions and take the actions necessary for the company's bookkeeping to be performed in accordance with law and for asset management to be conducted in a satisfactory manner.

Auditor's responsibility
Our objective regarding the audit of the management, and thereby our statement regarding discharge from liability, is to collect audit evidence to be able to assess with a reasonable degree of certainty if any Board member or the CEO to any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way acted in contravention of the Swedish Companies Act, the Banking and Finance Business Act, or the Annual Accounts Act for Credit Institutions and Securities Companies.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act. A further description of our responsibility for the audit of the administration is available on the website of the Supervisory Board of Public Accountants: www.revisorsinspektionen.se/revisornsansvar. This description is a part of the auditor's report.

Auditor's review of the corporate governance report
It is the Board of Directors who is responsible for the corporate governance report on pages 9-10 and that it has been prepared in accordance with the Annual Accounts Act.

Our review has been conducted in accordance with FAR's statement RevU 16 Auditor's review of the corporate governance report. This means that our review of the corporate governance report has another direction and is substantially more limited in scope than an audit conducted in accordance with the International Standards on Auditing and generally accepted auditing practice in Sweden. We consider that this review provides us adequate grounds for our opinions.

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6 Section 6 Paragraph 2 Items 2-6 of the Annual Accounts Act and Chapter 7 Section 31 Paragraph 2 of the same act are consistent with the other parts of the annual report and are in agreement with the Annual Accounts Act for Credit Institutions and Securities Companies.

Deloitte AB was elected Danske Hypotek AB (publ)'s auditor by the General Meeting on 9 March 2018 and has been the company's auditor since 3 May 2016.

Stockholm, 15 March 2019
Deloitte AB

Patrick Honeth
Authorised Public Accountant

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