

Annual Report 2020

Danske Hypotek AB (publ)



Danske Bank

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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

Malin Häggglund
Chief Operating Officer,
employed since 2020

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, Sverige Filial

Johan Hedqvist
Senior Business Risk Officer and Controls,
employed in Danske Bank A/S, Sverige Filial

Arne Peterson
Senior Legal Counsel,
employed in Danske Bank A/S, Sverige Filial

Giorgio Vellani
Senior Compliance Officer,
employed in Danske Bank A/S, Sverige Filial

Company Board of Directors

Glenn Söderholm
Chairman of the Board (Head of Personal & Business
Customers , Danske Bank A/S)

Robert Wagner
Member (Head of Liquidity & Capital Risk
Management, Danske Bank A/S)

Anneli Adler
Member (Head of Personal Customers SE
Danske Bank A/S, Sverige Filial)

Carsten Nøddebo Rasmussen
Member (Chief Executive Officer, Realkredit Danmark)

Kim Borau
Member (Head of Performance Management,
Personal & Business Customers, Danske Bank A/S)

External member
Kristina Alvendal
Senior Advisor

Auditors

Deloitte AB, Auditor-in-Charge Patrick Honeth

Internrevisor

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 2020

The Board of Directors and Chief Executive Officer of Danske Hypotek AB (publ.) (corp. ID no. 559001-4154) hereby submit the Annual Report for 2020. The company is a wholly owned subsidiary of Danske Bank A/S (corp. ID no. 61 126228).

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) and the Housing cooperation HSB (2019).

Danske Hypotek is a wholly owned Swedish subsidiary of Danske Bank A/S. In 2017 the company received permits from Swedish Financial Supervisory Authority to become a credit market company, and be permitted to issue covered bonds. 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.

Danske Hypotek's first covered bonds were successfully issued at the end of August of 2017. 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 and Nordic Credit Rating. At the end of 2020, the company had issued a total nominal of SEK 90.3 billion distributed over five bond maturities. The company's mortgage loans amounted to around SEK 117.4 billion at the same time.

Development of the company's operations, position and performance

SEK million	2020	2019	2018	2017
Income statement				
Total operating income	1,119	1,018	780	189
Total expenses	-135	-101	-61	-27
Loan impairment charges	27,3	47,7	-1,9	0
Profit before tax	1,012	965	717	162
Balance sheet				
Lending to the public	117,365	97,023	77,429	33,302
Total assets	123,647	101,348	80,803	35,922
Due to credit institutions	25,402	22,001	28,300	14,500
Issued bonds, etc.	92,232	74,221	48,264	19,317
Total liabilities	117,986	96,482	76,696	33,955
Total equity	5,661	4,866	4,107	1,967
Key performance indicators				
Return on equity, %	15.0	16.7	18.5	12.5
Return on total assets, %	0,7	0,8	1,0	0,7
Investment margin, %	1,1	1,2	1,4	1,2
Expenses/Income	0,1	0,1	0,1	0,1
CET1 capital ratio, %	17.5	16.7	16.1	42.0
Proportion of impaired loans, %	0,2	0,1	0,1	0,1
Loan impairment charge level	0,0	0,0	0,0	0,0
Average loan, SEK thousands	1,057	1,061	1,078	1,056
Average weighted LTV in the cover pool, %	58	59	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 29 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.

Market and development

Despite the covid-19 pandemic, house prices increased unexpectedly during 2020, this even if the Swedish economy shrunk with almost 3%. The household sector have decreased consumption and companies have decreased investments. The interest rate was volatile during the first months of the pandemic but has stabilized at a low level after that. The growth in mortgage loans during 2020 was higher than the previous two years and production of housing was higher than last year. It is still a housing deficit so a high level of housing production, and mortgage loan growth, is expected in the future. The loan-to-value ratio in the cover pool is 58 % (59 %), which is relatively low and the trend on the housing market has not had any negative impact on Danske Hypotek.

Profit before tax

The year has been dominated by the covid-19 pandemic but the company's profit has not significantly been affected of the situation. Income and cost have not been affected significantly, nor the credit losses. The 2020 operating profit was SEK1,011.9 million (965,2) and net interest income amounted to SEK 1.190.9million (1,049.7). The increase is only explained by the growth in the lending portfolio. The net income from financial transactions at fair value amounted to an expense of SEK 48.7 million (-12.4). Net commissions amounted to an expense of SEK 23.3 million (19.1). Total income amounted to SEK 1,119.0 million (1,018.3) and expenses to SEK 134.5 million (100.7). Expenses consisted primarily of compensation to Danske Bank for services rendered according to applicable outsourcing agreements and fee to the Resolution Fund. The increase is since these two main costs are affected by the size of the operations and it has grown during the year. The fee for the resolution fund were SEK 26 million for 2020. Loan impairment charges were positive also for 2020 and amounted to SEK 27.4 million (47.7). The reversals are mainly due to adjustments in credit models, see Note 8.

Capital adequacy

Danske Hypotek's total capital ratio and CET1 capital ratio amounted to 17.5 % (16.7) as of 31 December 2019. Net profits for the year are included in the capital base but for 2019 only the first six months profits are included. Internally assessed capital requirements amounted to SEK 3,652 million as of 31 December 2020; the entire amount is covered by CET1 capital. For more information on capital adequacy, see Note 3.

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 2020, the total credit portfolio amounted to SEK 117,365 million (97,023). The portfolio consists of mortgage loans for residential purposes. 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

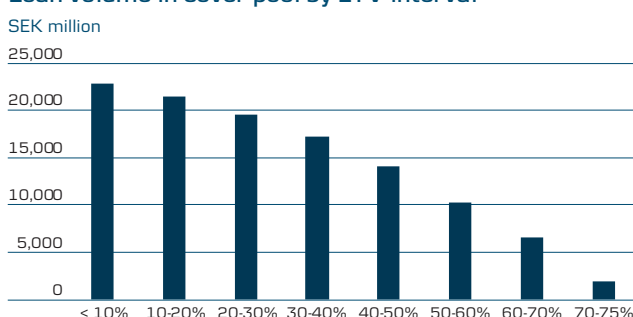
As of 31 December, the eligible mortgage loans is the cover pool, which constitutes collateral for the issuance of covered bonds, amounted to SEK 113,826 million, which corresponds to more than 97 % of the total mortgage loan portfolio. At 31 December, the average weighted loan-to-value ratio (LTV) amounted to 58.0 % and the overcollateralisation level amounted to 26 %. 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.

Cover Pool KPIs

Cover pool, SEK millionr	113 826
Average loan, SEK thousands	1 044
Number of loans	109 050
Number of borrowers	52 323
Number of properties	54 069
Average weighted LTV, %	58
Average seasoning, years	4,2

Regional distribution	Volume, SEK million	Volume, %
Stockholm	53,067	47%
Gothenburg	14,612	13%
Malmö	7,959	7%
Southern Sweden	7,756	7%
Western Sweden	5,035	4%
Northern Sweden	5,979	5%
Eastern Sweden	19,419	17%
Outside Sweden	0	0%
Total	113,826	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 had fivefour bonds in the market at the end of 2020.

The company launched its fourth bond, DH2512 (maturity date 2025-12-17) Altogether, all five bonds were very well received in the market and subsequent so-called tap issues have continuously been carried out at competitive pricing.

At 31 December 2020, the total outstanding nominal volume was SEK 90,346 million [73,139].

During March of 2020, the covid-19 pandemic made a large impact on the financial markets. The functionality in the market degraded significantly and credit spreads incre-

ased dramatically. To respond to the crisis, the Riksbank acted through buying covered bonds as a support to the market. This action quickly normalized the market and pushed down the credit spreads. By the end of 2020, the credit spreads were lower than in the beginning of the year.

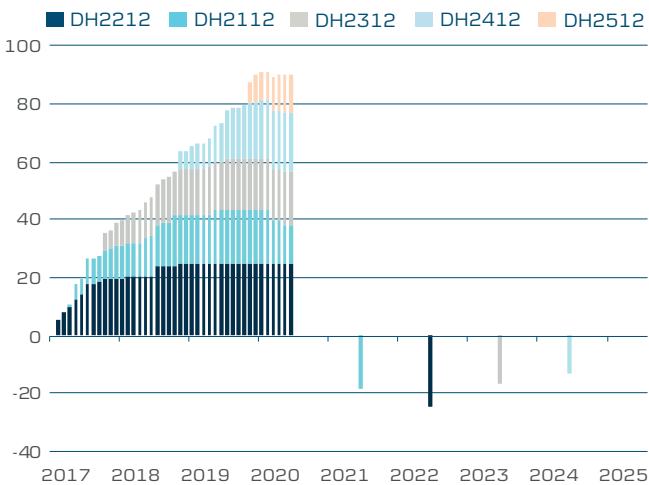
In 2021, the objective of Danske Hypotek’s funding activities is to continue the work of establishing itself as a long-term issuer in the Swedish covered bond market. The strategy for this is to continuously conduct tap issues in the company’s outstanding bonds and to introduce another one or two bonds in the market during the year. During 2021 bond DH2112 will mature and buy-backs of the bond have already been offered and conducted. During 2020 SEK 5,443 million were bought back in the bond. 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 thousands

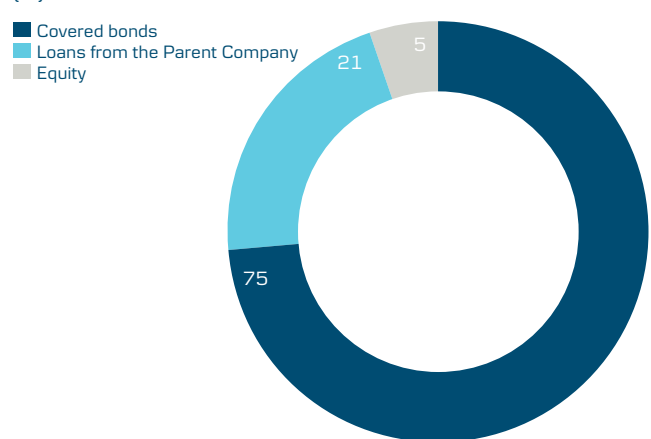
31 Dec. 2020

Loan no.	Interest terms, %	Loan date	Interest date	Maturity date	Outstanding amount
DH2112	1%	6 Nov. 2017	15 Dec.	15 Dec. 2021	13,245,000
DH2212	1%	29 Aug. 2017	21 Dec.	21 Dec. 2022	24,901,000
DH2312	1%	25 April 2018	20 Dec.	20 Dec. 2023	17,900,000
DH2412	1%	23 May 2019	18 Dec.	18 Dec. 2024	20,500,000
DH2512	1%	12 May 2020	17 Dec.	17 Dec. 2025	13,800,000
					90,346,000

Issues and maturities (SEK billion)



Funding sources (%)



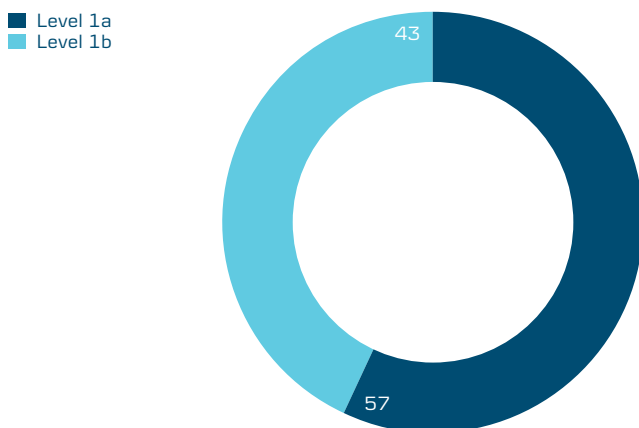
Funding programmes

Besides the Swedish benchmark programme, Danske Hypotek established an international funding 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 supra nationals. Level 1b assets are comprised 100 % of covered bonds in Swedish krona. At 31 December 2020, the portfolio's market value amounted to SEK 4,090 million of which 57 % are government and municipal bonds and 43% 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 and from Nordic Credit Rating

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 risk 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.

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.danskebank.com/societal-impact.

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 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.

The company will therefore be able to provide good liquidity in its bond offerings in the long term. Since the market demand for the company's bonds is assumed to remain strong, the company's total outstanding bond volume is expected to exceed SEK 100 billion in 2021.

At present, the company's mortgage loans consist solely of mortgage loans to private individuals. During 2021 the company is 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.

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

The Board of Directors and CEO propose that non-restricted equity, SEK 5,611,367,312, will be appropriated as follows:

Amounts in SEK

Retained earnings	4,816,043,181
Net profit for the year	795,324,131
Total	5,611,367,312
Carried forward to next year	5,611,367,312
Total	5,611,367,312

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

Corporate Governance Report 2020

Danske Hypotek is a Swedish public credit market company, with a registered office in Stockholm, and wholly owned subsidiary of Danske Bank A/S. 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 2020 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 2020, the cost for remuneration was SEK 162,000. 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, FFFS 2011:1 and FFFS 2020:30.

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. 2020	Jan.-Dec. 2019
Interest income calculated with the help of the effective interest method.	4	1,537,850	1,191,442
Other interest income	4	791,627	571,282
Interest expenses	5	-1,138,490	-713,006
Net interest income/expense		1,190,987	1,049,718
Fee income		105	240
Fee expenses	6	-23,372	-19,298
Net income from financial transactions	7	-48,705	-12,356
Total operating income		1,119,015	1,018,304
General administrative expenses	8, 9, 10	-134,028	-100,282
Other operating expenses		-509	-452
Profit before loan impairment charges		984,478	917,570
Loan impairment charges		27,388	47,652
Profit before tax		1,011,866	965,222
Tax on net profit for the year	11	-216,542	-206,144
Net profit or loss for the year		795,324	759,078
Other comprehensive income		-	-
Comprehensive income for the year		795,324	759,078

Balance sheet

Amounts in SEK thousands	Note	31 Dec. 2020	31 Dec. 2019
ASSETS			
Assets	24		
Due from credit institutions	12	1,463,197	657,155
Lending to the public	13, 14	117,364,790	97,023,059
Bonds and other interest-bearing securities	15	4,090,091	3,052,336
Other assets	16, 17	709,795	575,498
Prepaid expenses and accrued income	18	19,428	40,055
TOTAL ASSETS		123,647,301	101,348,103
LIABILITIES AND EQUITY			
Liabilities	24		
Due to credit institutions	19	25,401,649	22,001,473
Issued bonds, etc.	20, 23	92,231,599	74,221,445
Tax liabilities		63,005	69,239
Other liabilities	16, 21	233,015	117,943
Accrued expenses and deferred income	22	56,666	71,960
Total liabilities		117,985,934	96,482,060
Equity			
Share capital		50,000	50,000
Shareholders' contribution		3,400,000	3,400,000
Profit/loss brought forward		1,416,043	656,965
Net profit or loss for the year		795,324	759,078
Total equity		5,661,367	4,866,043
TOTAL EQUITY AND LIABILITIES		123,647,301	101,348,103

Statement of changes in equity

Amounts in SEK thousands					
	Share capital	Shareholders' contribution	Profit/loss brought forward	Profit/loss for the year	Total equity
Opening balance 01/01/2020	50,000	3,400,000	656,965	759,078	4,866,043
Reversal of previous year's profit	-	-	759,078	-759,078	-
Profit/loss for the period	-	-	-	795,324	795,324
Closing balance 31/12/2020	50,000	3,400,000	1,416,043	795,324	5,661,367

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

Opening balance 01/01/2019	50,000	3,400,000	95,663	561,302	4,106,965
Restatement as a result of changed accounting principles, after tax (IFRS 9)	-	-	-	-	-
Opening balance 01/01/2019	50,000	3,400,000	95,663	561,302	4,106,965
Reversal of previous year's profit	-	-	561,302	-561,302	-
Shareholders' contribution	-	-	-	-	-
Profit/loss for the year	-	-	-	759,078	759,078
Closing balance 31/12/2019	50,000	3,400,000	656,965	759,078	4,866,043

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

Cash flow statement

Amounts in SEK thousands	Jan-Dec 2020	Jan-Dec 2019
Operating activities		
Operating profit/loss	1,011,866	965,222
Adjustments for non-cash items, etc.	-130,782	-215,979
Payed taxes	-222,776	-188,783
Cash flow from operating activities before changes in working capital	658,308	560,460
Change in operating activity assets		
Change in lending to credit institutions	-600,451	-
Change in lending to the public	-20,314,343	-19,520,780
Change in other investment assets	-433,748	-622,604
Change in other assets	-109,355	-373,744
Change in operating activity liabilities		
Change in due to/from credit institutions	3,400,176	-6,298,647
Change in issued bonds	17,514,037	25,959,171
Change in other liabilities	90,967	89,362
Cash flow from operating activities	205,591	-206,782
Cash flow from investing activities	-	-
Cash flow from financing activities	-	-
Cash flow for the year	205,591	-206,782
Cash and cash equivalents at the beginning of the year	657,155	863,937
Cash and cash equivalents at end of the year*	862,746	657,155

* Cash and cash equivalent contains balance at group company and are included in due from credit institutions

Reconciliation of liabilities attributable to financing activities

Cash and cash equivalents	31 Dec. 2020	31 Dec. 2019
Cash and cash equivalents consist of loans to credit institutions	862,746	657,155
Total	862,746	657,155

Interest, etc.	Jan-Dec 2020	Jan-Dec 2019
Interest received	2,325,162	1,767,036
Interest paid	-1,129,679	-692,859
Total	1,195,483	1,074,177

Adjustment for non-cash items	Jan-Dec 2020	Jan-Dec 2019
Loan impairment charges	-27,388	-73,690
Change in Accounting principle	-107,890	-166,748
Unrealised changes in value	4,496	24,459
Total	-130,782	-215,979

Notes

Note 1 - Accounting Policies

Amount in SEK thousands unless otherwise stated. Amounts in parentheses refer to the figures for the previous year.

Danske Hypotek's annual report has been prepared in accordance with the Act 1995:1559 on the annual accounts of credit institutions and securities companies (ÅRKL), the Swedish Financial Supervisory Authority's regulations and General Council FFFS 2008:25 Annual Report in credit institutions and securities companies, The Financial Reporting Council Recommendation RFR 2 Accounting for legal entities and statements by The Financial Reporting Council. In accordance with the General Council of the Swedish Financial Supervisory Authority, Danske Hypotek applies so-called statutory IFRS. This means that the international accounting standards and interpretations of these standards adopted by the EU have been applied to the extent possible within the framework of national laws and regulations and the interconnection between accounting and taxation. The reporting currency is SEK.

SIGNIFICANT REGULATORY CHANGES DURING THE YEAR
Accounting principles and basis for calculation remain unchanged compared with the Annual Report for 2019.

FORTHCOMING CHANGES TO ACCOUNTING POLICIES
In August 2020, IASB issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 as a result of the Interest Rate Benchmark Reform. The rules deal with accounting for the modifications required in connection with the exchange of reference interest rates and includes a practical approach that means that the modifications handled as a change in variable rate. This practical handling shall apply as the two following conditions are fulfilled; (a) the change is a direct consequence of the reform and (b) the new basis for determining the agreed cash flows are economically equivalent to the previous foundation. The changes also provide relief in the hedge accounting in connection with the exchange of reference interest rates, this means, among other things, that changes in hedge relations and hedge documentation due to the replacement is permitted, without terminating the hedge relation. The amendments shall apply from 1 January 2021 with the authorization pre-term application. The change is not expected to have any significant impact on the financial reports.

RECOGNITION OF ASSETS AND LIABILITIES IN FOREIGN CURRENCY

Transactions in foreign currencies in the nominal accounts are translated into the reporting currency on the transaction date. All assets and liabilities are valued at the reporting currency's exchange rate on the balance sheet date. Exchange rate differences are recognized in the income statement.

FINANCIAL INSTRUMENTS

RECOGNITION OF ASSETS AND LIABILITIES IN THE BALANCE SHEET

Assets are recognised in the balance sheet when it is probable that the future economic benefits associated with the asset will accrue to the company and when the asset's value or acquisition cost can be reliably measured. A liability is recognised in the balance sheet when it is probable that, in order to fulfill an existing obligation, the company will have to relinquish a resource with a value that can be reliably measured.

Purchases and sales of money and capital market instruments and derivatives are recognised on the business day. Other financial assets and liabilities are normally recognised on the settlement date. Financial assets are removed from the balance sheet when the contractual rights to the cash flows arising from the asset cease or when all risks and benefits associated with the asset are transferred to others. A financial liability is removed from the balance sheet when the obligation ends.

When a loan is modified, the company makes an assessment of whether the modification results in the removal of the loan from the balance sheet. A loan is considered to be modified when the conditions and provisions governing cash flows are changed compared with the original contract as a result of factors other than such related to the deterioration of the credit rating of a borrower. Modified loans are removed from the balance sheet and a new loan is reported when the existing loan is terminated and a new agreement is concluded with substantially different conditions or if the terms of an existing agreement are substantially modified. Only modifications due to financial difficulties in the case of the borrower, including measures of distance, is not considered to be essential in itself.

OFFSET OF ASSETS AND LIABILITIES

Financial assets and liabilities are offset in the balance sheet when the company has a contractual right to offset the items and is intended to settle the payments at the same time as a net amount.

NET INTEREST INCOME

Interest income is recognized as interest payments received and changes in the amortised cost of a loan receivable during the period, which means that an even return is obtained over the term of the loan, the so-called effective interest rate. The effective interest rate is the rate that disregards future cash flows to the gross carrying value of a financial asset. The calculation takes into account transaction costs, premiums or discounts and fees paid or received which are an integral part of the yield. Interest income is generally calculated by applying the effective interest rate to the reported gross value of financial assets with two

exceptions. When financial assets valued at amortised cost have become uncertain after the first accounting date, interest income is calculated by applying the effective interest rate on amortised cost, which is the reported gross value less reserves for credit losses. If such financial assets are no longer uncertain, the calculation of interest income will revert to the calculation of the gross carrying amount. When financial assets at amortised cost were uncertain at the first time of recognition, interest income is calculated by applying a credit-adjusted effective interest rate on amortised cost until the financial asset is removed from the balance sheet. The credit-adjusted effective interest rate is calculated based on amortised cost instead of the reported gross value and incorporates the effect of expected future credit losses on estimated future cash flows.

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 measured at fair 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 in the amortised 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. At the initial recognition, loans are valued at fair value, with additions to transaction costs and deductions for charges which form an integral part of the effective interest rate. This usually corresponds to the amount paid to the customer. The loans are then valued at amortized cost using the effective interest method less impairment losses for expected credit losses.

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, comprise the financial liabilities not measured at fair value through profit or loss. Liabilities in this category mainly comprise issued bonds. 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 through profit or loss

Financial liabilities measured at fair value through profit or loss comprise 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.

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.

Danske Hypotek sets fair values for financial instruments using different methods depending on the degree of observability of market data on the valuation and activity on the market. An active market is considered to be either a regulated or reliable trading place where prices recorded are readily available and show a regularity. An ongoing assessment of the activity is carried out by analysing factors such as differences in purchase and sales rates. The methods are divided into three different valuation levels:

Level 1: Unadjusted price, consists of financial instruments that are listed on an active market. The company uses the price recorded on the main market.

Level 2: Valuation based on observable inputs consists of financial instruments that are valued on the basis of observable inputs but which are not a recorded price for the instrument itself. If a financial instrument is listed on a market that is not active, the company bases its value on the latest transaction price. Adjustments are made for subsequent changes in market conditions, e.g. by including transactions with similar financial instruments. For a number of financial assets and liabilities there is no market. In such cases, the company uses recent transactions with similar instruments and discounted cash flows or other generally accepted assessment and valuation techniques based on market conditions at the balance sheet date to calculate an estimated value.

Level 3: Valuation model based on significant non-observable input. Valuation of certain financial instruments where significant valuation parameters are not observable is based on internal assumptions. Such instruments include unlisted shares and unlisted bonds. Below is how the financial instruments reported at fair value are distributed among the three different valuation levels.

Level 1 contains holdings of bonds. These instruments are valued at unadjusted quoted market prices.

Level 2 contains interest rate derivatives. Its fair value is determined by using discounted cash flows. Cash flows are discounted to the relevant valuation curve based on observable input.

Danske Hypotek has no financial instruments valued at fair value at level 3.

If the classification of a financial instrument differs from the classification at the beginning of the year, the classification of the instrument is changed. Changes are considered to have taken place on the balance sheet date. During the period, there have been no transfers of financial instruments between the various levels.

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.

A prerequisite for applying hedge accounting is that the hedging relationship has been formally identified and documented. The efficiency of the hedge must be able to be measured reliably and expected to be effective, both forward and retroactive in achieving countervailing effects in value changes.

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 whether the loss risk have 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).

Assets that are credit impaired in connection with issuance or purchase (purchased or originally created credit-impaired facilities, POCI), expected credit losses are reported during the remaining life of the asset. In general, the company does not purchase credit-impaired financial assets.

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 does 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 macro-economic factors on the expected loan impairment charges. Following the Corona pandemic these scenarios have been updated during 2020. At year-end 2020 the main scenario has a 60% probability (2019: 60%), the scenarios for improved outcome has a 15% probability (2019: 10%) and degraded outcome has a 25% probability (2019: 30%). 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.

In order to assess the expected credit loss, the company must define what concerns a substantially increased credit risk. The company's definition of substantially elevated credit risk, meaning when loans are transferred from stage

1 to stage 2, is 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 stage 3. In the calculation of expected loan impairment charges, default is defined in accordance with the Capital Requirements Regulation (CRR), that is in line with IFRS 9. 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 stage 3.

The bank's credit processes have been updated to pay particular attention to customers affected by the Covid-19 pandemic. This includes additional guidance to ensure that relief resulting from the Covid-19 pandemic is considered to be a deterioration only if it concerns customers that are not considered to be creditworthy in combination with the customer's long-term financial position being further weakened by the outbreak. For the majority of the credit portfolio, short-term relief for otherwise creditworthy customers is not considered to be a deterioration. In practice, this means that short-term relief to customers in rating categories 1 to 5 is not considered a deterioration in credit rating. For customers in rating categories 6 and 7, an individual assessment of the customer's financial strength is made, while relief to customers with lower ratings is considered a deterioration.

Presentation of credit losses

Provisions for credit losses on financial assets valued at amortised cost are presented in the balance sheet as a reduction in the reported gross value of the asset. A write-off reduces the reported gross value of the financial asset. In the income statement, credit losses and disclaimers are presented as loan impairment charges. The loan impairment charges for the period consist of recorded and probable losses for granted credits. Recoveries and reclaimed previously expected credit losses are recognized as income within loan impairment charges. Established loan losses are reported when the credit is sold back to Danske Bank A/S.

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

In addition to interest income and interest expenses for financial instruments calculated according to the effective interest method, interest related to derivative instruments that hedge items whose interest flows are reported in the net interest income is reported in the net interest income. Interest income calculated using the effective interest method is reported as a separate item in the income statement. Interest income on financial assets at fair value through profit or loss is recognised under the item other interest income. The item interest expenses includes all interest expenses.

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

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 recognised as net income from financial transactions.

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 Filialer Gemensamma Pensionsstiftelse. These commitments are recognised in accordance with IAS 19's rules for defined-benefit pension plans. The company's commitments in respect of the fees to defined-contribution pension plans are recognised as an expense in the income statement for the period as premiums are paid.

TAXES

Tax expense for the period consists of current tax and deferred tax. Taxes related to taxable profit for the period or prior periods are reported as current tax. Deferred tax refers to temporary differences between the carrying amount of an asset or liability and its tax base. Tax expense is recognized in the income statement as Tax on the profit and loss for the year or in other comprehensive income or directly in Equity in the balance sheet, depending on where the underlying transaction is recognized.

SIGNIFICANT ASSESSMENTS AND ASSUMPTIONS ABOUT THE FUTURE

In some cases, the application of the company's accounting policies means that assessments must be made that have a material impact on the amounts reported. In addition, reported amounts are affected in a number of cases by assumptions about the future. The assessments and assumptions that are made always reflect the best and most reasonable views of the company management and are subject to continuous follow-up and review. The final outcome may differ from the carrying amounts of assets and liabilities.

The estimates and assumptions that have a material impact on the financial statements relate to the calculation of expected credit losses. The model is described in more detail in the credit losses section.

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

Table 1. Maximal credit exposure in the financing activities

Amounts in SEK million	31 Dec. 2020	31 Dec. 2020	31 Dec. 2019	31 Dec. 2019
	Gross amount	Net amount	Gross amount	Net amount
Due from credit institutions	1,463	1,463	657	657
Bonds and other interest-bearing securities	4,090	4,090	3,052	3,052
Derivative instruments, part of Other assets	709	709	327	327
Total	6,262	6,262	4,036	4,036

Net amounts take into consideration collateral received or other credit insurance

Table 2. Credit exposure per classification and credit step

Amounts in SEK million	Credit stage			Credit impaired assets	Total
Classification	Credit stage 1	Credit stage 2	Credit stage 3	upon issue or acquisition	
1	2,456	-	-	7	2,464
2	33,427	35	-	14	33,475
3	42,033	78	-	32	42,142
4	21,671	232	-	51	21,953
5	8,178	727	-	41	8,946
6	2,421	922	3	10	3,356
7	967	1,447	5	30	2,448
8	140	500	74	11	726
9	-1	100	3	1	103
10	109	1,483	157	41	1,791
11	-0	7	23	2	32
Total	111,400	5,531	264	240	117,436
Reserve for expected loan impairment charges	8	55	7	1	71
Book value	111,392	5,476	258	239	117,365

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.

The covid-19 pandemics effect on the credit risk

The year has been dominated by the covid-19 pandemic but it has not affected the credit risk negatively in a material way. Since housing prices have increased during the year, and the regulatory temporary exemption from amortisation requirement, there have been no general degradation of credit quality. There is still uncertainties in the effectiveness of the governmental interventions that have been put in place to mitigate the economic consequences of the pandemic. The economic activity will probably continue to affect 2021 and it is not known in what extent the authorities will continue to support the Swedish economy.

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 2020, the average PD was 0.6%.

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 54 % and tenant-owner apartments at 42 % and 4 % holiday homes.

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 58.0 % at 31 December 2020. Despite the covid-19 pandemic the loan-to-value strengthened somewhat, this due to higher housing prices.

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 16.

Table 3. Credit exposure based on classification

The mortgage loan portfolio amounted to SEK 117,365 million as of 31 December 2020. Reserves for expected loan impairment charges amounted to SEK 70.8 million.

Amounts in SEK million	PD		Exposure
	Lower	Upper	
Classification			
1	-	0.01	2,463.7
2	0.01	0.03	33,474.8
3	0.03	0.06	42,140.6
4	0.06	0.14	21,951.3
5	0.14	0.31	8,943.4
6	0.31	0.63	3,350.4
7	0.63	1.90	2,433.3
8	1.90	7.98	714.9
9	7.98	25.70	100.5
10	25.70	99.99	1,762.2
11 (default)	100.00	100.00	29.6
Total exposure			117,364.8

Table 4. Receivables with overdue amounts

Amounts in SEK million	31 Dec. 2020
6-30 days	-
31-60 days	6.84
> 60 days	-
Total past due amounts	6.84
Total due under loans	27.87

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 27.9 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 2020, Danske Hypotek had a reserve for expected loan impairment charges totalling SEK 70.8 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 2020, exposure in step 3 classified loans amounted to SEK 264 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 deferral 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.

The Group's forbearance practices have been updated to pay particular attention to customers affected by the covid-19 pandemic. This includes additional guidance to ensure that concessions due to the crisis are considered forbearance only if they relate to customers that are not deemed creditworthy combined with the customer's long-term financial position being further weakened by the outbreak. For the majority of the credit portfolio, short-term concessions to otherwise creditworthy customers are not considered forbearance

At the end of 2020, Danske Hypotek had two loans subject to forbearance measures. Total exposure was SEK 1,159 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 2019, 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 35 million. For additional information about exposures and hedging of interest rate risk, see Note 16.

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.

The covid-19 pandemic has been an operational risk for the Danske Hypotek. The company has, despite a wide spread infection, been able to operate in full. This since digital meetings and possibilities to work from home have been put in place.

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 2020, the company had a liquidity portfolio that amounted to SEK 4,090 million and the company's liquidity coverage ratio amounted to 1,192 %.

Table 5. Risk management – Liquidity risk

Amounts in SEK million	2020			Total
	<12 months	1-5 years	>5 years	
ASSETS				
Due from credit institutions	1,463	-	-	1,463
Lending to the public*	63,940	51,954	1,471	117,365
Bonds and other interest-bearing securities	401	3,464	225	4,090
Other assets	729	-	-	729
Total financial assets	66,533	55,418	1,696	123,647
LIABILITIES				
Due to credit institutions	601	24,800	-	25,401
Issued bonds, etc.	13,245	78,987	-	92,232
Other liabilities	353	-	-	353
Total financial liabilities	14,199	103,787	-	117,986
Amounts in SEK million	2019			Total
	<12 months	1-5 years	>5 years	
ASSETS				
Due from credit institutions	657	-	-	657
Lending to the public*	54,051	41,694	1,278	97,023
Bonds and other interest-bearing securities	452	2,600	-	3,052
Other assets	616	-	-	616
Total financial assets	55,776	44,294	1,278	101,348
LIABILITIES				
Due to credit institutions	-	22,001	-	22,001
Issued bonds, etc.	-	74,221	-	74,221
Other liabilities	260	-	-	260
Total financial liabilities	260	96,222	-	96,482

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.

*For Lending to the public, interest rate fixing time is used.

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 2020, Danske Hypotek's capital base was SEK 5,543 million and only of CET1 capital alongside of a smaller amount as an adjustment of expected loan impairment charges. Reviewed Net profit for 2020 is 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 3,652 million as at 31 December 2020. As the capital base was SEK 5,543 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 ratingsbased (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.

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 a 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 0.0 after the decrease in March 2020. 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 2020 were 4.5 %.

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 2020, 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.

Operational risk

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

Risk exposure amounts and risk weights

Amounts in SEK million	31 Dec. 2020		31 Dec. 2019	
	Risk exposure amount	Average risk weight (%)	Risk exposure amount	Average risk weight (%)
Credit risks				
Institutions	-	-	-	-
Corporate customers	-	-	-	-
Household exposure	7,918	8	8,127	8
Advanced IRC method, total	7,918	8	8,127	8
Standardised method for credit risk, total	821	38	764	50
Additional risk weight amounts as per Article 458 (risk weight floor for Swedish mortgage loans)	21,143		15,928	
Credit risk, total	29,882	25	24,818	25
Counterparty risk, total	300	50	217	50
Market risk, total	-		-	
Operational risk, total	1,459		1,647	
Total risk exposure amount, REA	31,641		26,682	

Capital requirement

Amounts in SEK million	31 Dec. 2020	31 Dec. 2019
Capital requirement (8% av REA)	2,531	2,135
Pillar 2 add-ons		
Credit Concentration risk add-on	108	110
Interest rate risk in banking book (IRRBB)	162	168
Information and communication technology risks (ICT)	59	59
Total Pillar 2 add-ons	329	337
Buffer requirements, % of REA		
Capital conservation buffer	2.5%	2.5%
Countercyclical capital buffer	0.0%	2.5%
Combined buffer requirement	2.5%	5.0%
Buffer requirements, SEK m	791	1,331
Capital requirement including combined buffer	3,652	3,803
Capital requirement including combined buffer, % of REA	11.5%	14.3%
Excess total capital, %	6.0%	2.4%
Excess total capital, SEK m	1,891	651

Capital

Amounts in SEK million	31 Dec. 2020	31 Dec. 2019
Share capital	50	50
Shareholders' contribution	3,400	3,400
Retained earnings	1,416	657
Yearly net result after adjustments	795	360
CET1 capital before legislative adjustments	5,661	4,467
Further value adjustments	-5	-8
Negative amounts as a result of calculation of expected loss amounts	-113	-5
Other legislative adjustments	-	-
CET1 capital	5,543	4,454
Tier 1 capital contribution: Instruments and provisions	-	-
Tier 1 capital contribution: Legislative adjustments	-	-
Tier 1 capital	5,543	4,454
Tier 2 capital	-	-
Positive amounts as a result of calculation of expected loss amounts	-	-
Other legislative adjustments	-	-
Total capital	5,543	4,454
Total risk-weighted assets	31,641	26,682
CET1 capital (as a percentage of the risk-weighted exposure amount)	17.5%	16.7%
Tier 1 capital (as a percentage of the risk-weighted exposure amount)	17.5%	16.7%
Total capital (as a percentage of the risk-weighted exposure amount)	17.5%	16.7%

Leverage ratio

Amounts in SEK million	31 Dec. 2020	31 Dec. 2019
Leverage ratio		
Total exposure for leverage ratio calculation	124,492	102,054
- of which derivatives	1,664	1,063
- of which securities	4,090	3,052
- of which items off the balance sheet	-	-
Tier 1 capital (transitional rules)	5,543	4,454
Tier 1 capital (fully phased in rules)	5,543	4,454
Leverage ratio (transitional rules), (%)	4.5%	4.4%
Leverage ratio (fully phased in rules)	4.5%	4.4%

Note 4 - Interest income

Amounts in SEK thousands	Jan-Dec 2020	Jan-Dec 2019
Lending to the public	1,537,475	1,191,069
Liabilities to foreign credit institutions - Group companies	375	373
Interest-bearing securities - bonds	380,042	241,039
Interest-bearing securities - underlying derivative instruments	411,547	330,240
Other interest income	38	3
Total	2,329,477	1,762,724

Interest income regarding assets measured at amortised cost amounted to SEK 1 537 850 thousand (1 191 433) in 2020.

Note 5 - Interest expenses

Belopp i Tkr	Jan-Dec 2020	Jan-Dec 2019
Balances with foreign credit institutions - Group companies	-99,443	-9,485
Interest-bearing securities - bonds	-853,649	-614,165
Interest-bearing securities - underlying derivative instruments	-185,258	-89,262
Other interest expenses	-140	-94
Total	-1,138,490	-713,006

Interest expenses regarding liabilities measured at amortised cost amounted to SEK 99 443 thousand (9 485) in 2020.

Note 6 - Fee expenses

Amounts in SEK thousands	Jan-Dec 2020	Jan-Dec 2019
Activity-based fee expenses		
Securities commissions	-99	-205
Payment brokerage commissions	0	0
Other commissions	-19,305	-15,255
	-19,404	-15,460
Portfolio-based fee expenses		
Securities commissions	-218	-88
Other commissions	-3,750	-3,750
	-3,968	-3,838
Summa	-23,372	-19,298

Note 7 - Net income from financial transactions

Amounts in SEK thousands	Jan-Dec 2020	Jan-Dec 2019
Capital gains/losses		
Interest-bearing securities	-2,558	122
Other financial instruments, derivatives	-2,610	-207,863
Currency	6	-1
	-5,162	-207,742
Unrealised changes in value		
Interest-bearing securities	-519,893	-10,779
Other financial instruments, derivatives	476,350	206,165
	-43,543	195,386
Total	-48,705	-12,356

Note 8 - Administration expenses

Amounts in SEK thousands	Jan-Dec 2020	Jan-Dec 2019
Personnel costs	-10,838	-10,755
Purchase of administrative services	-88,655	-65,562
Resolution fee	-26,010	-16,961
Other expenses	-8,525	-7,004
Total	-134,028	-100,282
<i>Specification Personnel costs</i>		
Salaries and remuneration	-5,927	-6,121
Bonus costs	-162	-237
Social security contributions	-1,950	-2,017
Pension expenses	-2,785	-2,279
Other personnel costs	-14	-101
Total	-10,838	-10,755

Note 9 - Employees and personnel costs**Average number of employees**

	Jan-Dec 2020	Of which men	Jan-Dec 2019	Of which men
Sweden	6	5	6	5
Total	6	5	6	5

Gender distribution in company management

	31 Dec. 2020	31 Dec. 2019
Proportion of women		
Board	29%	18%
Other executives	17%	17%

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

Amounts in SEK thousands	Jan-Dec 2020	Jan-Dec 2019
Chief Executive Officer	1,411	1,570
of which bonus and similar compensation to the CEO	46	50
Board member, Extern	150	100
of which bonus and similar compensation to the Board	-	-
Other employees	4,626	4,688
Total	6,233	6,358
Social security expenses	1,945	2,017
Pension expenses	2,785	2,279
Information on severance pay to CEO	6 months' salary	6 months' salary

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

Other benefits

Amounts in SEK thousands	Jan-Dec 2020	Jan-Dec 2019
Chief Executive Officer	21	27
Board	-	-

Loans to CEO and Board

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
CEO and Board	8,999	6,745
Information on assets pledged, etc. and amounts for which collateral provided	8,999	6,745

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	Jan-Dec 2020	Jan-Dec 2019
Chief Executive Officer	374	365
Board	-	-
Total	374	365

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	Jan-Dec 2020	Jan-Dec 2019
Deloitte AB		
Audit engagement	761	746
Other auditing activities	-	44
Total	761	790

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 - Tax on net profit for the year

Amounts in SEK thousands	Jan-Dec 2020	Jan-Dec 2019
Current tax expense	-216,542	-206,144
Deferred tax	-	-
Tax on profit/loss for the period	-216,542	-206,144

Reconciliation of effective tax

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
Profit/loss before tax	1,011,866	965,222
Tax according to applicable tax rate 21,4% (22%)	216,539	206,558
Non-deductible expenses, tax effect	3	43
Correction, previous year's tax	-	-457
Reported effective tax	-216,542	-206,144

Note 12 - Due from credit institutions

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
Lending in SEK		
Foreign credit institutions, Group companies	1,463,197	657,155
Total	1,463,197	657,155
Average balance, loans to credit institutions, Group companies	2,002,930	2,181,064

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 considered to be material.

Note 13 - Lending to the public

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
Lending in SEK		
Swedish households excl. sole proprietors	113,489,919	91,902,902
Swedish sole proprietors	3,874,871	5,120,157
Total	117,364,790	97,023,059
Loans at cost	117,435,562	97,096,749
Reserve for expected loan impairment charges (credit stage 1-3)	-70,772	-73,690
Total	117,364,790	97,023,059
Average balance, lending to the public	107,530,252	82,705,951

Note 14 - Lending to the public

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
Credit stage 1		
Recognised gross amount	111,639,762	90,341,105
Reserve for expected credit losses	-8,098	-9,473
Book value	111,631,664	90,331,632
Credit stage 2		
Recognised gross amount	5,531,464	6,691,449
Reserve for expected credit losses	-55,942	-57,991
Book value	5,475,522	6,633,458
Credit stage 3		
Recognised gross amount	264,337	64,195
Reserve for expected credit losses	-6,732	-6,226
Book value	257,605	57,969
Recognised gross amount (credit stage 1-3)	117,435,563	97,096,749
Reserve for expected credit losses (credit stage 1-3)	-70,772	-73,690
Total	117,364,791	97,023,059

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 .

2020

Amounts in SEK thousands	Credit stage 1	Credit stage 2	Credit stage 3	Total
Opening balance for credit reservations, 1 January 2020	9,473	57,991	6,226	73,690
Transferred to credit stage 1	29,588	-26,637	-2,951	0
Transferred to credit stage 2	-640	1,649	-1,009	0
Transferred to credit stage 3	-150	-1,208	1,358	0
Impairment charges for new loan receivables	2,578	6,208	336	9,122
Impairment charges for removed loan receivables	-4,721	-8,192	-896	-13,809
Impairment charges attributable to revaluation (including changes in the model)	-28,030	26,131	3,668	1,769
Total impairment charges, 31 december 2020	8,098	55,942	6,732	70,772

* 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 2020 with 31 December 2020.

2019

Amounts in SEK thousands	Credit stage 1	Credit stage 2	Credit stage 3	Total
Collective and individual credit reservations, as per IAS 39*				0
Opening balance for credit reservations, 1 January 2019	9,207	61,822	4,331	75,360
Transferred to credit stage 1	27,175	-26,101	-1,074	-
Transferred to credit stage 2	-848	1,047	-199	-
Transferred to credit stage 3	-36	-418	454	-
Impairment charges for new loan receivables	7,158	33,201	960	41,319
Impairment charges for removed loan receivables	-2,774	-7,466	-2,808	-13,048
Impairment charges attributable to revaluation (including changes in the model)	-30,409	-4,094	4,562	-29,941
Total impairment charges, 31 december 2019	9,473	57,991	6,226	73,690

* 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 2019 with 31 December 2019.

Amounts in SEK thousands	31 Dec. 2020		31 Dec. 2019	
	Gross amount	Impairment charge	Gross amount	Impairment charge
Loan-to-value ratio [LTV]				
Less than 50%	94,837,647	741	76,688,867	987
51 - 70%	17,158,328	172	14,764,248	314
71 - 90%	4,466,158	5	4,459,755	16
91 - 100%	338,769	-	413,984	0
More than 100%	634,661	69,853	769,895	72,373
Total	117,435,563	70,772	97,096,749	73,690

Note 15 - Bonds and other interest-bearing securities

Amounts in SEK thousands	31 Dec. 2020		31 Dec. 2019	
Current assets				
Swedish municipalities and county councils	1,782,639		1,062,433	
Other Swedish financial companies	1,746,669		1,989,903	
Other foreign issuers	560,783		-	
Total	4,090,091		3,052,336	
	Fair value	Nominal value	Fair value	Nominal value
Swedish municipalities and county councils	1,782,639	1,740,000	1,062,433	1,040,000
Other Swedish financial companies				
Other foreign issuers	560,783	550,000	-	-
Total	4,090,091	4,000,000	3,052,336	3,000,000

Note 16 - Financial instruments

Amounts in SEK thousands	Carrying amount of hedging derivative			Carrying amount of hedging derivative		
	Nominal amount 2020	Positive market values 2020	Negative market values 2020	Nominal amount 2019	Positive market values 2019	Negative market values 2019
Interest swaps	221,477,273	709,442	230,847	172,981,834	326,988	116,892
Other	-	-	-	-	-	-
Total	221,477,273	709,442	230,847	172,981,834	326,988	116,892
Currency distribution of market values SEK		709,442	230,847		326,988	116,892

Hedge accounting

Hedging derivative	Nominal amount	Carrying amount of the hedging derivative		Change in fair value for the calculation of the hedging efficiency
		Assets	Liabilities	
Interest swaps, 2020	173,157,717	708,458	202,835	317,384
Interest swaps, 2019	120,388,631	322,193	102,881	31,583

Fixed interest-rate risk that has been hedged	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
	Assets	Liabilities	Assets	Liabilities	
2020					
Loan	72,076,644	-	150,927	-	180,105
Issued bonds	-	91,016,294	-	670,294	-497,472
Total, 2020	72,076,644	91,016,294	150,927	670,294	-317,367
2019					
Loan	47,220,453	-	-29,178	-	-33,656
Issued bonds	-	73,311,822	-	172,822	2,084
Total, 2019	47,220,453	73,311,822	-29,178	172,822	-31,572

Effects in the income statement

	2020	2019
Change in fair value of hedging instruments, net	-317,367	-31,572
Change in fair value of hedged items, net	317,385	31,584
Net effect	18	12

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. 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 17 - Other assets

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
Other claim, Group companies	353	-
Tax account	-	248,510
Total	353	248,510

Note 18 - Prepaid expenses and accrued income

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
Interest	19,284	39,937
Personnel costs	144	118
Total	19,428	40,055

Note 19 - Due to credit institutions

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
Liabilities in SEK		
Foreign credit institutions, Group companies	25,400,570	22,000,000
Foreign currency liabilities (EUR)		
Foreign credit institutions, Group companies	1,079	1,473
Total	25,401,649	22,001,473
Average balance, due to credit institutions	20,905,973	20,717,969

Note 20 - Issued bonds, etc.

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
Bonds in SEK	90,346,000	73,139,000
Total nominal value	90,346,000	73,139,000
Bonds in SEK	92,231,599	74,221,445
Total carrying amount	92,231,599	74,221,445
of which at amortised cost	91,561,305	74,048,417
Average balance issued bonds in SEK	87,259,282	62,797,798
Issued bonds at the end of the period	74,221,445	48,263,853
Nominal value issued during the year	22,650,000	25,550,000
Buy backs	-5,443,000	-
Premium/discount	305,683	408,753
Hedging of interest-rate risk at current value	497,471	-1,161
Issued bonds at the end of the period	92,231,599	74,221,445

Bond list, covered bonds in SEK thousands**31 Dec. 2020**

Loan no.	Interest terms, %	Loan date	Interest date	Maturity date	Outstanding amount
DH2112	1%	6 Nov. 2017	15 Dec.	15 Dec. 2021	13,245,000
DH2212	1%	29 Aug. 2017	21 Dec.	21 Dec. 2022	24,901,000
DH2312	1%	25 April 2018	20 Dec.	20 Dec. 2023	17,900,000
DH2412	1%	23 May 2019	18 Dec.	18 Dec. 2024	20,500,000
DH2512	1%	12 May 2020	17 Dec.	17 Dec. 2025	13,800,000
					90,346,000

31 Dec. 2019

Loan no.	Interest terms, %	Loan date	Interest date	Maturity date	Outstanding amount
DH2112	1%	6 Nov. 2017	15 Dec.	15 Dec. 2021	18,688,000
DH2212	1%	29 Aug. 2017	21 Dec.	21 Dec. 2022	24,901,000
DH2312	1%	25 April 2018	20 Dec.	20 Dec. 2023	16,650,000
DH2412	1%	23 May 2019	18 Dec.	18 Dec. 2024	12,900,000
					73,139,000

Note 21 - Other liabilities

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
VAT	1,944	871
Personnel costs	223	180
Other	-	-
Total	2,167	1,051

Note 22 - Accrued expenses and deferred income

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
Interest	34,667	50,824
Fee expenses	19,079	18,857
Personnel costs	2,320	1,829
Auditing expenses	600	450
Other	-	-
Total	56,666	71,960

Note 23 - Pledged assets, contingent liabilities and commitments

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
Pledged assets		
Assets pledged for own liabilities	113,825,925	92,869,797
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 24 - Classification of financial assets and liabilities

Amounts in SEK thousands

31 Dec. 2020	Financial assets measured at amortised cost	Assets/Liabilities measured at fair value through profit or loss		Total
		Fair value	Hedge	
Assets				
Due from credit institutions	1,463,197	-	-	1,463,197
Lending to the public	117,213,863	-	150,927	117,364,790
Bonds and other interest-bearing securities	-	4,090,091	-	4,090,091
Derivative	-	-	709,442	709,442
Total assets	118,677,060	4,090,091	860,369	123,627,520
Liabilities				
Due to credit institutions	25,401,649	-	-	25,401,649
Issued bonds	91,561,305	-	670,294	92,231,599
Derivative	-	-	230,847	230,847
Total liabilities	116,962,954	-	901,141	117,864,095

Amounts in SEK thousands

31 Dec. 2019	Financial assets measured at amortised cost	Assets/Liabilities measured at fair value through profit or loss		Total
		Fair value	Hedge	
Assets				
Due from credit institutions	657,155	-	-	657,155
Lending to the public	97,052,237	-	-29,178	97,023,059
Bonds and other interest-bearing securities	-	3,052,336	-	3,052,336
Derivative	-	-	326,988	326,988
Total assets	97,709,392	3,052,336	297,810	101,059,538
Liabilities				
Due to credit institutions	22,001,473	-	-	22,001,473
Issued bonds	74,048,623	-	172,822	74,221,445
Derivative	-	-	116,892	116,892
Total liabilities	96,050,096	-	289,714	96,339,810

Note 25 - Fair value

Determination of fair value of financial instruments

Danske Hypotek sets fair values for financial instruments using different methods depending on the degree of observability of market data on the valuation and activity on the market. An active market is considered to be either a regulated or reliable trading place where prices recorded are readily available and show a regularity. An ongoing assessment of the activity is carried out by analysing factors such as differences in purchase and sales rates. The methods are divided into three different valuation levels:

Level 1: Unadjusted price, consists of financial instruments that are listed on an active market. The company uses the price recorded on the main market.

Level 2: Valuation based on observable inputs consists of financial instruments that are valued on the basis of observable inputs but which are not a recorded price for the instrument itself. If a financial instrument is listed on a market that is not active, the company bases its value on the latest transaction price. Adjustments are made for subsequent changes in market conditions, e.g. by including transactions with similar financial instruments. For a number of financial assets and liabilities there is no market. In such cases, the company uses recent transactions with similar instruments and discounted cash flows or other generally accepted assessment and valuation techniques based on market conditions at the balance sheet date to calculate an estimated value.

Level 3: Valuation model based on significant non-observable input. Valuation of certain financial instruments where significant valuation parameters are not observable is based on internal assumptions. Such instruments include unlisted shares and unlisted bonds.

Below is how the financial instruments reported at fair value are distributed among the three different valuation levels.

Level 1 contains own issued securities traded on an active market and holdings of bonds. These instruments are valued at unadjusted quoted market prices.

Level 2 contains interest rate derivatives. Its fair value is determined by using discounted cash flows. Cash flows are discounted to the relevant valuation curve based on observable input.

Danske Hypotek has no financial instruments valued at fair value at level 3.

If the classification of a financial instrument differs from the classification at the beginning of the year, the classification of the instrument is changed. Changes are considered to have taken place on the balance sheet date. During the period, there have been no transfers of financial instruments between the various levels.

Financial instruments valued at amortised cost

For loans with variable interest rates, the carrying amount is considered to be in accordance with the fair value. The valuation of fixed-rate lending is determined by using discounted cash flows and is based on current market interest rates adjusted for the adoption of a market-based credit margin. Liabilities to credit institutions, consisting of loans from the parent company, are valued at discounted cash flows based on market-based risk-free interest rates.

Amounts in SEK thousands

31 Dec. 2020	Level 1	Level 2	Level 3	Total
Assets				
Lending to the public	-	150,927	-	150,927
Bonds and other interest-bearing securities	4,090,091	-	-	4,090,091
Derivative	-	709,795	-	709,795
Total assets	4,090,091	860,722	-	4,950,813
Liabilities				
Issued bonds	-	670,294	-	670,294
Derivative	-	233,015	-	233,015
Total liabilities	-	903,309	-	903,309
31 Dec. 2019				
Assets				
Lending to the public	-	-29 178	-	-29 178
Bonds and other interest-bearing securities	3 052 336	-	-	3 052 336
Derivative	-	575 498	-	575 498
Total assets	3 052 336	546 320	-	3 598 656
Liabilities				
Issued bonds	-	172 822	-	172 822
Derivative	-	117 943	-	117 943
Total liabilities	-	290 765	-	290 765

Note 26 - 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, 74% (75%) related to companies within the Danske Bank Group.
- Of Danske Hypotek's total net interest, 11% (22%) related to companies within the Danske Bank Group.
- Of Danske Hypotek's total fee expenses, 25% (27%) related to companies within the Danske Bank Group.

Note 27 - Significant events after the end of the financial year

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

Note 28 - 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 financial statements are available from Danske Hypotek AB.

Note 29 - 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

Anneli Adler

Robert Wagner

Carsten Nøddebo Rasmussen

Kristina Alvendal

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 516401-9852

Report on the annual accounts

Opinions

We have audited the annual accounts of Danske Hypotek AB (publ) for the financial year 2020 except for the corporate governance report on pages 9-10. The annual accounts are included on pages 4-36 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, Danske Hypotek AB (publ)'s financial position as of 31 December 2020 and its financial performance and cash flows for the year then ended in accordance 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 report on the annual accounts are consistent with the content of the additional report that has been submitted to the company's Board of Directors in accordance with the Audit Regulation (537/2014) Article 11.

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 that, based on the best of our knowledge and belief, no prohibited services referred to in Audit Regulation (537/2014) Article 5.1 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.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

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 complex accounting framework 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.
- The impact from Covid-19 on the above key areas of judgment.

At 31 December 2020, lending to the public amounted to SEK 117 365 million SEK with a reserve for expected credit losses of SEK 71 million. Given the lending's substantial share of the total assets, the impact the inherent uncertainty and subjectivity involved in the assessment of credit losses, and that the disclosure requirements under IFRS9 are substantial, we believe that this is a key audit matter in our audit.

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

- We have evaluated that key controls in the credit loss process have been appropriately designed and effective 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 IFRS9. We have examined the appropriateness 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 appropriately designed and effective to assess whether credit exposures with a significant deterioration in credit quality are identified in a timely manner.

- We have involved our IT specialists and formulated auditing procedures to test that identified key controls are effective during the year for the IT applications used in the calculation of the reserve for expected credit losses.
- As part of the above audit procedures, we have considered the impact of Covid-19.
- Lastly, we have examined the completeness and reliability of the disclosures for the reserves for expected credit losses to assess compliance with the disclosure requirements in accordance with IFRS.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and is found on pages 1-3 and 36-40. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director 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 Managing Director 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 Managing Director 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 basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

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 responsibilities for the audit of the annual accounts is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms 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 Managing Director of Danske Hypotek AB (publ) for the financial year 2020 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged 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 Managing Director

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 and the group'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 Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in 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 has acted in contravention of the Companies Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

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 responsibilities for the audit of the management's administration is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description forms part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 9-10 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Deloitte AB, was appointed auditor of Danske Hypotek AB (publ) by the general meeting of the shareholders on the 2019-03-29 and has been the company's auditor since 2016-05-03.

Stockholm March 29, 2021
Deloitte AB

Patrick Honeth Authorised
Public Accountant

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