# *Annual Report 2017*

Danske Hypotek AB (publ)

Danske Bank

# *Contents*



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

**Company's management group**
Per Tunestam
Chief Executive Officer,
employed since 2016

Peter Jönsson
Chief Financial Officer,
employed since 2017

Tomas Renger
Chief Funding Manager,
employed since 2017

Sophia Grönkvist
Chief Operating Officer,
employed since 2017

Joakim Olsson
Head of Credit,
employed since 2017

Jonas Wikfeldt
Senior Funding Manager,
employed since 2017

*The company's management group also includes the following persons on an outsourced basis:*

Claudia Rocklind
Chief Risk Officer,
employed in Danske Bank A/S, Sweden Branch

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

Janne Seppänen
Compliance Officer,
employed in Danske Bank A/S, Sweden Branch

**Board of Directors**
Jacob Aarup-Andersen
Chairman of the Board (Group Chief Financial Officer, Danske Bank A/S)

Christopher Møllenbach
Ledamot (Head of Group Treasury, Danske Bank A/S)

Stojko Gjurovski
Member, (Head of Personal Banking SE, Danske Bank A/S)

Carsten Nøddebo Rasmussen
Member (CEO, Realkredit Danmark)

Erik Åsbrink
External member

**Auditors**
Deloitte AB, Auditor-in-Charge Patrick Honeth

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

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

# *Management's Report 2017*

The Board of Directors and Chief Executive Officer of Danske Hypotek AB (publ.) (corp. ID no. 559001-4154) hereby submit the Annual Report for 2017. The company is a wholly owned subsidiary of Danske Bank A/S (corp. ID no. 61126228).

**Background on the formation of Danske Hypotek AB**

The Danske Bank Group – the Nordic region's second largest banking group – has an explicit strategy to strengthen its positions in the Swedish market. Danske Bank established operations in Sweden in 1995 and conducts banking activities as a branch of the Danish Parent Company. The growth of lending in Sweden has been strong in recent years. Through its Swedish network of offices and its strong digital offering, the Swedish branch has successfully conducted mortgage loan business in Sweden for a number of years and gradually increased its market share and advanced its position in customer satisfaction surveys done by Svensk Kvalitetsindex (SKI). The Swedish branch also received the "Bank of the Year" award from the business magazine Privata Affärer two years running (2015 and 2016) and recently entered strategic cooperation agreements with the unions Saco (2016) and TCO (2017). Together, these unions represent nearly two million members, which constitutes continued growth potential in lending for mortgage loans to private individuals.

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

**Danske Hypotek's operations**

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

The company began its operations shortly after it received requisite permits from the Swedish Financial Supervisory Authority. Danske Hypotek's first covered bonds were successfully issued at the end of August and were met by strong demand from the market. It was the first time in more than ten years that a new issuer entered the Swedish benchmark market. The company's bonds received a AAA credit rating from Standard & Poor's. At the end of the year, the company had issued a total of SEK 19.1 billion distributed over two bond maturities. The company's mortgage loans amounted to around SEK 33.3 billion at the same time.

**Development of the company's operations, position and performance**

| Amounts in SEK million | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| **Income statement** | | |
| Total operating income | 189 | 0 |
| Total expenses | -27 | -9 |
| Loan impairment charges | 0 | - |
| Operating profit/loss | 162 | -9 |
| **Balance sheet** | | |
| Lending to the public | 33,302 | 0 |
| Total assets | 35,922 | 51 |
| Due to credit institutions | 14,500 | 49 |
| Issued bonds, etc. | 19,317 | 0 |
| Total liabilities | 33,955 | 8 |
| Total equity | 1,967 | 43 |
| **Key performance indicators** | | |
| Return on equity, % | 12.3 | negative |
| Return on total assets, % | 0.7 | negative |
| Common Equity Tier 1 capital ratio | 42.0 | - |
| Proportion of impaired loans, % | 0.09 | - |
| Loan Impairment charges as % of impaired loans | 1.44 | - |
| Average loan, SEK thousands | 1,056 | - |
| Average weighted LTV, % | 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.

### Expected future volume development

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

At present, the company's mortgage loans consist solely of mortgage loans to private individuals. In the next phase, 2019 at the earliest, the company is also planning to acquire loans to owners of multifamily properties, such as property companies and tenant-owner associations. More detailed information on the company's mortgage loans is available at www.danskehypotek.se.

### Market and development

Growth in the Swedish economy accelerated gradually during the year, which was driven by record high residential investments and an increasingly strong global economy that had a positive influence on both the stock exchange and the corporate climate. In the second half of the year, the trend on the housing market indicated declining prices driven, in part, by a large supply. As the loan-to-value ratio in the credit portfolio is relatively low (51%) and the credit quality is good, the trend on the housing market has not had any negative impact on Danske Hypotek.

## Operating profit/loss

The operating profit for Danske Hypotek's first active financial year was SEK 162.1 million and net interest income amounted to SEK 224.1 million. At year-end, the lending portfolio was SEK 33,302 million. The net income from financial transactions at fair value amounted to an expense of SEK 23.2 million. Net commissions amounted to an expense of SEK 11.6 million. The fee to the resolution fund was negligible for 2017 as the calculation of the fee is based on historical figures. Total income amounted to SEK 189.3 million and expenses to SEK 27.2 million. Expenses consisted primarily of compensation to Danske Bank for services rendered according to applicable outsourcing agreements and personnel costs. Loan impairment charges amounted to SEK 0.4 million.

## Capital adequacy

Danske Hypotek's total capital ratio and CET1 capital ratio amounted to 42.0% as of 31 December. Profit for the year is not included in the capital base. Internally assessed capital requirements amounted to SEK 1,285 million as of 31 December 2017; 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, the total credit portfolio amounted to SEK 33,302 million. The portfolio consists of mortgage loans for residential purposes. The collateral consists of tenant-owner rights (33%), single-family houses (61%) and holiday homes (6%). The revaluation of the collateral is done continuously and an update of the collateral's value is done at least once every year. The geographic distribution is concentrated to the metropolitan areas and growth areas. Repayment capacity is deemed to be very good and the risk in the credit portfolio is deemed to be low.

### Cover pool

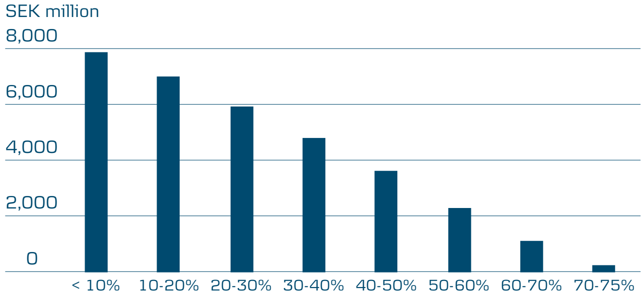
As of 31 December, the eligible mortgage loans is the cover pool, which constitutes collateral for the issuance of covered bonds, amounted to SEK 32,883 million, which corresponds to nearly 99% of the total mortgage loan portfolio. At 31 December, the average weighted loan-to-value ratio (LTV) amounted to 51% and the overcollateralisation level amounted to 72%.

### Cover Pool KPIs

| | |
|---|---|
| Cover pool, SEK million | 32,883 |
| Average loan, SEK thousands | 1,056 |
| Number of loans | 31,151 |
| Number of borrowers | 17,346 |
| Number of properties | 17,899 |
| Average weighted LTV, % | 51 |
| Average seasoning, years | 4.3 |

| Regional distribution | Volume, SEK million | Volume, % |
|---|---|---|
| Stockholm | 15,849 | 48% |
| Gothenburg | 4,425 | 13% |
| Malmoe | 1,927 | 6% |
| Southern Sweden | 2,270 | 7% |
| Western Sweden | 1,530 | 5% |
| Northern Sweden | 1,432 | 4% |
| Eastern Sweden | 5,450 | 17% |
| Outside Sweden | 0 | 0% |
| **Total** | **32,883** | **100%** |

### Loan volume in cover pool by LTV interval




## Funding and liquidity

### Funding

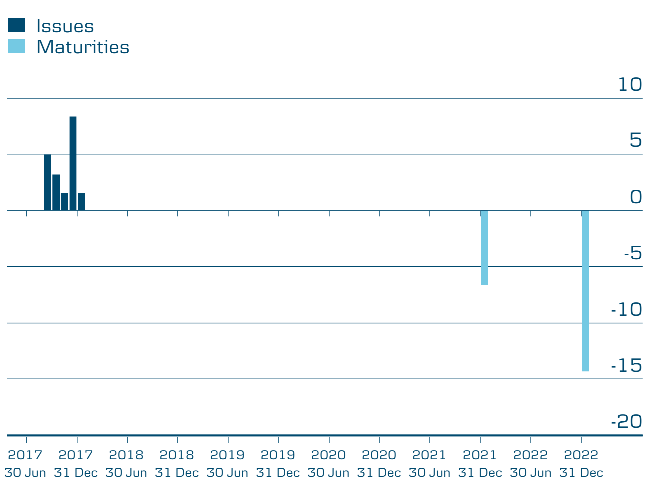
Danske Hypotek's primary source of funding is through covered bonds in the Swedish benchmark market. As a complement to this, the company also has access to financing through Danske Bank A/S in the form of a loan facility. Danske Hypotek's inaugural bond, bond DH2212 maturing in December 2022, was launched in the market on 29 August 2017 through so-called syndication. The order book maintained a very high level of quality and the issue was heavily oversubscribed.

The second bond, DH2112, maturing in December 2021, was introduced in November through customary benchmark proceedings. Altogether, both 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, the total outstanding volume was SEK 19.1 billion, of which SEK 5.8 billion in DH2112 and SEK 13.3 billion in DH2212.

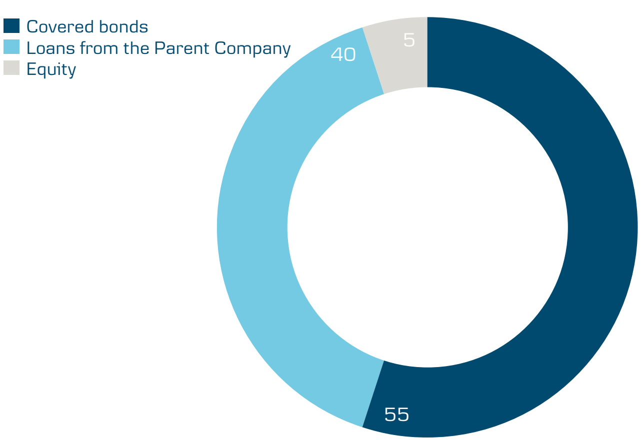
In 2018, the objective of Danske Hypotek's funding activities is to continue the work of establishing itself as a long-term issuer in the Swedish covered bond market. The strategy for this is to continuously conduct tap issues in the company's outstanding bonds and to introduce another one or two bonds in the market. 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 | ISIN | Currency | Volume (SEK million) | Coupon (%) | Maturity date |
|---|---|---|---|---|---|
| DH2112 | SE0010494716 | SEK | 5,800 | 1.00% | 15 Dec. 2021 |
| DH2212 | SE0010297085 | SEK | 13,301 | 1.00% | 21 Dec. 2022 |
| **Total outstanding** | | | **19,101** | | |

### Issues and maturities
(SEK billion)



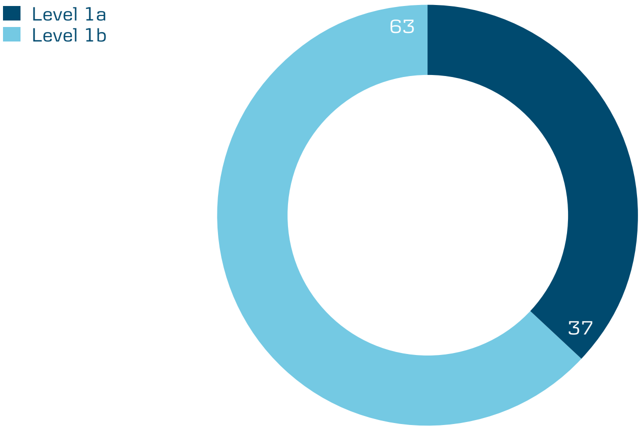

### Funding sources
(%)



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

### Liquidity
Danske Hypotek's liquidity portfolio consists solely of highly liquid assets of very good quality. All assets have the highest credit ratings and are categorised as level 1a or 1b in the Liquidity Coverage Ratio (LCR) according to the distribution in the figure below. Danske Hypotek's level 1a assets are comprised 100% of Swedish municipal bonds and level 1b assets are comprised 100% of Swedish covered bonds. At 31 December 2017, the portfolio's market value amounted to SEK 1,750 million of which 37% are government and municipal bonds and 63% are covered bonds (all assets are in SEK). The main purpose of the portfolio is to fulfil regulatory requirements regarding LCR.

**Danske Hypotek's liquidity portfolio**
(%)




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

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

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

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 Control and the respective risk owners (operational function heads). The company's risk profile in relation to risk capacity, appetite and tolerances is a continuous dialogue among management and the Board.

### Principles of risk management
The company manages and evaluates its exposure to all 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 a documented process (Change Management Process).
- 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 Control 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. Risk control shall have the responsibility of monitoring overall risk.

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

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

## Proposal on the appropriation of the company's profit

The Board of Directors and CEO propose that non-restricted equity, SEK 1,916,938,452, will be appropriated as follows:

| Amounts in SEK | |
|---|---|
| Retained earnings | 1,792,994,838 |
| Profit for the year | 123,943,614 |
| **Total** | **1,916,938,452** |
| Carried forward to next year | 1,916,938,452 |
| **Total** | **1,916,938,452** |

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

# Corporate Governance Report 2017

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

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

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

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

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

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

**Auditors**
The Annual General Meeting appoints auditors for Danske Hypotek. The 2017 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 control 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.

**Risk control**
The risk control 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 control 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 Chief Risk Officer 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.

Danske Hypotek has decided to only offer fixed remuneration. No employee receives variable remuneration. 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 in its annual report and on its website provide information on the remuneration policy. 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: 12 and FFFS 2011:1.

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

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

# *Income statement*

| Amounts in SEK thousands | Note | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|---|
| Interest income | 4 | 382,969 | – |
| Interest expenses | 5 | -158,824 | -1 |
| **Net interest income/expense** | | **224,145** | **-1** |
| Fee income | | 21 | – |
| Fee expenses | 6 | -11,635 | – |
| Net income from financial transactions | 7 | -23,219 | – |
| **Total operating income** | | **189,312** | **-1** |
| General administrative expenses | 8, 9, 10 | -27,091 | -8,980 |
| Other operating expenses | | -88 | – |
| **Profit before impairment charges** | | **162,133** | **-8,981** |
| Loan impairment charges | 11 | -422 | – |
| **Profit before tax** | | **161,711** | **-8,981** |
| Tax for the year | 12 | -37,767 | 1,976 |
| **Net profit for the year** | | **123,944** | **-7,005** |
| Items that will not be reclassified to profit or loss | | – | – |
| **Comprehensive income for the period** | | **123,944** | **-7,005** |

# Balance sheet

| Amounts in SEK thousands | Note | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|---|
| ASSETS | | | |
| **Assets** | | | |
| Due from credit institutions | 13 | 822,989 | 49,470 |
| Lending to the public | 14 | 33,302,270 | - |
| Bonds and other interest-bearing securities | 15 | 1,749,800 | - |
| Deferred tax assets | 16 | - | 1,976 |
| Other assets | 17, 18 | 5,589 | 29 |
| Prepaid expenses and accrued income | 19 | 41,380 | - |
| **TOTAL ASSETS** | | **35,922,028** | **51,475** |
| LIABILITIES AND EQUITY | | | |
| **Liabilities** | | | |
| Due to credit institutions | 20 | 14,500,010 | - |
| Issued bonds, etc. | 21 | 19,316,870 | - |
| Tax liabilities | | 35,495 | - |
| Other liabilities | 17, 22 | 65,420 | 101 |
| Accrued expenses and deferred income | 23 | 37,294 | 8,379 |
| **Total liabilities** | | **33,955,089** | **8,480** |
| **Equity** | | | |
| Share capital | | 50,000 | 50,000 |
| Shareholders' contribution | | 1,800,000 | - |
| Profit/loss brought forward | | -7,005 | - |
| Profit/loss for the year | | 123,944 | -7,005 |
| **Total equity** | | **1,966,939** | **42,995** |
| **TOTAL EQUITY AND LIABILITIES** | | **35,922,028** | **51,475** |

# *Statement of changes in equity*

**Amounts in SEK thousands**

| 31 Dec. 2017 | Share capital | Shareholders' contribution | Profit/loss brought forward | Profit/loss for the year | Total equity |
|---|---|---|---|---|---|
| At beginning of the year | 50,000 | - | - | -7,005 | 42,995 |
| Reversal of previous year's profit | - | | -7,005 | 7,005 | |
| Shareholders' contribution | - | 1,800,000 | - | - | 1,800,000 |
| Profit/loss for the year | - | - | - | 123,944 | 123,944 |
| **At year end** | **50,000** | **1,800,000** | **-7,005** | **123,944** | **1,966,939** |

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

| 31 Dec. 2016 | Share capital | Shareholders' contribution | Profit/loss brought forward | Profit/loss for the year | Total equity |
|---|---|---|---|---|---|
| At beginning of financial year | 500 | - | - | - | 500 |
| New issue | 49,500 | - | - | - | 49,500 |
| Profit/loss for the year | - | - | - | -7,005 | -7,005 |
| **At year end** | **50,000** | - | - | **-7,005** | **42,995** |

Share capital on the balance sheet date is represented by 500,000 class A shares of a nominal SEK 100. During the year, there was a new issue of 495,000 class A shares at a nominal value of SEK 100.

# Cash flow statement

| Amounts in SEK thousands | 1 Jan. /2017–<br>31 Dec. 2017 | 1 July 2015–<br>31 Dec. 2016 |
|---|---|---|
| **Operating activities** | | |
| Operating profit/loss | 161,711 | -8,981 |
| Adjustments for non-cash items, etc. | -13,951 | – |
| **Cash flow from operating activities before changes in working capital** | **147,760** | **-8,981** |
| ***Change in operating activity assets*** | | |
| Change in lending to the public | -33,301,848 | – |
| Change in other investment assets | -1,734,140 | – |
| Change in other assets | -44,964 | 470 |
| ***Change in operating activity liabilities*** | | |
| Change in due to/from credit institutions | 14,500,010 | – |
| Change in tax liabilities | -2,272 | – |
| Change in other liabilities | 153,448 | 8,481 |
| **Cash flow from operating activities** | **-20,429,766** | **8,951** |
| **Financing activities** | | |
| New issue | – | 49,500 |
| Shareholders' contributions received | 1,800,000 | – |
| Change in issued bonds | 19,255,525 | – |
| **Cash flow from financing activities** | **21,055,525** | **49,500** |
| **Cash flow for the year** | **773,519** | **49,470** |
| **Cash and cash equivalents at the beginning of the year** | **49,470** | – |
| **Cash and cash equivalents at year-end** | **822,989** | **49,470** |

## Reconciliation of liabilities attributable to financing activities

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

*Non-cash changes.

| Cash and cash equivalents | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Cash and cash equivalents consist of loans to credit institutions | 822,989 | 49,470 |
| **Total** | **822,989** | **49,470** |

| Interest, etc. | 1 Jan. 2017–<br>31 Dec. 2017 | 1 July 2015–<br>31 Dec. 2016 |
|---|---|---|
| Interest received | 341,670 | – |
| Interest paid | -133,194 | – |

| Adjustment for non-cash items | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Loan impairment charges | -422 | – |
| Unrealised changes in value | -13,529 | – |
| **Total** | **-13,951** | – |

# Notes

## Note 1 - Accounting policies

Amounts in SEK thousands unless otherwise indicated

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

UPCOMING REGULATORY CHANGES

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

All impairments will be made for individually measured receivables whereby the company will cease with collective reservations. Existing collective reservations will be incorporated in the prospective part of the calculation of expected individual credit losses.

At first-time application in 2018, impairments are expected to increase by SEK 28 million, which will be recognised directly in equity and not in profit or loss. Danske Hypotek does not intend to apply the transitional rules. The total capital ratio is expected to decrease by around 1.5% as a result of the new regulations.

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

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

RECOGNITION OF ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

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

RECOGNITION OF ASSETS AND LIABILITIES ON THE BALANCE SHEET

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

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

## CLASSIFICATION AND RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

For measurement purposes, financial assets are divided into the following categories:

1. Loans and receivables
2. Assets held to maturity
3. Assets measured at fair value through profit or loss, holdings for trade purposes and assets categorised at initial recognition as measured at fair value through profit or loss.
4. Available-for-sale assets

Financial liabilities are divided into the following measurement categories:

1. Liabilities measured at fair value through profit or loss, liabilities held for trade purposes and liabilities categorised at initial recognition as measured at fair value through profit or loss.
2. Other financial liabilities

Financial assets are found in the categories Lending to the public, loans to credit institutions and bonds and interest-bearing securities. Financial assets are comprised of due to credit institutions and issued securities. Derivatives that do not constitute formal hedging instruments are included in the category of holdings for trade purposes. At initial recognition, all financial assets and liabilities are recognised at fair value. For assets and liabilities value through profit or loss, the transaction costs are booked directly in the income statement at the time of acquisition. For other financial instruments, the transaction costs are included at cost.

**Loans and receivables**
Assets in the category of Loans and receivables are measured at amortised cost, meaning the discounted present value of future payment flows. The assets are impairment tested when there is an indication of an impairment requirement. Impairment charges are recognised in profit or loss in a net amount in the income statement under Loan impairment charges.

**Assets measured at fair value through profit or loss**
Assets in this category are mainly comprised of a liquidity portfolio where fair value is 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. For hedging instruments in cash flow hedges, the effective part of the change is recognised in fair value as a component of other comprehensive income and in the hedge reserve in equity.

**Other financial liabilities**
Financial liabilities are measured at amortised cost, meaning the discounted present value of future payment flows. 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.

## PRINCIPLES FOR MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

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

All purchases and sales of credits from and to Danske Bank'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

Cash flow hedges are used to manage exposures to variations in cash flows attributable to changes in variable interest on lending and deposits. Hedges of fair value are applied to individual assets and to portfolios of financial instruments. The hedging instruments in these hedging packages consist of interest-rate swaps. Upon hedging of fair value, both the hedging instrument and the hedged risk are measured at fair value. Value changes are recognised directly in the income statement in the item Net profit/loss in financial transactions.

## LOAN IMPAIRMENT CHARGES

Individual assessment of impairment requirements regarding loan receivables recognised at amortised cost is done continuously. Impairment testing is done insofar as there are objective evidence that indicate that a claim's recoverable amount is below its carrying amount. Such objective evidence may be delayed or unrealised payment, bankruptcy, changed credit rating or a decline in the market value of the collateral. In impairment testing, the receivable's recoverable amount is calculated by the estimated future cash flows being discounted by the receivable's effective interest rate. Pledged collaterals are measured at fair value. If the estimated recoverable amount is less than the carrying amount, impairment charges are recognised under Loan impairment charges in the income statement. Recognised loan impairment charges reduce the receivable's carrying amount on the balance sheet, either directly (write off) or through loan impairment charges (probable loss).

In addition to this individual assessment of receivables, groupwise assessment is made of individually measured receivables with the aim of identifying impairment requirements that cannot yet be allocated to individual loans. An impairment charge is recognised if it is justified considering changes in risk classification and anticipated losses. The loan impairment charges for the period are write offs of confirmed and new impairment charges less recoveries and reversed previously made impairment charges. Write offs are recognised when there is no realistic possibility for recovery, such as when bankruptcy trustees have submitted an estimate of an allocation in bankruptcy when a composition proposal has been accepted or a receivable has been waived otherwise. Amounts waived in connection with a restructuring of a receivable or group of receivables are always classified as write offs. Recoveries consist of reversed amounts on impairment charges that were previously recognised. Interest rate effects can in some cases arise as a result of the recoverable amount increasing when the time to payment becomes shorter. Such reversal of previously reserved amounts is recognised as an interest income in accordance with the effective interest method. Loans are defined as impaired when it is not likely that all contracted cash flows will be fulfilled. Each loan classified as impaired is included in the carrying amount of impaired loans by their full amounts even if the loans are covered by collateral.

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

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

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

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

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

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

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

## Note 2 - Risk management

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

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

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

Initially, the company intends to acquire mortgage loans for residential purposes for private persons. In a second phase, the company intends to acquire mortgage loans to tenant associations and to companies that own multi-family dwellings for a commercial purpose.

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

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

The credit risk is always limited by adequate collateral being provided for the mortgage loans, which reduces the risk at default eller in case of a possible payment cancellation. The mortgage loans are concentrated to Sweden and 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.

### 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 likelihood of payment cancellation (probability of default, PD). As a part of the credit process, the classification is updated 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. Customers with loans where impairment requirements have been identified are found in category 10 or 11.

At the end of 2017, the average PD was 0.15%.

### 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 (61%), tenant-owner rights (33%) and holiday homes (6%).

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 entire mortgage loan portfolio, the weighted average loan-to-value ratio was 51% at 31 December 2017.

### 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 payment cancellation by the counterparty. As such, counterparty risk arises as a combination of credit risk (downgrading of the counterparty's credit rating) and market risk (the potential value of the derivative contract). The financial loss is the replacement cost, i.e. the cost to replace an existing transaction with a new transaction with similar characteristics, but at current market prices.

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

### Table 1. Credit exposure based on classification

The mortgage loan portfolio amounted to SEK 33,302 million as of 31 December 2017. Loan impairment charges amounted to SEK 0.4 million.

| Amounts in SEK million | PD | | |
|---|---|---|---|
| Classification | Lower | Upper | Exposure |
| 1 | – | 0.01 | 135 |
| 2 | 0.01 | 0.03 | 7,200 |
| 3 | 0.03 | 0.06 | 11,311 |
| 4 | 0.06 | 0.14 | 7,259 |
| 5 | 0.14 | 0.31 | 3,750 |
| 6 | 0.31 | 0.63 | 2,073 |
| 7 | 0.63 | 1.90 | 1,332 |
| 8 | 1.90 | 7.98 | 208 |
| 9 | 7.98 | 25.70 | 5 |
| 10 | 25.70 | 99.99 | 16 |
| 11 (default) | 99.99 | 100.00 | 13 |
| **Total exposure** | | | **33,302** |

Customers with loans where impairment requirements have been identified are found in category 10 or 11.

### Table 2. Past due amount

| Amounts in SEK thousands | 31 Dec. 2017 |
|---|---|
| 6-30 days | 7 |
| 31-60 days | 1 |
| > 60 days | 13 |
| **Total past due amounts** | **21** |
| **Total due under loans** | **4,609** |

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 an past due payment of more than five days amounted to SEK 4.6 million.

### Loan impairment charges

Customer classification groups 10 (non-default) and 11 (default) include customers with exposure where objective evidence of impairment exists and where individual impairments are made. Exposure to customers with better classification is  subject to collective impairment charges.

At the end of 2017, Danske Hypotek had individual impairment charges totalling SEK 0.4 million. No collective impairment charges has been made.

### Forbearance practices

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

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

At the end of 2017, Danske Hypotek had no exposure subject to forbearance measures.

### Large exposures

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 2017, there were no exposures in excess of 10% after taking consideration to 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, the market risk in the company comes mainly from 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 1% yields an earnings impact of SEK 17 million.

### Operational risk

Operational risk refers to the risk of losses as a result of unsuitable or failed processes, people, systems or external events, including legal risk. Operational risk events refer to events caused by operational risk that may have caused a financial loss (a loss event) or that may have had a regulatory risk, reputation or customer impact (a non-financial event) or that may have caused a loss that was quickly recovered (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 improve the risk culture, methods, tools and procedures to effectively and proactively manage operational risks.

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

### Liquidity risk

Liquidity risk is the risk that the company does not have adequate financial resources on the short term to meet its obligations when they fall due for payment, or that the company can have access to these resources only at high expense. The company strives to limit liquidity risk to the furthest possible extent. This is mainly done by the company holding a liquidity 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 2017, the company had a liquidity portfolio that amounted to SEK 1,750 million and the company's liquidity coverage ratio amounted to 6503%.

## Risk management - Liquidity risk

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| Amounts in SEK thousands | Indefinite | < 3 mos. | 3-6 mos. | 6-12 mos. | 1-5 years | >5 years | Total |
| ASSETS | | | | | | | |
| Due from credit institutions | 822,989 | – | – | – | – | – | 822,989 |
| Lending to the public | – | 32,467,394 | 153,769 | 679,669 | 1,438 | – | 33,302,270 |
| Bonds and other interest-bearing securities | – | – | 431,515 | – | 1,318,285 | – | 1,749,800 |
| Other assets | 46,969 | – | – | – | – | – | 46,969 |
| **Total financial assets** | **869,958** | **32,467,394** | **585,284** | **679,669** | **1,319,723** | – | **35,922,028** |
| LIABILITIES | | | | | | | |
| Due to credit institutions | 10 | – | – | 14,500,000 | – | – | 14,500,010 |
| Issued bonds, etc. | – | – | – | – | 19,316,870 | – | 19,316,870 |
| Other liabilities | 138,209 | – | – | – | – | – | 138,209 |
| **Total financial liabilities** | **138,219** | – | – | **14,500,000** | **19,316,870** | – | **33,955,089** |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| Amounts in SEK thousands | Indefinite | < 3 mos. | 3-6 mos. | 6-12 mos. | 1-5 years | >5 years | Total |
| ASSETS | | | | | | | |
| Due from credit institutions | 49,470 | – | – | – | – | – | 49,470 |
| Lending to the public | – | – | – | – | – | – | – |
| Bonds and other interest-bearing securities | – | – | – | – | – | – | – |
| Other assets | 1,956 | – | – | – | – | – | 1,956 |
| **Total financial assets** | **51,426** | – | – | – | – | – | **51,426** |
| LIABILITIES | | | | | | | |
| Due to credit institutions | – | – | – | – | – | – | – |
| Issued bonds, etc. | – | – | – | – | – | – | – |
| Other liabilities | 8,480 | – | – | – | – | – | 8,480 |
| **Total financial liabilities** | **8,480** | – | – | – | – | – | **8,480** |

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

## Note 3 - Capital adequacy

### Capital management

The objective of capital management is to ensure effective capital use in relation to risk tolerance and development of the business. Danske Hypotek must have adequate capital for following statutory capital requirements. Danske Hypotek has defined a goal to maintain credit ratings on issued bonds from external rating agencies that are on a par with other Swedish peers.

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.

While Pillar I entails the calculation of risks and capital requirements based on uniform rules for all credit institutions, Internal Capital 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.

At 31 December 2017, Danske Hypotek's capital base consisted solely of CET1 capital.

### 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.

### Total capital requirements and solvency need

According to Swedish legislation, every credit institution must show capital requirements and capital adequacy. The capital requirement is the total capital's size, type and composition necessary to cover the risks that an institution is exposed to.

Danske Hypotek uses the internal ratings-based (IRB) approach to calculate the risk exposure amount for credit risks. The Swedish Financial Supervisory Authority has approved the Danske Bank Group's IRB Approach. Banks that use the advanced approaches for calculating credit risk are subject to limits on the reduction of their capital requirements. The maximum reduction allowed under the Basel I transitional rules is 20% of the capital requirement under Basel I. The transitional rules ceased to exist as of 31 December 2017.

### Combined buffer requirement

CRD IV introduced buffer requirements that apply besides the capital requirement. In Sweden, these requirements must be met before they are completely phased in in 2019. The buffer requirements consist of a countercyclical capital buffer, a capital conservation buffer and an system risk buffer. The capital conservation buffer and the countercyclical capital buffer is designed to ensure that credit institutions accumulate an adequate capital base during periods of economic growth to be able to absorb losses during periods of stress. The capital conservation buffer is 2.5%, while the countercyclical buffer is calculated as a weighted average of the national buffers in the jurisdictions where a bank has credit risks. Danske Hypotek's countercyclical buffer is 2% due to the countercyclical buffer in Sweden currently being 2%. 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.

### 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 2017, Danske Hypotek had no exposures that exceeded 10% of its total capital.

### Credit risks

Danske Hypotek targets mortgage loan customers in Sweden. Danske Hypotek's main segment is loans for household customers.

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

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

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

Danske Bank applies customer classification models as a key tool in decisions on whether or not the loan shall be granted.

Depending on the customer's loan type and customer type, the customers are classified using rating models or so-called statistical scoring models. For a corporate customer, the rating models usually build on the customer's full-year report, industry information and an assessment of the company's situation in terms of management and competitiveness. A rating expert and a credit manager assess the credit worthiness in the central credit department before it is determined. The customer's rating is translated to a PD.

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

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

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

### Risk exposure amounts and risk weights

| Amounts in SEK million | 31 Dec. 2017 | |
|---|---|---|
| | Risk exposure amount | Average risk weight (%) |
| **Credit risk** | | |
| Institute exposures | - | - |
| Corporate exposures | - | - |
| Retail exposures | 2,252 | 7 |
| Other assets without counterparties | 0 | 100 |
| **Advanced IRB approach, total** | **2,252** | **7** |

### Capital

| Amounts in SEK million | 31 Dec. 2017 | 31 Dec. 2016* |
|---|---|---|
| Total equity | 1,843 | – |
| CET1 capital before legislative adjustments | 1,843 | – |
| Further value adjustments | -8 | – |
| Negative amounts as a result of calculation of expected loss amounts | -20 | – |
| Other legislative adjustments | – | – |
| **CET1 capital** | **1,815** | – |
| **Tier 1 capital** | **1,815** | – |
| **Tier 2 capital** | – | – |
| **Total capital** | **1,815** | – |
| **Total risk exposure amount** | **4,317** | – |
| CET1 capital ratio | 42.0% | – |
| Tier 1 capital ratio | 42.0% | – |
| Total capital ratio | 42.0% | – |

* Not applicable to 2016 as the activities requiring permits began in 2017.

### Capital adequacy

| Amounts in SEK million | 31 Dec. 2017 | 31 Dec. 2016* |
|---|---|---|
| **Leverage ratio** | | |
| Total exposure for leverage ratio calculation | 35,955 | – |
| - of which derivatives | 52 | – |
| - of which securities | 1,750 | – |
| - of which off-balance sheet items | – | – |
| **Tier 1 capital** | **1,815** | – |
| **Leverage ratio** | **5%** | – |
| **Capital adequacy** | | |
| CET1 capital | 1,815 | – |
| Tier 1 capital | 1,815 | – |
| **Total capital** | **1,815** | – |
| Capital base | 1,815 | – |
| Risk exposure amount | 4,317 | – |
| **Total capital ratio** | **42.0%** | – |

* Not applicable to 2016 as the activities requiring permits began in 2017.

## Risk exposure amount and capital requirements

| Amounts in SEK million | 31 Dec. 2017 | | 31 Dec. 2016 | |
|---|---|---|---|---|
| | Risk exposure amount | Capital requirement[1] | Risk exposure amount | Capital requirement[1] |
| **Credit risk standardized approach, total** | **1,241** | **99** | **0** | **0** |
| Exposures to institutions | 411 | 33 | | |
| Exposures to companies | 2 | 0 | | |
| Exposures to households | 9 | 1 | | |
| Exposures secured through property mortgages | 706 | 56 | | |
| Defaulted exposures | 2 | 0 | | |
| Exposures in the form of covered bonds | 111 | 9 | | |
| **Credit risk advanced IRB approach, total** | **2,252** | **180** | **0** | **0** |
| Exposures to households | 2,252 | 180 | | |
| **Counterparty risk** | **26** | | | |
| **Market risk** | **0** | **0** | **0** | **0** |
| **CVA risk** | **0** | **0** | **0** | **0** |
| **Operating risk standardized approach** | **798** | **64** | **0** | **0** |
| **Total** | **4,317** | **345** | **0** | **0** |

[1] Capital requirement calculated as 8% of the risk exposure amount as per Regulation No (EU) 575/2013

## Note 4 - Interest income

| Amounts in SEK thousands | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|
| Lending to the public | 168,873 | – |
| Liabilities to foreign credit institutions – Group companies | 39,380 | – |
| Interest-bearing securities – bonds | 29,841 | – |
| Interest-bearing securities – underlying derivative instruments | 144,872 | – |
| Other interest income | 3 | – |
| **Total** | **382,969** | – |

Interest income regarding assets measured at amortised cost amounted to SEK 208,253 (0) in 2017.

## Note 5 - Interest expenses

| Amounts in SEK thousands | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|
| Balances with foreign credit institutions – Group companies | -11,523 | -1 |
| Interest-bearing securities – bonds | -41,020 | - |
| Interest-bearing securities – underlying derivative instruments | -106,203 | - |
| Other interest expenses | -78 | - |
| **Total** | **-158,824** | **-1** |

Interest expenses regarding liabilities measured at amortised cost amounted to SEK 11,601 (1) in 2017.

## Note 6 - Commission expenses

| Amounts in SEK thousands | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|
| **Activity-based commission expenses** | | |
| Securities commissions | -117 | – |
| Market Makers commissions | -11,474 | – |
| | -11,591 | – |
| **Portfolio-based commission expenses** | | |
| Securities commissions | -44 | – |
| | -44 | – |
| **Total** | **-11,635** | – |

## Note 7 - Net income from financial transactions

| Amounts in SEK thousands | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|
| **Capital gains/losses** | | |
| Interest-bearing securities | -8,231 | – |
| Other financial instruments, derivatives | -1,458 | – |
| Currency | 0 | – |
| | -9,689 | – |
| **Unrealised changes in value** | | |
| Interest-bearing securities | 45,684 | – |
| Other financial instruments, derivatives | -59,214 | – |
| | -13,530 | – |
| **Total** | **-23,219** | – |

## Note 8 - Administration expenses

| Amounts in SEK thousands | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|
| Personnel costs | -6,674 | -2,456 |
| Consulting fees | -937 | -2,633 |
| Legal fees | -3,770 | -3,632 |
| Purchase of administrative services | -13,322 | - |
| Other expenses | -2,388 | -259 |
| **Total** | **-27,091** | **-8,980** |
| *Specification Personnel costs* | | |
| Salaries and remuneration | -4,296 | -472 |
| Social security contributions | -1,233 | -146 |
| Pension expenses | -1,103 | -148 |
| Consultants and agency workers | - | -1,690 |
| Other personnel costs | -42 | - |
| **Total** | **-6,674** | **-2,456** |

## Note 9 - Employees and personnel costs

### Average number of employees

| | 1 Jan. 2017– 31 Dec. 2017 | Of which men | 1 July 2015– 31 Dec. 2016 | Of which men |
|---|---|---|---|---|
| Sweden | 3 | 2 | 1 | 1 |
| **Total** | **3** | **2** | **1** | **1** |

### Gender distribution in company management

| | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| **Proportion of women** | | |
| Board | 0% | 0% |
| Other senior executives | 0% | 0% |

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

| Amounts in SEK thousands | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|
| CEO | 1,513 | 472 |
| of which bonus and similar compensation to the CEO | - | - |
| Board, member Erik Åsbrink | 75 | - |
| of which bonus and similar compensation to the Board | - | - |
| Other employees | 2,708 | - |
| **Total** | **4,296** | **472** |
| Social security expenses | 1,233 | 177 |
| Pension expenses | 1,103 | 117 |
| Information on severance pay to CEO | 6 months' salary | 6 months' salary |

The Board and CEO comprise six people.

### Other benefits

| Amounts in SEK thousands | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|
| CEO | - | - |
| Board | - | - |

### Loans to CEO and Board

| Amounts in SEK thousands | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| CEO and Board | 2,924 | - |
| Information on assets pledged, etc. and amounts for which collateral provided | 2,924 | - |

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

### Pension expenses for CEO and the Board

| Amounts in SEK thousands | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|
| Chief Executive Officer | 321 | 146 |
| Board | - | - |
| Total | 321 | 146 |

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

## Note 10 - Remuneration and expense reimbursement for auditors

| Amounts in SEK thousands | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|
| **Deloitte AB** | | |
| Audit engagement | 700 | 47 |
| Other auditing activities | 31 | 150 |
| **Total** | **731** | **197** |

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

## Note 11 - Loan impairment charges

| Amounts in SEK thousands | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|
| New and increased impairment charges | -938 | - |
| Reversal of previously made impairment charges | 516 | - |
| Total | -422 | - |

## Note 12 - Tax on profit/loss for the year

| Amounts in SEK thousands | 1 Jan. 2017– 31 Dec. 2017 | 1 July 2015– 31 Dec. 2016 |
|---|---|---|
| Current tax expense | -35,791 | – |
| Deferred tax | -1,976 | 1,976 |
| Tax on profit/loss for the period | -37,767 | 1,976 |

### Reconciliation of effective tax

| Amounts in SEK thousands | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Profit/loss before tax | 161,711 | -8,981 |
| Tax according to applicable tax rate (22%) | 35,576 | – |
| Non-deductible expenses, tax effect | 13 | – |
| Utilisation of earlier loss carry-forwards | 1,976 | – |
| Deferred tax for temporary differences | – | -1,976 |
| Other, tax effect | 202 | – |
| Reported effective tax | -37,767 | 1,976 |

## Note 13 - Due from credit institutions

| Amounts in SEK thousands | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| **Lending in SEK** | | |
| Foreign credit institutions, Group companies | 822,989 | 49,470 |
| **Total** | **822,989** | **49,470** |
| Average balance, loans to credit institutions, Group companies | 4,232,238 | 19 |
| **Duration for loans to credit institutions** | | |
| Payable on demand | 822,989 | 49,470 |
| -3 months | – | – |
| 3-12 months | – | – |
| 1-5 years | – | – |
| More than 5 years | – | – |
| **Total** | **822,989** | **49,470** |

## Note 14 - Lending to the public

| Amounts in SEK thousands | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| **Lending in SEK** | | |
| Swedish households excl. sole proprietors | 30,811,959 | – |
| Swedish sole proprietors | 2,490,311 | – |
| **Total** | **33,302,270** | – |
| Loans at cost | 33,302,692 | – |
| Loan impairment charges for individually assessed loans | -422 | – |
| **Total** | **33,302,270** | – |
| Average balance, lending to the public | 11,753,833 | – |
| **Unsettled loans, etc.** | | |
| Impaired loans | 29,260 | – |
| Loan impairment charges for individually assessed loans | -422 | – |
| Loan impairment charges for collectively assessed loans | – | – |
| **Impaired loans, net** | **28,838** | – |
| Loan Impairment charges as % of impaired loans | 1.44% | – |
| Proportion of impaired loans, % | 0.09% | – |
| **Change in account for impairment charges** | | |
| Impairment charges for individually assessed loans | | |
| **Balance at start of year** | – | – |
| Loan impairment charges for the year | -938 | – |
| Reversed from impairment charges made during the year | 516 | – |
| **Balance at year end** | **-422** | – |
| **Duration for lending to the public** | | |
| Payable on demand | – | – |
| -3 months | 32,467,394 | – |
| 3-12 months | 153,769 | – |
| 1-5 years | 679,669 | – |
| More than 5 years | 1,438 | – |
| **Total** | **33,302,270** | – |

## Note 15 - Bonds and other interest-bearing securities

| Amounts in SEK thousands | 31 Dec. 2017 | | 31 Dec. 2016 | |
|---|---|---|---|---|
| **Current assets** | | | | |
| Swedish municipalities and county councils | 655,385 | | – | |
| Other Swedish financial companies | 1,094,415 | | – | |
| **Total** | **1,749,800** | | – | |
| | Fair value | Nominal value | Fair value | Nominal value |
| Swedish municipalities and county councils | 655,385 | 645,000 | – | – |
| Other Swedish financial companies | 1,094,415 | 1,030,000 | – | – |
| **Total** | 1,749,800 | 1,675,000 | – | – |

## Note 16 - Deferred tax

| Amounts in SEK thousands | Deferred tax assets | Deferred tax liabilities | Net |
|---|---|---|---|
| 31 Dec. 2017 | | | |
| Material temporary differences | | | |
| Tax loss carry-forwards | – | – | – |
| **Deferred tax assets** | – | – | – |
| 31 Dec. 2016 | | | |
| Material temporary differences | | | |
| Tax loss carry-forwards | 1,976 | – | 1,976 |
| **Deferred tax assets** | 1,976 | – | **1,976** |

## Temporary differences

| Amounts in SEK thousands | Carrying amount | Tax value | Temporary differences |
|---|---|---|---|
| 31 Dec. 2017 | | | |
| Material temporary differences attributable to deferred tax assets | | | |
| Tax loss carry-forwards | – | – | – |
| 31 Dec. 2016 | | | |
| Material temporary differences attributable to deferred tax assets | | | |
| Tax loss carry-forwards | – | 8,981 | 8,981 |
| | – | 8,981 | **8,981** |

## Note 17 - Financial instruments

| Amounts in SEK thousands | Nominal amount | Positive market values 2017 | Negative market values 2017 | Positive market values 2016 | Negative market values 2016 |
|---|---|---|---|---|---|
| Interest swaps | 53,848,565 | 4,287 | 63,858 | - | - |
| Other | 607,935 | 844 | -844 | - | - |
| **Total** | **54,456,500** | **5,131** | **63,014** | - | - |
| **Currency distribution of market values** | | | | | |
| SEK | | 5,131 | 63,014 | - | - |

| Hedge accounting | 1 Dec. 2017-31 Dec. 2017 | 1 Dec. 2015-31 Dec. 2016 |
|---|---|---|
| **Earnings effects of hedge accounting regarding assets at fixed interest** | | |
| Hedged loans | -1,353 | - |
| Hedging instruments, derivatives | 1,353 | - |
| **Net effect in profit or loss** | - | - - |
| **Interest** | | |
| Issued covered bonds | 61,203 | - |
| Hedging instruments, derivatives | -61,199 | - |
| **Net effect in profit or loss** | 4 | - |
| At the end of the period, hedged assets amounted to: | 33,291,212 | - |
| At the end of the period, hedged liabilities amounted to: | 19,039,797 | - |
| Change in fair value of hedging instruments, net | -59,846 | - |
| Change in fair value of hedged items, net | 59,850 | - |
| **Net effect in profit or loss** | 4 | - |

## Note 18 - Other assets

| Amounts in SEK thousands | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Tax account | 458 | - |
| Personnel costs | - | 29 |
| VAT | - | 0 |
| **Total** | **458** | **29** |

## Note 19 - Prepaid expenses and accrued income

| Amounts in SEK thousands | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Interest | 41,298 | - |
| Personnel costs | 82 | - |
| Other | 0 | - |
| **Total** | **41,380** | - |

## Note 20 - Due to credit institutions

| Amounts in SEK thousands | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| **Liabilities in SEK** | | |
| Foreign credit institutions, Group companies | 14,500,000 | - |
| **Foreign currency liabilities (EUR)** | | |
| Foreign credit institutions, Group companies | 10 | - |
| **Total** | **14,500,010** | - |
| Average balance, due to credit institutions, Average balance | 11,719,050 | 9 |
| **Duration for due to credit institutions** | | |
| Payable on demand | 10 | - |
| -3 months | - | - |
| 3-12 months | 14,500,000 | - |
| 1-5 years | - | - |
| More than 5 years | - | - |
| **Total** | **14,500,010** | - |

## Note 21 - Issued bonds, etc.

| Amounts in SEK thousands | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Bonds in SEK | 19,101,000 | - |
| **Total nominal value** | **19,101,000** | - |
| Bonds in SEK | 19,316,870 | - |
| **Total carrying amount** | **19,316,870** | - |
| of which at amortised cost | 19,378,215 | - |
| Average balance issued bonds in SEK | 4,164,430 | - |
| Issued bonds at the end of the period | - | - |
| Issued nominal value | 19,101,000 | - |
| Buy backs | - | - |
| Premium/discount | 277,215 | - |
| Hedging of interest-rate risk at market value | -61,345 | - |
| **Issued bonds at the end of the period** | **19,316,870** | - |

Bond list, covered bonds in SEK

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

## Note 22 - Other liabilities

| Amounts in SEK thousands | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| VAT | 2,163 | - |
| Personnel costs | 243 | 101 |
| **Total** | **2,406** | **101** |

## Note 23 - Accrued expenses and deferred income

| Amounts in SEK thousands | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| Interest | 25,630 | - |
| Fee expenses | 9,876 | 5,927 |
| Personnel costs | 1,060 | 1,919 |
| Auditing expenses | 400 | 197 |
| Other | 328 | 336 |
| **Total** | **37,294** | **8,379** |

## Note 24 - Pledged assets, contingent liabilities and commitments

| Amounts in SEK thousands | 31 Dec. 2017 | 31 Dec. 2016 |
|---|---|---|
| **Pledged assets** | | |
| Assets pledged for own liabilities | 32,883,815 | None |
| Other pledged assets and equivalent collateral | None | None |
| **Contingency** | | |
| Contingent liabilities | None | None |
| Commitments | None | None |

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

## Note 25 - Classification of financial assets and liabilities

Amounts in SEK million

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

## Note 26 - 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, 67% (100%) related to companies within the Danske Bank Group.
- Of Danske Hypotek's total net interest, 30% (0%) related to companies within the Danske Bank Group.
- Of Danske Hypotek's total commission expenses, 28% (0%) related to companies within the Danske Bank Group.

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

In February 2018, the company applied with the Swedish Financial Supervisory Authority for permission for larger acquisitions of assets. The application pertains to the acquisition of about SEK 25 billion in additional mortgage loans.

## 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, which prepares consolidated accounts for the largest corporate group. The foreign Parent Company's consolidated accounts are available at Danske Hypotek AB.

## Note 29 - Definitions of KPIs and APMs

| | |
|---|---|
| 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. |

**Alternative performance measures**
Danske Hypotek AB prepares the annual report in accordance with International Financial Reporting Standards (IFRS) issued by the International Financial Reporting Standards Board (IASB), as stated 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.

| | |
|---|---|
| Return on equity | Operating profit/loss after tax in relation to average equity. |
| Return on total assets | Operating profit/loss after tax in relation to average total assets. |
| Proportion of impaired loans | Carrying amounts of impaired loans, gross, in relation to the carrying amount of lending to credit institutions and the public excluding reservations. |
| Loan Impairment charges as % of impaired loans | All impairment charges in relation to impaired loans gross. |
| 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. |

# *Signatures*

Stockholm on

Jacob Aarup-Andersen
Chairman of the Board

Stojko Gjurovski

Christoffer Møllenbach

Carsten Nøddebo Rasmussen

Erik Åsbrink

Per Tunestam
Chief Executive Officer

Our auditor's report was submitted on

Deloitte AB

Patrick Honeth
Authorised Public Accountant

# Auditor's report

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

## Statement on the annual accounts

**Opinions**
We have audited the annual accounts of Danske Hypotek AB (publ) for the financial year 1 January 2017-31 December 2017 except for the corporate governance report on pages 9-10.

In our opinion, the annual accounts have been prepared pursuant to the Annual Accounts Act for Credit Institutions and Securities Companies and in all material respects present a fair view of the Danske Hypotek AB (publ)'s financial position as of 31 December 2017 and of its financial results and cash flows for the year in compliance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not comprise the corporate governance report on pages 9-10. The statutory administration report is consistent with the other parts of the annual accounts.

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

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

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

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

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

*Assessments and estimates regarding measurement of loan receivables*
Recognition and measurement of loans receivables is an area that largely affects Danske Hypotek's financial position and performance and is highly based on estimates and assessments by the bank's management. Company management makes assessments and estimates upon the determination of both the timing and size of impairment losses on loan receivables. Examples of different assumptions and judgements include the counterparty's financial situation, anticipated cash flows, observable market prices and expected net realisable value. Various valuation models and assumptions can result in significant differenced in the assessment of credit reservation needs. In addition, the associated disclosure requirements are complex and depend on data of high quality.

At 31 December 2017, lending to the public amounted to SEK 33,302,270 thousand with a reserve for probable losses of SEK 422 thousand. Given the lending's substantial share of the total assets (representing 93% of the total assets) and the impact the inherent uncertainty and subjectivity involved in the assessment of credit reservation needs have, we believe that this is a particularly significant area in our audit.

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

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

- We have evaluated that key controls in the credit reservation process are appropriately designed and work effectively; including approval, registration and monitoring of loans and receivables, and assumptions used in the assessment and calculation of credit reservation needs.
- For reservations of credit losses that are individually calculated, we have evaluated the company management's assessment. We have examined the assumptions that have formed the basis for the credit reservation need, which have included forecasts of future cash flows, measurement of underlying collateral and estimates of recovery upon default. We have applied professional assessments in the selection of credit engagements for our detailed review.
- We have also examined the completeness and reliability of the disclosures attributable to the credit loss reservations to assess compliance to the disclosure requirements as per IFRS.

*IT systems that support complete and reliable financial reporting*
Danske Hypotek is dependent on its IT systems to (1) offer services to its customers, (2) support its business processes, (3) ensure complete and correct processing of financial transactions and (4) maintain appropriate internal control. The majority of Danske Hypotek's internal controls for financial reporting are dependent on automated application controls and integrity and completeness in the documents generated by the IT systems. Considering the high degree of IT dependence, we believe this is a particularly significant area in our audit.
The following risks were identified that may affect the financial reporting:

- Incorrect and unauthorized changes to the IT environment
- Deficient operating and monitoring procedures of the IT environment
- Incorrect and deficient configuration of information security

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

- We have examined controls upon changes to the IT environment.
- We have examine the process for the monitoring of IT systems.
- We have examined the process for identity and access management, including allocation, change and removal of authorisations.
- We have evaluated that processes and tools for ensuring accessibility to information based on user needs and operating requirements, including the suitable design of the back-up of information and restoration procedures.

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

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

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

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

**Responsibilities of the Board of Directors and the CEO**
The Board of Directors and the CEO are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the CEO are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors and the CEO are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern assumption is not, however, applied if the Board and CEO intend to liquidate the company, cease operations or have no realistic alternative than to do either.

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

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

## Report on other legal and regulatory requirements

**Opinions**
In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the CEO of Danske Hypotek AB (publ) for the financial year 1 January 2017 - 31 December 2017 and the proposed appropriations of the company's profit or loss.

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

**Basis for opinions**
We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Danske Hypotek AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

**Responsibilities of the Board of Directors and the CEO**
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

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

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

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

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

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

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

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

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

Deloitte AB was elected Danske Hypotek AB (publ)'s auditor by the General Meeting on 9 May 2017 and has been the company's auditor since 3 May 2016.

Stockholm on March 2018
Deloitte AB

Patrick Honeth
Authorised Public Accountant

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