

Year-end Report *2020*

Danske Hypotek AB (publ)



Year in brief

January – December 2020 (the comparison in brackets refers to 2019)

- Operating profit was SEK 1 011.9 million (965.2 million).
- Net interest income amounted to SEK 1 191.0 million (1 049.7 million).
- Costs comprised SEK 134.5 million (100.7 million).
- There were no net credit losses for the period. Reversals of expected credit losses amounted to SEK 27.4 million (47.7 million).
- Return on equity was 14.5% (16.9 %).
- The CET1 capital ratio was 17.5% (16.7%).
- Danske Hypotek's covered bonds have the highest credit rating (AAA) from Standard & Poor's and Nordic Credit Rating.

Operating profit/loss 2020

1 011.9 million

Net interest income/expense 2020

1 191.0 million

Common Equity Tier 1 capital ratio 2020

17.5 %

Loans to the public 2020

117,365 million

Operations

Danske Hypotek AB (publ) corp. ID no. 559001-4154 is a wholly owned subsidiary of Danske Bank A/S (CVR no. 61126228). The company's operations consist of acquiring mortgage loans from Danske Bank's Swedish branch, and issuing covered bonds with mortgage loans as collateral and thereby providing the Danske Bank Group with long-term access to competitive financing in Swedish kronor (SEK). 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.

Operations are to be conducted in such a manner that they fulfil the requirements set in the Covered Bonds Issuance Act (2003:1223) and requirements set in the Swedish Financial Supervisory Authority's regulation FFFS 2013:1. During 2020 the company was in Swedish Financial Supervisory Authority's supervision category 2.

Financial development

Results overview

Amounts in SEK 000s	Jan-Dec 2020	Jan-Dec 2019	Jan-Dec 2018	Jan-Dec 2017
Net interest income/expense	1,190,987	1,049,718	825,436	224,145
Net commission income	-23,267	-19,058	-28,746	-11,614
Net income from financial transactions	-48,705	-12,356	-16,592	-23,219
Total operating income	1,119,015	1,018,304	780,098	189,312
Costs	-134,537	-100,734	-60,787	-27,179
Profit/loss before credit losses	984,478	917,570	719,311	162,133
Credit losses	27,388	47,652	-1,869	-422
Operating profit/loss	1,011,866	965,222	717,442	161,711
Tax	-216,542	-206,144	-156,140	-37,767
Net profit or loss for the period	795,324	759,078	561,302	123,944

Operating profit/loss

2020 have been dominated by the covid-19 situation but the company's Operating profit has not been significantly affected. Income and cost have been unaffected and covid-19 has not significantly increased credit losses for the period.

Operating profit for 2020 was SEK 1 011.9, which is 5% higher than Operating profit for 2019 of SEK 965.2 million. The strong development is mainly explained by the increase in lending volume, compared to 2019.

Net interest income and commissions

Net interest income amounted to SEK 1,191.0 million (SEK 1,049.7 million) and net commissions amounted to an expense of SEK 23.3 million (SEK -19.1 million).

Net income from financial transactions

The net income from financial transactions at fair value amounted to an expense of SEK -48.7 million (SEK -12.4 million), see note 5.

Costs

Total costs were SEK 134.5 million (SEK 100.7 million). Costs consisted primarily of compensation to Danske Bank for services rendered according to applicable outsourcing agreements and the company's personnel costs, see note 6.

Credit losses

There were no credit losses for 2020 Reversals of expected credit losses amounted to SEK 27.4 million. For 2019 credit losses were SEK 47.7 million. The reversals are largely due to changes in credit models. For more information on credit risks, see note 2.

Lending

Danske Hypotek continuously acquires already granted and disbursed mortgage loans from Danske Bank. For these loans, a pledged mortgage deed in real estate intended for

residential purposes or a pledged tenant-owner right has been provided. 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. At year-end, Danske Hypotek's lending amounted to SEK 117,365 million. It's increase by 21% compared to the end of 2019 when lending amounted to SEK 97,023 million. The strong increase is explained by acquisitions of mortgage loans, see note 7.

Information on Danske Hypotek's mortgage loans is published on the website danskehypotek.se

Borrowing

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

During 2020, the company has launched its fifth bond, DH2512 (maturity 2025-12-17). As of December 31, the total outstanding nominal volume amounted to SEK 92,231.6 (74,221.4 million), see the list of bonds in note 11.

Capital adequacy

Danske Hypotek reports credit risk mainly in accordance with the advanced internal ratings-based (IRB) approach and operational risk and market risk according to the standardised method.

The company's total capital ratio and CET1 capital ratio on December 31, 2020 was 17.5%. The corresponding key figure for December 31, 2019 were 16.7%. The profit for the period 2020-01-01 to 2020-12-31 is included in the capital base but for 2019 only the first six months profit is included. On December 31, 2020, internally assessed capital requirements (including Pillar 2 add-ons and buffer requirements) amounted to SEK 3,652 million (SEK 3,803 million). For more information see pages 9-10.

Other significant information

Risks and uncertainties

The company's operations have a low risk profile. The primary risks consist of credit risk, liquidity risk and market risk.

For further information on risks and uncertainties, see note 2.

Events after the Reporting Period

No significant events have occurred after December 31, 2020.

Audit

This report has not been audited by the company's auditor.

Income statement

Amounts in SEK thousands	Note	Jan-Dec 2020	Jan-Dec 2019
Interest income calculated using the effective interest method	3	1,537,850	1,191,442
Other interest income	3	791,627	571,282
Interest expenses	4	-1,138,490	-713,006
Net interest income/expense		1,190,987	1,049,718
Fee income		105	240
Fee expenses		-23,372	-19,298
Net income from financial transactions	5	-48,705	-12,356
Total operating income		1,119,015	1,018,304
General administrative expenses	6	-134,028	-100,282
Other operating expenses		-509	-452
Profit before impairment charges		984,478	917,570
Loan impairment charges		27,388	47,652
Profit before tax		1,011,866	965,222
Tax for the year		-216,542	-206,144
Net profit for the period		795,324	759,078
Items that will not be reclassified to profit or loss		-	-
Comprehensive income for the year		795,324	759,078

Balance sheet

Amounts in SEK thousands	Note	31 Dec. 2020	31 Dec. 2019
ASSETS			
Assets			
Due from credit institutions	7	1,463,197	657,155
Lending to the public	8, 9	117,364,790	97,023,059
Bonds and other interest-bearing securities	10	4,090,091	3,052,336
Other assets		709,795	575,498
Prepaid expenses and accrued income		19,428	40,055
TOTAL ASSETS		123,647,301	101,348,103
LIABILITIES AND EQUITY			
Liabilities			
Due to credit institutions		25,401,649	22,001,473
Issued bonds, etc.	11	92,231,599	74,221,445
Tax liabilities		63,005	69,239
Other liabilities		233,015	117,943
Accrued expenses and deferred income		56,666	71,960
Total liabilities		117,985,934	96,482,060
Equity			
Share capital		50,000	50,000
Shareholders' contribution		3,400,000	3,400,000
Profit/loss brought forward		1,416,043	656,965
Profit/loss for the period		795,324	759,078
Total equity		5,661,367	4,866,043
TOTAL EQUITY AND LIABILITIES		123,647,301	101,348,103

Statement of changes in equity

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

Share capital on the balance sheet date is represented by 500,000 class A shares of a quota value 100.

Opening balance 01/01/2019	50,000	3,400,000	95,663	561,302	4,106,965
Reversal of previous year's profit	-	-	561,302	-561,302	-
Profit/loss for the year	-	-	-	759,078	759,078
Closing balance 31/12/2019	50,000	3,400,000	656,965	759,078	4,866,043

Cash flow statement

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

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

Reconciliation of liabilities attributable to financing activities

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

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

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

Capital

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

Risk exposure amounts and risk weights

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

Capital requirement

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

Leverage ratio

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

Note 1 Accounting principles

Amounts in SEK thousands unless otherwise indicated.

Danske Hypotek's interim report is prepared in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies (995:1559), 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.

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

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

Level 2: Valuation based on observable inputs consists of financial instruments that are valued on the basis of observable inputs but which are not a recorded price for the instrument itself. If a financial instrument is listed on a market that is not active, the company bases its value on the latest transaction price. Adjustments are made for subsequent changes in market conditions, e.g. by including transactions with similar financial instruments. For a number of financial assets and liabilities

there is no market. In such cases, the company uses recent transactions with similar instruments and discounted cash flows or other generally accepted assessment and valuation techniques based on market conditions at the balance sheet date to calculate an estimated value.

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

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

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

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

During the period, there have been no transfers of financial instruments between the various levels.

For a complete description of applied accounting principles, please see Danske Hypotek's annual report for 2019.

REGULATORY AMENDMENTS INTRODUCED DURING THE YEAR Accounting principles are unchanged compared with the annual report for 2019.

The changes in Swedish regulations, that have been adopted after first of January of 2020, have not had any material effect on Danske Hypotek's financial statements.

Note 2 Risks and uncertainties

The company's operations have a low risk profile. The primary risks consist of credit risk, liquidity risk and market risk.

Credit risk in the company's portfolio is low as the company only acquires mortgage loans of good quality, but the risk level can be affected by a deterioration of the Swedish economy and falling property prices. The ongoing pandemic have given large consequences for the economy but a number of state measures have been taken to mitigate the negative effects. Danske Hypotek has taken steps to ease the burden for borrowers, like the introduction of exemption from amortisation requirements. Housing prices have increased during the year, despite the ongoing pandemic. Danske Hypotek can still present low reserves for loan impairment charges. Also in 2020 there were credit loss reversals.

Liquidity risk is currently very low since the maturity dates for most part of the company's issued bonds is still far out in time; however, the liquidity risk can be negatively impacted in the future by generally deteriorating market conditions. However, through its liquidity portfolio, the company has access to liquid securities of high quality that can be used in a potential future stressed liquidity situation.

Market risk primarily consists of interest rate risk, which however is low because it is hedged through derivative agreements entered into with Danske Bank A/S.

Neither the liquidity risk, nor the market risk, have been significantly affected of the ongoing covid-19 pandemic.

Note 3 Interest income

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

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

Note 4 Interest expenses

Amounts in SEK thousands	Jan-Dec 2020	Jan-Dec 2019
Receivables/liabilities to foreign credit institutions - Group companies	-99,443	-9,485
Interest bearing securities - bonds	-853,649	-614,165
Interest bearing securities - underlying derivative instruments	-185,258	-89,262
Other interest expenses	-140	-94
Total	-1,138,490	-713,006

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

Note 5 Net income from financial transactions

Amounts in SEK thousands	Jan-Dec 2020	Jan-Dec 2019
Capital gains/losses		
Interest bearing securities	-2,559	122
Other financial instruments, derivatives	-2,610	-207,863
Currency	6	-1
	-5,163	-207,742
Unrealised changes in value		
Interest bearing securities	-519,893	-10,779
Other financial instruments, derivatives	476,351	206,165
	-43,542	195,386
Total	-48,705	-12,356

Note 6 Administration expenses

Amounts in SEK thousands	Jan-Dec 2020	Jan-Dec 2019
Personnel costs	-10,838	-10,755
Purchase of administrative services	-88,655	-65,562
Resolution fee	-26,010	-16,961
Other expenses	-8,525	-7,004
Total	-134,028	-100,282
<i>Specification Personnel costs</i>		
Salaries and remuneration	-5,927	-6,121
Bonus costs	-259	-237
Social security contributions	-1,950	-2,017
Pension expenses	-2,785	-2,279
Other personnel costs	83	-101
Total	-10,838	-10,755

Note 7 Due from credit institutions

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

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

Note 8 Lending to the public

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

Note 9 Lending to the public

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

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

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

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

Note 10 Bonds and other interest bearing securities

Amounts in SEK thousands	31 Dec. 2020		31 Dec. 2019	
Current assets				
Swedish municipalities and county councils	1,782,639		1,062,433	
Other Swedish financial companies	1,746,669		1,989,903	
Other foreign issuers	560,783		-	
Total	4,090,091		3,052,336	
	Fair value	Nominal value	Fair value	Nominal value
Svenska kommuner och landsting	1,782,639	1,740,000	1,062,433	1,040,000
Övriga svenska finansiella företag	1,746,669	1,710,000	1,989,903	1,960,000
Other foreign issuers	560,783	550,000	-	-
Total	4,090,091	4,000,000	3,052,336	3,000,000

Note 11 Issued bonds, etc.

Amounts in SEK thousands	31 Dec. 2020	31 Dec. 2019
Bonds in SEK	90,346,000	73,139,000
Total nominal value	90,346,000	73,139,000
Bonds in SEK	92,231,599	74,221,445
Total carrying amount	92,231,599	74,221,445
of which at amortised cost	91,559,390	74,048,417
Average balance issued bonds in SEK	87,259,282	62,797,798
Issued bonds at the end of the year	74,221,445	48,263,853
Issued nominal value	22,650,000	25,550,000
Buy backs	-5,443,000	-
Premium/discount	303,973	408,753
Hedging of interest-rate risk at market value	499,181	-1,161
Issued bonds at the end of the year	92,231,599	74,221,445

Obligationsförteckning säkerställda obligationer i SEK

31 Dec. 2020

Loan no.	Coupon rate, %	Loan date	Interest date	Maturity date	Outstanding amount, SEK 000s
DH2112	1%	2017-11-06	15 december	2021-12-15	13,245,000
DH2212	1%	2017-08-29	21 december	2022-12-21	24,901,000
DH2312	1%	2018-04-25	20 december	2023-12-20	17,900,000
DH2412	1%	2019-05-24	18 december	2024-12-18	20,500,000
DH2512	1%	2020-05-12	17 december	2025-12-17	13,800,000
					90,346,000

31 Dec. 2019

Loan no.	Coupon rate, %	Loan date	Interest date	Maturity date	Outstanding amount, SEK 000s
DH2112	1%	2017-11-06	15 december	2021-12-15	18,688,000
DH2212	1%	2017-08-29	21 december	2022-12-21	24,901,000
DH2312	1%	2018-04-25	20 december	2023-12-20	16,650,000
DH2412	1%	2019-05-23	18 december	2024-12-18	12,900,000
					73,139,000

The CEO assures that this year-end report provides a true and fair view of the company's operations, financial position and performance, and describes the significant risks and uncertainties that the company faces.

Stockholm, February 4, 2021

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Financial calendar
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Interim report 2021, August 25

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