

Year-end Report *2021*

Danske Hypotek AB (publ)



Danske Bank

Year in brief

January – December 2021 (the comparison in brackets refers to 2020)

- Operating profit was SEK 1 101.6 million (1 011.9 million).
- Net interest income amounted to SEK 1 301.2 million (1 191.0 million).
- Costs comprised SEK 88.0 million (134.5 million).
- Reservations for net credit losses was 14.6 million. Last year reversals of reservations amounted to SEK 27.4 million.
- Return on equity was 14.6 % (14.5 %).
- The CET1 capital ratio was 18.3 % (17.5%).
- Danske Hypotek's covered bonds have the highest credit rating (AAA) from Standard & Poor's and Nordic Credit Rating.

Operating profit/loss 2021

1 101.6 million

Net interest income/expense 2021

1 301.2 million

Common Equity Tier 1 capital ratio 2021

18.3 %

Loans to the public 2021

124,444 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 2021 the company was in Swedish Financial Supervisory Authority's supervision category 2.

Financial development

Results overview

Amounts in SEK 000s	Jan-Dec 2021	Jan-Dec 2020	Jan-Dec 2019	Jan-Dec 2018	Jan-Dec 2017
Net interest income/expense	1,301,209	1,190,987	1,049,718	825,436	224,145
Net commission income	-22,669	-23,267	-19,058	-28,746,	-11,614
Net income from financial transactions	-74,350	-48,705	-12,356	-16,592	-23 219
Total operating income	1,204,190	1,119,015	1,018,304	780,098	189,312
Costs	-87,952	-134,537	-100,734	-60,787	-27,179
Profit/loss before credit losses	1,116,237	984,478	917,570	719,311	162,133
Credit losses	-14,612	27,388	47,652	-1,869	-422
Operating profit/loss	1,101,625	1,011,866	965,222	717,442	161,711
Tax	-226,964	-216,542	-206,144	-156,140	-37,767
Net profit or loss for the period	874,661	795,324	759,078	561,302	123,944

Operating profit/loss

Just like 2020, 2021 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 2021 was SEK 1 101.6 which is 9% higher than Operating profit for 2020 of SEK 1 011.9 million. The strong development is mainly explained by the increase in loans to the public. Also lower costs gave an positive effect on the development.

Net interest income and commissions

Net interest income amounted to SEK 1,301.2 million (SEK 1,191.0 million) and net commissions amounted to an expense of SEK 22.7 million (SEK -23.3 million).

Net income from financial transactions

The net income from financial transactions at fair value amounted to an expense of SEK -74.4 million (SEK -48.7 million).

Costs

Total costs were SEK 88.0 million (SEK 134.5 million). Costs consisted primarily of compensation to Danske Bank for services rendered according to applicable outsourcing agreements and the resolution fee. The decrease of the costs is due to updated cost allocation models, see not 5.

Credit losses

Reservations for credit losses were for the period SEK 14.6 million. Last year there were no reservation for credit losses and reversals of expected credit losses amounted to SEK 27.4 million. Changes are due to adjustments in credit models. The actual credit losses were still marginell. 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 124,444 million. It's increase by 6% compared to the end of 2020 when lending amounted to SEK 117,365 million. The 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 2021, the company has launched its sixth bond, DH2612 (maturity 2026-12-16). In addition, the company's first bond, DH2112, matured during the year. As of December 31, the total outstanding nominal volume amounted to SEK 97,308.7 million (SEK 92,231.6 million), see the list of bonds in note 10.

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, 2021 was 18.3%. The corresponding key figure for December 31, 2020 were 17.5%. The profit for the periods are included in the capital base. On December 31, 2021, internally assessed capital requirements (including Pillar 2 add-ons and buffer requirements) amounted to SEK 4,144 million (SEK 3,652 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, 2021.

Audit

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

Income statement

Amounts in SEK thousands	Note	Jan-Dec 2021	Jan-Dec 2020
Interest income calculated using the effective interest method	3	1,629,113	1,537,850
Other interest income	3	899,519	791,627
Interest expenses	4	-1,227,423	-1,138,490
Net interest income/expense		1,301,209	1,190,987
Fee income		175	105
Fee expenses		-22,844	-23,372
Net income from financial transactions		-74,350	-48,705
Total operating income		1,204,190	1,119,015
General administrative expenses	5	-87,515	-134,028
Other operating expenses		-438	-509
Profit before impairment charges		1,116,237	984,478
Loan impairment charges		-14,612	27,388
Profit before tax		1,101,625	1,011,866
Tax for the year		-226,964	-216,542
Net profit for the period		874,661	795,324
Items that will not be reclassified to profit or loss		-	-
Comprehensive income for the year		874,661	795,324

Balance sheet

Amounts in SEK thousands	Note	31 Dec. 2021	31 Dec. 2020
ASSETS			
Assets			
Due from credit institutions	6	2,107,700	1,463,197
Lending to the public	7, 8	124,444,208	117,364,790
Bonds and other interest-bearing securities	9	4,259,718	4,090,091
Other assets		397,146	709,795
Prepaid expenses and accrued income		19,789	19,428
TOTAL ASSETS		131,228,561	123,647,301
LIABILITIES AND EQUITY			
Liabilities			
Due to credit institutions		26,644,354	25,401,649
Issued bonds, etc.	10	97,308,747	92,231,599
Tax liabilities		18,184	63,005
Other liabilities		667,191	233,015
Accrued expenses and deferred income		54,057	56,666
Total liabilities		124,692,533	117,985,934
Equity			
Share capital		50,000	50,000
Shareholders' contribution		3,400,000	3,400,000
Profit/loss brought forward		2,211,367	1,416,043
Profit/loss for the period		874,661	795,324
Total equity		6,536,028	5,661,367
TOTAL EQUITY AND LIABILITIES		131,228,561	123,647,301

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 01/01/2021	50,000	3,400,000	1,416,043	795,324	5,661,367
Reversal of previous year's profit	-	-	795,324	-795,324	-
Profit/loss for the year	-	-	-	874,661	874,661
Closing balance 31/12/2021	50,000	3,400,000	2,211,367	874,661	6,536,028

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

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

Cash flow statement

Amounts in SEK thousands	Jan-Dec 2021	Jan-Dec 2020
Operating activities		
Operating profit/loss	1,101,625	1,011,866
Adjustments for non-cash items, etc.	67,327	-130,782
Payed taxes	-271,785	-222,776
Cash flow from operating activities before changes in working capital	897,167	658,308
Change in operating activity assets		
Change in lending to credit institutions	-933,120	-600,451
Change in lending to the public	-7,094,030	-20,314,343
Change in other investment assets	-169,627	-433,748
Change in other assets	314,847	-109,355
Change in operating activity liabilities		
Change in due to/from credit institutions	1,242,705	3,400,176
Change in issued bonds	5,077,148	17,514,037
Change in other liabilities	376,292	90,967
Cash flow from operating activities	-288,618	205,591
Cash flow from investing activities	-	-
Cash flow from financing activities	-	-
Cash flow for the year	-288,618	205,591
Cash and cash equivalents at the beginning of the year	862,746	657,155
Cash and cash equivalents at end of the year*	574,128	862,746

* 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. 2021	31 Dec. 2020
Cash and cash equivalents consist of loans to credit institutions	574,129	862,746
Total	574,129	862,746

Interest, etc.	Jan-Dec 2021	Jan-Dec 2020
Interest received	2,528,308	2,325,162
Interest paid	-1,228,899	-1,129,679
Total	1,299,408	1,195,483

Adjustment for non-cash items	Jan-Dec 2021	Jan-Dec 2020
Loan impairment charges	14,612	-27,388
Change in Accounting principle	54,515	-107,890
Unrealised changes in value	-1,800	4,496
Total	67,327	-130,782

Capital

Amounts in SEK million	31 Dec. 2021	31 Dec. 2020
Share capital	50	50
Shareholders' contribution	3,400	3,400
Retained earnings	2,211	1,416
Yearly net result after adjustments	875	795
CET1 capital before legislative adjustments	6,536	5,661
Further value adjustments	-7	-5
Negative amounts as a result of calculation of expected loss amounts	-9	-113
Other legislative adjustments	-	-
CET1 capital	6,520	5,543
Tier 1 capital contribution: Instruments and provisions	-	-
Tier 1 capital contribution: Legislative adjustments	-	-
Tier 1 capital	6,520	5,543
Tier 2 capital	-	-
Positive amounts as a result of calculation of expected loss amounts	-	-
Other legislative adjustments	-	-
Total capital	6,520	5,543
Total risk-weighted assets	35,608	31,641
CET1 capital (as a percentage of the risk-weighted exposure amount)	18,3%	17,5%
Tier 1 capital (as a percentage of the risk-weighted exposure amount)	18,3%	17,5%
Total capital (as a percentage of the risk-weighted exposure amount)	18,3%	17,5%

Risk exposure amounts and risk weights

Amounts in SEK million	31 Dec. 2021		31 Dec. 2020	
	Risk exposure amount	Average risk weight (%)	Risk exposure amount	Average risk weight (%)
Credit risks				
Institutions	-	-	-	-
Corporate customers	-	-	-	-
Household exposure	7,152	8	7,918	8
Advanced IRB method, total	7,152	8	7,918	8
Standardised method for credit risk, total	445	33	821	38
Additional risk weight amounts as per Article 458 (risk weight floor for Swedish mortgage loans)	23,876		21,143	
Credit risk, total	31,473	25	29,882	25
Counterparty risk, total	2465	50	300	50
Market risk, total	-		-	
Operational risk, total	1,670		1,459	
Total risk exposure amount, REA	35,608		31,641	

Capital requirement

Amounts in SEK million	31 Dec. 2021	31 Dec. 2020
Capital requirement (8% av REA)	2,849	2,531
Pillar 2 add-ons		
Credit Concentration risk add-on	148	108
Interest rate risk in banking book (IRRBB)	198	162
Information and communication technology risks (ICT)	59	59
Total Pillar 2 add-ons	405	329
Buffer requirements, % of REA		
Capital conservation buffer	2,5%	2,5%
Countercyclical capital buffer	0,0%	0,0%
Combined buffer requirement	2,5%	2,5%
Buffer requirements, SEK m	890	791
Capital requirement including combined buffer	4,144	3,652
Capital requirement including combined buffer, % of REA	11,6%	11,5%
Excess total capital, %	6,7%	6,0%
Excess total capital, SEK m	2 376	1 891

Leverage ratio

Amounts in SEK million	31 Dec. 2021	31 Dec. 2020
Leverage ratio		
Total exposure for leverage ratio calculation	135,876	124,492
- of which derivatives	5,052	1,664
- of which securities	4,260	4,090
- of which items off the balance sheet	-	-
Tier 1 capital (transitional rules)	6,520	5,543
Tier 1 capital (fully phased in rules)	6,520	5,543
Leverage ratio (transitional rules), [%]	4,8%	4,5%
Leverage ratio (fully phased in rules)	4,8%	4,5%

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 2020.

REGULATORY AMENDMENTS INTRODUCED DURING THE YEAR
Accounting principles are unchanged compared with the annual report for 2020.

The changes in Swedish regulations, that have been adopted after first of January of 2021, 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. For 2021, Danske Hypotek can still present low reserves for loan impairment charges and for 2020 credit loss reversals were reported.

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 2021	Jan-Dec 2020
Lending to the public	1,628,391	1,537,475
Receivables/liabilities to foreign credit institutions - Group companies	722	375
Interest bearing securities - bonds	485,336	380,042
Interest bearing securities - underlying derivative instruments	413,282	411,547
Other interest income	901	38
Total	2,528,632	2,329,477

Interest income regarding assets measured at amortised cost amounted to SEK 1 628 39 thousand (1 537 475) in 2020.

Note 4 Interest expenses

Amounts in SEK thousands	Jan-Dec 2021	Jan-Dec 2020
Receivables/liabilities to foreign credit institutions - Group companies	-56,829	-99,443
Interest bearing securities - bonds	-1,170,034	-853,649
Interest bearing securities - underlying derivative instruments	-560	-185,258
Other interest expenses	-	-140
Total	-1,227,423	-1,138,490

Interest expenses regarding liabilities measured at amortised cost amounted to SEK 56 829 thousand (99 443) in 2020.

Note 5 Administration expenses

Amounts in SEK thousands	Jan-Dec 2021	Jan-Dec 2020
Personnel costs	-10,758	-10,838
Purchase of administrative services	-33,796	-88,655
Resolution fee	-36,582	-26,010
Other expenses	-6,379	-8,525
Total	-87,515	-134,028
<i>Specification Personnel costs</i>		
Salaries and remuneration	-6,217	-5,927
Bonus costs	-275	-162
Social security contributions	-2,067	-1,950
Pension expenses	-2,165	-2,785
Other personnel costs	-34	-14
Total	-10,758	-10,838

Note 6 Due from credit institutions

Amounts in SEK thousands	31 Dec. 2021	31 Dec. 2020
Lending in SEK		
Foreign credit institutions, Group companies	2,107,700	1,463,197
Total	2,107,700	1,463,197
Average balance, loans to credit institutions, Group companies	4,854,556	2,002,930

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 7 Lending to the public

Amounts in SEK thousands	31 Dec. 2021	31 Dec. 2020
Lending in SEK		
Swedish households excl. sole proprietors	120,130,557	113,489,919
Swedish sole proprietors	4,313,651	3,874,871
Total	124,444,208	117,364,790
Lending at accrued acquisition value, gross	124,538,311	117,435,562
Reserve for expected loan impairment charges (credit stage 1-3)	-94,103	-70,772
Total	124,444,208	117,364,790
Average balance, lending to the public	119,565,302	107,530,252

Note 8 Lending to the public

Amounts in SEK thousands	31 Dec. 2021	31 Dec. 2020
Credit stage 1		
Recognised gross amount	120,559,393	111,639,762
Reserve for expected credit losses	-16,226	-8,098
Book value	120,543,167	111,631,664
Credit stage 2		
Recognised gross amount	3,081,479	5,531,464
Reserve for expected credit losses	-39,634	-55,942
Book value	3,041,845	5,475,522
Credit stage 3		
Recognised gross amount	897,439	264,337
Reserve for expected credit losses	-38,244	-6,732
Book value	859,195	257,605
Recognised gross amount (credit stage 1-3)	124,538,311	117,435,563
Reserve for expected credit losses (credit stage 1-3)	-94,104	-70,772
Total	124,444,208	117,364,791

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 9 Bonds and other interest bearing securities

Amounts in SEK thousands	31 Dec. 2021		31 Dec. 2020	
Current assets				
Swedish municipalities and county councils	1,759,602		1,782,639	
Other Swedish financial companies	1,945,382		1,746,669	
Other foreign issuers	554,734		560,783	
Total	4,259,718		4,090,091	
	Fair value	Nominal value	Fair value	Nominal value
Swedish municipalities and county councils	1,759,602	1,740,000	1,782,639	1,740,000
Other Swedish financial companies	1,945,382	1,910,000	1,746,669	1,710,000
Other foreign issuers	554,734	550,000	560,783	550,000
Total	4,259,718	4,200,000	4,090,091	4,000,000

Note 10 Issued bonds, etc.

Amounts in SEK thousands	31 Dec. 2021	31 Dec. 2020
Bonds in SEK	96,551,000	90,346,000
Total nominal value	96,551,000	90,346,000
Bonds in SEK	97,308,747	92,231,599
Total carrying amount	97,308,747	92,231,599
of which at amortised cost	97,746,816	91,561,305
Average balance issued bonds in SEK	101,245,104	87,259,282
Issued bonds at the end of the year	92,231,599	74,221,445
Issued nominal value	25,500,000	22,650,000
Buy backs	-19,295,000	-5,443,000
Premium/discount	-19,719	305,683
Hedging of interest-rate risk at market value	-1,108,133	497,471
Issued bonds at the end of the year	97,308,747	92,231,599

Obligationsförteckning säkerställda obligationer i SEK

31 Dec. 2021

Loan no.	Coupon rate, %	Loan date	Interest date	Maturity date	Outstanding amount, SEK 000s
DH2212	1%	2017-08-29	21 december	2022-12-21	18,851,000
DH2312	1%	2018-04-25	20 december	2023-12-20	22,900,000
DH2412	1%	2019-05-23	18 december	2024-12-18	23,750,000
DH2512	1%	2020-05-12	17 december	2025-12-17	22,550,000
DH2612	0,5%	2021-06-02	16 december	2026-12-16	8,500,000
					96,551,000

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

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 3, 2022

Per Tunestam
Chief Executive Officer

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Financial calendar
Annual report 2021, March 29
Interim report 2022, August 26

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