

Year-end Report *2019*

Danske Hypotek AB (publ)



Year in brief

January – December 2019 (the comparison in brackets refers to 2018)

- Operating profit was SEK 965.2 million (717.4 million).
- Net interest income amounted to SEK 1 049.7 million (825.4 million).
- Costs comprised SEK 100.7 million (60.8 million).
- There were no credit losses for the period. Reversals of expected credit losses amounted to SEK 47.4 million (SEK -1.9 million).
- Return on equity was 16.9 % (18.4 %).
- The CET1 capital ratio was 16.7 % (16.1 %).
- Danske Hypotek's covered bonds have the highest credit rating (AAA) from Standard & Poor's.

Operating profit/loss 2019

SEK 965.2 million

Net interest income/expense 2019

SEK 1 049.7 million

Common Equity Tier 1 capital ratio 2019

16.7 %

Loans to the public 2019

SEK 97,023 million

Operations

Danske Hypotek AB (publ) corp. ID no. 559001-4154 is a wholly owned subsidiary of Danske Bank A/S (CVR no. 61 126228). 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 2019 the company was in Swedish Financial Supervisory Authority's supervision category 2.

Financial development

Results overview

Amounts in SEK 000s	Jan-Dec 2019	Jan-Dec 2018	Jan-Dec 2017
Net interest income/expense	1,049,718	825,436	224,145
Net commission income	-19,058	-28,746	-11,614
Net income from financial transactions	-12,326	-16,592	-23,219
Total operating income	1,018,304	780,098	189,312
Costs	-100,734	-60,787	-27,179
Profit/loss before credit losses	917,570	719,311	162,133
Credit losses	47,652	-1,869	-422
Operating profit/loss	965,222	717,442	161,711
Tax	-206,144	-156,140	-37,767
Net profit or loss for the period	759,078	561,302	123,944

Operating profit/loss

Operating profit for 2019 was SEK 965.2, which is 35% higher than Operating profit for 2018 of SEK 717.4 million. The strong development is mainly explained by the 25% increase in lending volume, compared to 2018.

Net interest income and commissions

Net interest income amounted to SEK 1,049.7 million (SEK 825.4 million and net commissions amounted to an expense of SEK 19.1 million (SEK -28.7 million).

Net income from financial transactions

The net income from financial transactions at fair value amounted to an expense of SEK -12.4 million (SEK -16.6 million), see note 4.

Costs

Total costs were SEK 100.7 million (SEK 60.8 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 5.

Credit losses

There were no credit losses for 2019. Reversals of expected credit losses amounted to SEK 47.4 million. For 2018 credit losses were SEK 1.9 million.

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 97,023 million. It's increase by 25% compared to the end of 2018 when lending amounted to SEK 77,429 million. The strong increase is explained by two major acquisitions of mortgage loans in July and in December, 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 2019, the company has launched its fourth bond, DH2412 (maturity 2024-12-18). As of December 31, the total outstanding nominal volume amounted to SEK 74,221.4 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, 2019 was 16.7 %. The corresponding key figure for December 31, 2018 were 16.1 %. The profit for the period 2019-01-01 to 2019-06-30 is included in the capital base. For 2018 the periods profit is not included. On December 31, 2019, internally assessed capital requirements (including Pillar 2 add-ons and buffer requirements) amounted to SEK 3,803 million (SEK 2,955 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. 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.

Liquidity risk is currently very low since the maturity dates for 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.

Events after the end of the period

No significant events have occurred after December 31, 2019.

Audit

This year-end report has not been subject to audit by the company's auditor.

Income statement

Amounts in SEK thousands	Note	Jan-Dec 2019	Jan-Dec 2018
Interest income calculated using the effective interest method	2	1,191,442	794,493
Other interest income	2	571,282	687,517
Interest expenses	3	-713,006	-656,574
Net interest income/expense		1,049,718	825,436
Fee income		240	113
Fee expenses		-19,298	-28,859
Net income from financial transactions	4	-12,356	-16,592
Total operating income		1,018,304	780,098
General administrative expenses	5	-100,282	-60,588
Other operating expenses		-452	-199
Profit before impairment charges		917,570	719,311
Loan impairment charges		47,652	-1,869
Profit before tax		965,222	717,442
Tax for the period		-206,144	-156,140
Net profit for the period		759,078	561,302
Items that will not be reclassified to profit or loss		-	-
Comprehensive income for the period		759,078	561,302

Balance sheet

Amounts in SEK thousands	Note	31 Dec. 2019	31 Dec. 2018
ASSETS			
Assets			
Due from credit institutions	6	657,155	863,937
Lending to the public	7, 8	97,023,059	77,428,589
Bonds and other interest-bearing securities	9	3,052,336	2,264,563
Other assets		575,498	201,758
Prepaid expenses and accrued income		40,055	44,363
TOTAL ASSETS		101,348,103	80,803,210
LIABILITIES AND EQUITY			
Liabilities			
Due to credit institutions		22,001,473	28,300,120
Issued bonds, etc.	10	74,221,445	48,263,853
Tax liabilities		69,239	51,878
Other liabilities		117,943	23,119
Accrued expenses and deferred income		71,960	57,275
Total liabilities		96,482,060	76,696,245
Equity			
Share capital		50,000	50,000
Shareholders' contribution		3,400,000	3,400,000
Profit/loss brought forward		656,965	95,663
Profit/loss for the period		759,078	561,302
Total equity		4,866,043	4,106,965
TOTAL EQUITY AND LIABILITIES		101,348,103	80,803,210

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 01/01/2019	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 period	-	-	-	759,078	759,078
Closing balance 31/12/2019	50,000	3,400,000	656,965	759,078	4,866,043

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

Opening balance 01/01/2018	50,000	1,800,000	-7,005	123,944	1,966,939
Restatement as a result of changed accounting principles, after tax (IFRS 9)	-	-	-21,276	-	-21,276
Opening balance 01/01/2018	50,000	1,800,000	-28,281	123,944	1,945,663
Reversal of previous year's profit	-	-	123,944	-123,944	-
Shareholders' contribution	-	1,600,000	-	-	1,600,000
Profit/loss for the year	-	-	-	561,302	561,302
Closing balance 31/12/2018	50,000	3,400,000	95,663	561,302	4,106,965

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

Cash flow statement

Amounts in SEK thousands	1 Jan. 2019- 31 Dec. 2019	1 Jan. 2018- 31 Dec. 2018
Operating activities		
Operating profit/loss	965,222	717,442
Adjustments for non-cash items, etc.	-240,438	-178,874
Payed taxes	-188,783	-139,757
Cash flow from operating activities before changes in working capital	536,001	398,811
Change in operating activity assets		
Change in lending to the public	-19,520,780	-44,050,959
Change in other investment assets	-622,604	-430,292
Change in other assets	-369,432	-199,152
Change in operating activity liabilities		
Change in due to/from credit institutions	-6,298,647	13,800,110
Change in issued bonds	25,959,171	29,121,172
Change in other liabilities	109,509	-198,742
Cash flow from operating activities	-206,782	-1,559,052
Financing activities		
Shareholders' contributions received	-	1,600,000
Cash flow from financing activities	-	1,600,000
Cash flow for the period	-206,782	40,948
Cash and cash equivalents at the beginning of the year	863,937	822,989
Cash and cash equivalents at year-end	657,155	863,937

Reconciliation of liabilities attributable to financing activities

Amounts in SEK thousands	Closing balance 2018	Cash flow from financing activities	Effect of changed exchange rate*	Change in fair value*	Closing balance 2019
New issue	49,500	-	-	-	49,500
Shareholders' contributions received	3,400,000	-	-	-	3,400,000
Total	3,449,500	-	-	-	3,449,500

Amounts in SEK thousands	Closing balance 2017	Cash flow from financing activities	Effect of changed exchange rate*	Change in fair value*	Closing balance 2018
New issue	49,500	-	-	-	49,500
Shareholders' contributions received	1,800,000	1,600,000	-	-	3,400,000
Total	1,849,500	1,600,000	-	-	3,449,500

*Non-cash flow changes.

Cash flow statement Continuation

Cash and cash equivalents	31 Dec. 2019	31 Dec. 2018
Cash and cash equivalents consist of loans to credit institutions	657,155	863,937
Total	657,155	863,937

Interest, etc.	31 Dec. 2019	31 Dec. 2018
Interest received	1,767,036	1,453,661
Interest paid	-692,859	-641,798
Total	1,074,177	811,863

Adjustment for non-cash items	31 Dec. 2019	31 Dec. 2018
Loan impairment charges	-73,690	-75,360
Change in Accounting principle	-	-21,276
Unrealised changes in value	-166,748	-82,238
Total	-240,438	-178,874

Capital

Amounts in SEK million	31 Dec. 2019	31 Dec. 2018
Total equity	4,467	3,546
CET1 capital before legislative adjustments	4,467	3,546
Further value adjustments	-8	-11
Negative amounts as a result of calculation of expected loss amounts	-5	-
Other legislative adjustments	-	-
CET1 capital	4,454	3,535
Tier 1 capital contribution: Instruments and provisions	-	-
Tier 1 capital contribution: Legislative adjustments	-	-
Tier 1 capital	4,454	3,535
Tier 2 capital	-	-
Positive amounts as a result of calculation of expected loss amounts	-	19
Other legislative adjustments	-	-
Total capital	4,454	3,554
Total risk-weighted assets	26,682	21,929
CET1 capital (as a percentage of the risk-weighted exposure amount)	16,7 %	16,1 %
Tier 1 capital (as a percentage of the risk-weighted exposure amount)	16,7 %	16,1 %
Total capital (as a percentage of the risk-weighted exposure amount)	16,7 %	16,2 %

Risk exposure amounts and risk weights

Amounts in SEK million	31 Dec. 2019		31 Dec. 2018	
	Risk exposure amount	Average risk weight (%)	Risk exposure amount	Average risk weight (%)
Credit risks				
Institutions	-	-	-	-
Corporate customers	-	-	-	-
Household exposure	24,055	25	19,205	25
Advanced IRC method, total	24,055	25	19,205	25
Standardised method for credit risk, total	764	50	701	20
Credit risk, total	24,818		19,906	
Counterparty risk, total	217	50	368	50
Market risk, total	-		-	
Operational risk, total	1,647		1,655	
Total risk exposure amount, REA	26,682		21,929	

Capital requirement

Amounts in SEK million	31 Dec. 2019	31 Dec. 2018
Capital requirement (8% av REA)	2,135	1,754
Pillar 2 add-ons		
Credit Concentration risk add-on	110	85
Interest rate risk in banking book (IRRBB)	168	131
Information and communication technology risks (ICT)	59	-
Total Pillar 2 add-ons	337	216
Buffer requirements, % of REA		
Capital conservation buffer	2,5 %	2,5 %
Countercyclical capital buffer	2,5 %	2,0 %
Combined buffer requirement	5,0 %	4,5 %
Buffer requirements, SEK m	1,331	985
Capital requirement including combined buffer	3,803	2,955
Capital ratio including combined buffer	14,3 %	13,5 %
Excess total capital, %	2,4 %	2,7 %
Excess total capital, SEK m	651	599

Leverage ratio

Amounts in SEK million	31 Dec. 2019	31 Dec. 2018
Leverage ratio		
Total exposure for leverage ratio calculation	102,054	81,322
- of which derivatives	1,063	736
- of which securities	3,052	2,265
- of which items off the balance sheet	-	-
Tier 1 capital (transitional rules)	4,454	3,535
Tier 1 capital (fully phased in rules)	4,454	3,535
Leverage ratio (transitional rules), [%]	4.4 %	4.3 %
Leverage ratio (fully phased in rules)	4.4 %	4.3 %

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. The reporting currency is Swedish kronor (SEK).

REGULATORY AMENDMENTS INTRODUCED DURING THE YEAR

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 lessees 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 its financial statements, capital adequacy or large exposures.

IFRIC 23 Uncertainty over Income Tax Treatments has been issued for application by the EU. Statement from IFRS Interpretation Committee (IFRIC) will apply from fiscal year 2019. Danske Hypotek's assessment is that there is no uncertainties to take into account.

Other significant accounting principles and calculations are unchanged compared with the annual report for 2018.

UPCOMING REGULATORY CHANGES

Danske Hypotek's assessment is that new or amended Swedish or international accounting standards, that have been published but not yet been implemented, are not expected to have any significant impact on the financial statements.

Note 2 Interest income

Amounts in SEK thousands	1 Jan. 2019 – 31 Dec. 2019	1 Jan. 2018 – 31 Dec. 2018
Lending to the public	1,191,069	727,873
Liabilities to foreign credit institutions – Group companies	373	66,620
Interest-bearing securities – bonds	241,039	137,124
Interest-bearing securities – underlying derivative instruments	330,240	550,024
Other interest income	3	369
Total	1,762,724	1,482,010

Note 3 Interest expenses

Amounts in SEK thousands	1 Jan. 2019 – 31 Dec. 2019	1 Jan. 2018 – 31 Dec. 2018
Balances with foreign credit institutions – Group companies	-9,485	-20,358
Interest-bearing securities – bonds	-614,165	-361,771
Interest-bearing securities – underlying derivative instruments	-89,262	-274,220
Other interest expenses	-94	-225
Total	-713,006	-656,574

Note 4 Net income from financial transactions

Amounts in SEK thousands	1 Jan. 2019 – 31 Dec. 2019	1 Jan. 2018 – 31 Dec. 2018
Capital gains/losses		
Interest-bearing securities	122	-
Other financial instruments, derivatives	-207,863	64,926
Currency	-1	3
	-207,742	64,929
Unrealised changes in value		
Interest-bearing securities	-10,779	-257,942
Other financial instruments, derivatives	206,165	176,421
	195,386	-81,521
Total	-12,356	-16,592

Note 5 Administration expenses

Amounts in SEK thousands	Jan-Dec 2019	Jan-Dec 2018
Personnel costs	-10,755	-10,128
Consulting fees	-482	-2,138
Legal fees	-	-226
Purchase of administrative services	-65,562	-44,178
Other expenses	-23,483	-3,918
Total	-100,282	-60,588
<i>Specification Personnel costs</i>		
Salaries and remuneration	-6,358	-5,979
Social security contributions	-2,017	-1,923
Pension expenses	-2,279	-2,097
Other personnel costs	-101	-129
Total	-10,755	-10,128

Note 6 Due from credit institutions

Amounts in SEK thousands	31 Dec. 2019	31 Dec. 2018
Lending in SEK		
Foreign credit institutions, Group companies	657,155	863,937
Total	657,155	863,937
Average balance, loans to credit institutions, Group companies	2,181,064	7,783,212
Duration for amounts due from credit institutions		
Payable on demand	657,155	863,937
-3 months	-	-
3-12 months	-	-
1-5 years	-	-
More than 5 years	-	-
Total	657,155	863,937

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. 2019	31 Dec. 2018
Lending in SEK		
Swedish households excl. sole proprietors	91,902,902	73,102,442
Swedish sole proprietors	5,120,157	4,326,147
Total	97,023,059	77,428,589
Loans at cost	97,096,749	77,503,949
Reserve for expected loan impairment charges (credit stage 1-3)	-73,690	-75,360
Total	97,023,059	77,428,589
Average balance, lending to the public	82,776,910	51,653,969
Duration for lending to the public		
Payable on demand	-	-
-3 months	50,076,994	55,637,707
3-12 months	3,974,264	111,025
1-5 years	41,694,044	21,022,479
More than 5 years	1,277,757	657,378
Total	97,023,059	77,428,589

Note 8 Lending to the public

Amounts in SEK thousands	31 Dec. 2019	31 Dec. 2018
Credit stage 1		
Recognised gross amount	90,341,105	72,608,418
Reserve for expected credit losses	-9,473	-9,207
Book value	90,331,632	72,599,211
Credit stage 2		
Recognised gross amount	6,691,449	4,822,491
Reserve for expected credit losses	-57,991	-61,822
Book value	6,633,458	4,760,669
Credit stage 3		
Recognised gross amount	64,195	73,040
Reserve for expected credit losses	-6,226	-4,331
Book value	57,969	68,709
Recognised gross amount (credit stage 1-3)	97,096,749	77,503,949
Reserve for expected credit losses (credit stage 1-3)	-73,690	-75,360
Total	97,023,059	77,428,589

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. 2019		31 Dec. 2018	
Current assets				
Swedish municipalities and county councils	1,062,433		859,637	
Other Swedish financial companies	1,989,903		1,404,926	
Total	3,052,336		2,264,563	
	Fair value	Nominal value	Fair value	Nominal value
Swedish municipalities and county councils	1,062,433	1,040,000	859,637	845,000
Other Swedish financial companies	1,989,903	1,960,000	1,404,926	1,360,000
Total	3,052,336	3,000,000	2,264,563	2,205,000

Note 10 Issued bonds, etc.

Amounts in SEK thousands	31 Dec. 2019	31 Dec. 2018
Bonds in SEK	73,139,000	47,589,000
Total nominal value	73,139,000	47,589,000
Bonds in SEK	74,221,445	48,263,853
Total carrying amount	74,221,445	48,263,853
of which at amortised cost	74,048,417	48,089,664
Average balance issued bonds in SEK	62,797,798	36,699,038
Issued bonds at the end of the period	48,263,853	19,101,000
Issued nominal value	25,550,000	28,488,000
Buy backs	-	-
Premium/discount	408,753	500,664
Hedging of interest-rate risk at market value	-1,161	174,189
Issued bonds at the end of the period	74,221,445	48,263,853

Bond list, covered bonds in SEK

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

31 Dec. 2018

Loan no.	Coupon rate, %	Loan date	Interest date	Maturity date	Outstanding amount, SEK 000s
DH2112	1%	2017-11-06	15 december	2021-12-15	13,938,000
DH2212	1%	2017-08-29	21 december	2022-12-21	20,751,000
DH2312	1%	2018-04-25	20 december	2023-12-20	12,900,000
					47,589,000

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 5, 2020

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