

NCR comments: Danske Hypotek 2020Q2 report

Our 'A' issuer rating and 'AAA' covered bond ratings on Danske Hypotek AB (publ) (Danske Hypotek) are unchanged following the publication of its second-quarter 2020 results.

ASSET GROWTH DRIVES NET INTEREST INCOME IMPROVEMENT

Danske Hypotek's mortgage volumes grew 44% from a year earlier and 15% in the year to date to a total volume of SEK 112bn. Danske Bank's Swedish branch originates all of the group's Swedish mortgage loans before transferring them to Danske Hypotek. As such, Danske Hypotek's mortgage volumes grew both via new lending at the Swedish branch, but also due to transfers of legacy mortgage loans during the first half of 2020. Statistics Sweden reports that approximately SEK 25bn in residential mortgages remained on the balance sheet of the Swedish branch as of 30 Jun. 2020.

We note that Danske Bank (including the Swedish branch and Danske Hypotek) increased its share of the Swedish mortgage market with a 6.8% marginal market share during the first half of 2020, compared with its 3.8% overall share. See NCR's analysis of [The Swedish Mortgage Market \(Q2. 2020\)](#), published 11 Aug. 2020, for more information.

Danske Hypotek's net interest income grew 16% compared with the first half of 2019 to SEK 595m due to increased mortgage volumes. The company had minimal other revenue, a low cost-to-income ratio of 11.8% and net credit reversals of SEK 19m during the period, resulting in a similar 15% increase in net income over a year earlier.

Danske Hypotek's common equity Tier 1 (CET1) ratio fell to 14.8% due to an increase in risk-weighted assets associated with new mortgage volumes, but remained stable at 16.0% when considering the mid-year result (16.7% at end-2019).

DANSKE BANK'S FIRST HALF SUMMARY

We also maintained our 'a' credit assessment following the publication of Danske Bank A/S's second-quarter results. The bank's first-half results were affected by material increases in credit loss provisioning in response to COVID-19 and the macroeconomic scenarios Danske Bank uses to make forward-looking provisions. While core revenues were relatively stable compared with the first half of 2019, an increase in compliance and legal costs weighed on the pre-provision result. The bank maintains a robust capital position with its fully-loaded CET1 ratio of 17.3% well above the regulatory minimum requirement of 13.2%.

This commentary does not constitute a rating action.

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