

NCR comments: Danske Hypotek 2020Q4 report

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

ASSET GROWTH DRIVES NET INTEREST INCOME IMPROVEMENT

Danske Hypotek's mortgage volumes grew by 21% during 2020 to a total of SEK 117bn. We anticipate the company will surpass SEK 100bn in outstanding covered bonds, an important scale threshold for some large international investors. Danske Bank's Swedish branch originates all of the group's Swedish mortgage loans before transferring them to Danske Hypotek, and Statistics Sweden reports that approximately SEK 21bn in residential mortgages remained on the balance sheet of the Swedish branch as of 31 Dec. 2020.

Danske Bank (including the Swedish branch and Danske Hypotek) maintains its position as Sweden's seventh largest mortgage lender. It increased its share of the Swedish mortgage market by attracting a 4.4% marginal market share during 2020 (3.8% overall market share), though this fell to 2.3% in the second half of 2020. The bank was particularly active in loans for apartments, with 5.9% of the marginal share in 2020 (4.7% overall, 3.4% in the second half of 2020) (see [The Swedish Mortgage Market \(Q4, 2020\)](#), published 1 Feb. 2021).

Danske Hypotek's net interest income grew by 13% during the year to SEK 1.2bn as mortgage volumes increased. The company had minimal other revenue, a low cost-to-income ratio of 12%, and net credit reversals of SEK 27m during the period, resulting in a 5% increase in after-tax profit compared with 2019.

The level of Stage 3 non-performing loans increased to 22bps from 6bps a year earlier, reflecting the impact of COVID-19. We note that non-performing loans are not included in the overcollateralisation of Danske Hypotek's covered bonds, however, loan assets of SEK 117bn provide considerable additional security for the issuer's outstanding bonds of SEK 92bn.

Danske Hypotek's common equity Tier 1 (CET1) ratio increased to 17.5% (16.7% at end-2019), exceeding our 2020 projections given the company's strong capital generation.

DANSKE BANK'S 2020 SUMMARY

We maintain our 'a' credit assessment following the publication of Danske Bank's end-year results. The bank's DKK 4.6bn net profit exceeded its previous guidance of DKK 4-4.5bn, in part due to lower than anticipated credit loss provisioning. The bank maintains a DKK 2.7bn reserve, providing, in our view, a somewhat conservative buffer against future increases in credit provisions. It also maintains a robust capital position with a fully phased-in CET1 ratio of 18.0%, well above the regulatory

minimum requirement of 13.2% and providing a sufficient cushion to enable a DKK 2 per share dividend.

This commentary does not constitute a rating action.

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