
AUDITOR'S REPORT

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

To the Annual General Meeting of Danske Mortgage Bank Plc

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Danske Mortgage Bank Plc (business identity code 2825892-7) for the financial year ended 31 December 2019. The financial statements comprise the balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the company's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Board of Directors.

Basis for opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

According to our best knowledge and understanding all services other than the statutory audit we have provided for company comply with regulations governing the services other than the statutory audit in Finland. We have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. All services other than the statutory audit, which we have provided, have been disclosed in note 5 to the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key audit matter	How our audit addressed the key audit matter
<p>Loan impairment charges</p> <p>Loan impairment charges from loans and receivables to customers amounted of EUR 1.883,3 thousand as at 31.12.2019 (EUR 795,5 thousand as at 31.12.2018).</p> <p>According to IFRS 9, impairment charges are recognized based on expected credit losses, rather than incurred credit losses.</p> <p>Measurement of loan impairment charges is deemed a key audit matter as the determination of assumptions for expected credit losses is highly subjective due to the level of judgement applied by Management.</p> <p>The most significant judgements are:</p> <ul style="list-style-type: none"> • Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer. • Timely identification of credit impaired exposures. • Valuation of collateral and assumptions of future cash flows on credit impaired exposures. <p>The principles for determining the impairment charge are described in the Summary of significant accounting policies. Management has described the management of credit risks and the review process for impairment in more detail on note 6 in the notes of the financial statements and in the section on credit risk in the risk management disclosures included in the Board of Directors Report from page 16 onwards.</p> <p>This matter is regarded as significant risk of material misstatement in accordance with EU Audit Regulation (537/2014) Article 10 paragraph 2 c.</p>	<p>Based on our risk assessment and industry knowledge, we have examined the impairment charges and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.</p> <p>Our audit procedures included the following elements:</p> <ul style="list-style-type: none"> • Testing of key controls over assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer. • Performing a risk-based audit of the expected credit loss models including audit of methods and assumptions applied in stage allocation, methods applied to derive loss given default and assumptions applied to derive lifetime possibility of default • Testing of key controls over models and manual processes for timely identification of credit impaired exposures. • Performing a risk-based audit of loans to test timely identification of credit impaired exposures. • Testing of key controls over models and manual processes for valuation of collateral and assumptions of future cash flows. • Performing a risk-based audit of credit impaired exposures to test appropriate determination of assumptions for impairment charges including valuation of collateral and assumptions of future cash flows.

Responsibilities of the Board of Directors and the Chief Executive Officer for the financial statements

The Board of Directors and the Chief Executive Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with statutory requirements. The Board of Directors and the Chief Executive Officer are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Chief Executive Officer are responsible for assessing the company's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate company or cease operations, or there is no realistic alternative but to do so.

Auditor's responsibilities in the audit of financial statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Chief Executive Officer's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the General Meeting on 31 July 2017, and our appointment represents a total period of uninterrupted engagement of 3 years.

Other information

The Board of Directors and the Chief Executive Officer are responsible for the other information. The other information comprises information included in the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in of the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki, 5 February 2020

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