



Interim Report – first half 2023

Danske Mortgage Bank Plc

DANSKE MORTGAGE BANK PLC'S INTERIM REPORT FOR JANUARY-JUNE 2023

Danske Mortgage Bank Plc's financial performance remained firm in January-June 2023. In May EUR 500 million covered bond was issued. The loan portfolio matured at a constant pace, and it was complemented with loan purchase for the issuance purposes. Demand for mortgage loans has reduced during the period, but a sufficient amount of collateral eligible loans remain in Danske Bank Group's Finnish businesses. Therefore, the Bank is in a good position to issue covered bonds during the second half of the year.

Total operating income increased, being EUR 18.6 million for January-June 2023 (EUR 16.7 million for January-June 2022), due to increased balances and higher interest rates. Loan impairment charges totalled to EUR 1.3 million for January-June 2023 (EUR 0.5 million on January-June 2022). Impairment charges remain at a higher level than normal due to the impact of weaker economic outlook. The values of housing collaterals have been updated to reflect decreased house market prices.

The Russian attack on Ukraine has increased uncertainty. The Bank has no direct dependency on Ukraine, but the overall economic development in Finland can have an impact on the Bank. These developments include higher inflation, energy prices, house price developments, interest rates and supply chain disruptions. Adverse consequences can primarily affect the Bank through the loan portfolio. The quality of the loan portfolio remains good. It includes housing loans to Finnish personal customers and is well diversified. Expectations regarding the possible development of the economy have been taken into account in impairments, which are at a moderate level.

Danske Mortgage Bank Plc in brief

Danske Mortgage Bank Plc is a Finnish bank, which is part of the Danske Bank Group. The Danske Bank Group is one of the largest financial enterprises in the Nordic region. The Group has its headquarters in Copenhagen. Danske Bank A/S's share is quoted on the Nasdaq Copenhagen.

Danske Mortgage Bank Plc is operating as an issuer of covered bonds according to the Finnish Act on Mortgage Bank Operations (Act on Mortgage Credit Banks and Covered Bonds). Issuance of covered bonds is part of the Group's long-term funding and part of housing financing in Danske Bank's operations in Finland. The Bank does not grant housing loans, instead the loans used to cover the bonds are purchased from Danske Bank A/S, Finland Branch which offers Finnish customers a full range of banking services. As part of loan pool management process, the Bank sells loans with lower quality back to the Finland Branch.

Throughout this Interim report the term "Bank" refers to Danske Mortgage Bank Plc.

Operating environment

Finland's economy grew slightly in the beginning of 2023. In the first quarter of the year, the GDP rose by 0.4 percent both from the previous quarter as well as from a year ago. Private consumption remained almost unchanged and investments shrank. At the same time, employment strengthened thanks to the growth of service industries. The labour market situation remained stable throughout the first half of the year. According to Statistics Finland, 211,000 people were unemployed in June, which is about 12,000 more than a year earlier. Men's unemployment has risen slightly, whereas women's unemployment has fallen. The number of employed people increased by 8,000 from a year ago, i.e. the increase in labour supply was reflected both in higher employment and higher unemployment. The trend of the unemployment rate rose slightly to 7.1 percent in June. The number of layoffs has slightly increased since the end of 2022, but in June the number of layoffs remained almost unchanged. Differences in employment by industry are significant. A relatively high number of open vacancies still exists in many fields but based on the statistics of Ministry of Economic Affairs and Employment, there were more than a third fewer vacancies in total in June compared to a year earlier.

A stable labour market and a faster rise in wages have supported consumers' purchasing power, but high inflation and rising interest rates have weakened it more. Consumers' purchasing power and confidence in the state of their own finances have developed poorly and many purchases have been postponed. According to Statistics Finland's consumer survey, intentions to buy a dwelling were below last year's survey results. The savings accumulated by households during the covid restrictions period have helped to maintain consumption.

During the second quarter of 2023, the prices of old apartments in housing companies decreased by 7.0 percent from the previous year and 0.2 percent from the previous quarter. The drop in prices was biggest for small apartments in large cities. The number of completed new apartments still rose in the first half of 2023, but the number of new building permits and housing starts has clearly declined. Rising cost levels and interest rates, as well as general economic uncertainty, gradually reduce the amount of housing production. During the first half of the year, there were approximately one-third fewer housing transactions than normal, and withdrawals of new housing loans remained at a correspondingly low level. In June, 21 percent less buy-to-let mortgage loans were taken out than a year ago.

The European Central Bank continued to tighten monetary policy as inflation remained above the central bank's target. The ECB raised its deposit rate from 2 percent at the beginning of the year to 3.5 percent by the end of June. The 12-month Euribor rose above 4 percent in June. The debt burden on households and companies has increased, which partly reduced the demand for new loans.

Financial review ¹

The Bank's profit before taxes for January-June 2023 was EUR 11.9 million (7.9 million). The result increased to EUR 9.5 million (6.3 million). Annualized return on equity amounted to 5.4 per cent for the first half of 2023 (3.7 per cent).

Total operating income for the first half of 2023 increased by 11.6 per cent compared to the same period in previous year totalling EUR 18.6 million (16.7 million). The net interest income developed as expected totalling to EUR 20.5 million (15.5 million) and increased by 32.5 per cent compared to the same period last year. The development was due to strong rise in interest rates and increase in loan portfolio. Net fee income was EUR 0.9 million (0.8 million). Net result from items at fair value was EUR -2.9 million (0.2 million).

Cost to income ratio improved to 29.2 per cent (49.6 per cent). This was both due to increased total operating income and decrease in operating expenses. Operating expenses decreased to EUR 5.4 million (8.3 million). The main reasons behind decreased costs were lower internal expenses within the Danske Bank -Group as well as the resolution fund payment, which was smaller than the year before.

Impairment charges and final write-offs totalled to EUR 1.3 million (0.5 million) of which final write-offs totalled to EUR 0.2 million (EUR 0.7 million). Non-performing loans are sold regularly to Danske Bank A/S, Finland Branch and final-write offs are realized from loan sales.

Balance sheet and funding ²

The Bank's balance sheet total was EUR 5,146.8 million (4,237.3 million) and loans and receivables from customers increased to EUR 4,851.3 million (4,028.6 million). Balance sheet increased as loans were purchased for the issuance of covered bond.

The financial and liquidity situation remained good, and short-term funding from Danske Bank A/S performed well during the period. The LCR liquidity buffer was EUR 54.2 million (1 13.9 million) and remained at a good level.

¹ The comparison figures in parentheses refer to the first six months of 2022.

² The comparison figures in parentheses refer to December 2022 figures.

With a liquidity coverage ratio (LCR) of 739 per cent end of June 2023 (1389 per cent), the Bank complies with the current regulatory minimum requirement of 100 per cent.

Net Stable Funding Ratio (NSFR) presents the available stable funding compared to required stable funding. The Bank's NSFR was 106 per cent end of June 2023 (112 per cent) which complies with the 100 per cent requirement. Available stable funding totalled to EUR 4,174.7 million end of June 2023 (3,611.7 million), which is EUR 247.6 million (388.7 million) above the Required stable funding. Average remaining maturity of the funding received from the parent company remained above one year.

Capital and solvency ²

The Bank is using the internal rating based (IRB) approach for calculation of capital requirements for credit risk for retail exposures. Otherwise, standard method is applied for credit risk. For operational risk standard method is applied in calculating capital requirement.

Total capital consists of tier 1 capital that is common equity tier 1 capital after deductions. On 30 June 2023, the total capital amounted to EUR 334.2 million (335.9 million), and the total capital ratio was 41.5 (60.2) per cent. The common equity tier 1 capital ratio was 41.5 (60.2) per cent. Profit after taxes for January-June 2023 is not included in Tier 1 distributable capital.

On 30 June 2023, Risk exposure amount (REA) was EUR 806.0 million (558.3 million).

Leverage ratio

The Bank's leverage ratio was 6.5 per cent on 30 June 2023 (7.9 at the end of December 2022). The leverage ratio is calculated based on the second quarter end figures whereby the tier 1 capital was EUR 334.2 million (335.9 million) and leverage ratio exposure EUR 5,173.5 million (4,244.7 million).

Leverage ratio table is presented after the solvency table as per 30 June 2023.

Capital buffers

On 28 June 2023 the FIN-FSA decided that the countercyclical capital buffer (CCyB) will remain at 0 per cent. Additionally, the FIN-FSA decided on 29 March 2023 to impose a requirement on credit institutions to maintain a systemic risk buffer (SyRB) amounting to 1.0 per cent. The decision on the SyRB will enter into force after the transitional period on 1 April 2024.

The minimum own funds requirements and capital buffers for the Bank are listed under the leverage ratio table.

² The comparison figures in parentheses refer to December 2022 figures.

SOLVENCY

Own funds	30.6.2023	31.12.2022	30.6.2022
EURm			
Common Equity Tier 1 capital before deductions	348.7	352.9	346.1
Share capital	70.0	70.0	70.0
Reserves for invested unrestricted equity	215.0	215.0	215.0
Retained earnings	54.2	54.8	54.8
Total comprehensive income for the period	9.5	13.1	6.3
Deductions from CET1 capital	-14.5	-17.0	-10.1
Proposed/paid dividends /part of profit not included in CET1	-9.5	-13.1	-6.3
Value adjustments due to the requirements for prudent valuation	-0.3	-0.3	-0.1
IRB shortfall of credit risk adjustments to expected losses	-4.7	-3.6	-3.7
Common Equity Tier 1 (CET1)	334.2	335.9	336.1
Additional Tier 1 capital (AT1)	-	-	-
Tier 1 capital (T1 = CET1 + AT1)	334.2	335.9	336.1
Tier 2 capital (T2)	-	-	-
IRB excess of provisions over expected losses eligible	-	-	-
Total capital (TC = T1 + T2)	334.2	335.9	336.1
Total risk exposure amount (REA)	806.0	558.3	463.3
Capital requirement (8% of risk exposure amount)	64.5	44.7	37.1
Credit and counterparty risk	59.9	40.1	32.2
Operational risk	4.6	4.6	4.8
Common equity tier 1 capital ratio (%)	41.5 %	60.2 %	72.5 %
Tier 1 capital ratio (%)	41.5 %	60.2 %	72.5 %
Total capital ratio (%)	41.5 %	60.2 %	72.5 %

Company's capital adequacy ratio has been calculated both in accordance with Credit Institutions Act Sect 9-10 and EU Capital Requirement Regulation (CRR).

LEVERAGE RATIO

EURm	30.6.2023	31.12.2022	30.6.2022
Total assets	5,146.8	4,237.3	3,895.1
Derivatives accounting asset value	-7.6	-21.3	-8.0
Derivatives exposure to counterparty risk ex. collateral	39.1	32.3	29.4
Undrawn committed and uncommitted facilities, guarantees and loan offers	-	0.0	-
Adjustment to CET1 due to prudential filters	-4.7	-3.6	-3.7
Total exposure for leverage ratio calculation	5,173.5	4,244.7	3,912.9
Reported tier 1 capital (transitional rules)	334.2	335.9	336.1
Tier 1 capital (fully phased-in rules)	334.2	335.9	336.1
Leverage ratio (transitional rules)	6.5 %	7.9 %	8.6 %
Leverage ratio (fully phased-in rules)	6.5 %	7.9 %	8.6 %

MINIMUM OWN FUNDS REQUIREMENTS AND CAPITAL BUFFERS:

	30.6.2023	31.12.2022	30.6.2022
Minimum requirements (% of total risk exposure amount):			
Common Equity Tier (CET) 1 capital ratio	4.5 %	4.5 %	4.5 %
Tier 1 capital ratio	6.0 %	6.0 %	6.0 %
Total capital ratio	8.0 %	8.0 %	8.0 %
Capital buffers (% of total risk exposure amount):			
Capital conservation buffer ¹⁾	2.5 %	2.5 %	2.5 %
Institution-specific countercyclical capital buffer	0.0 %	0.0 %	0.0 %
Countercyclical buffer ²⁾	-	-	-
Systemic risk buffer ³⁾	-	-	-
Minimum requirement including capital buffers (% of total risk exposure amount):			
Common Equity Tier (CET) 1 capital ratio	7.0 %	7.0 %	7.0 %
Pillar 2 add-ons (EUR million)			
Interest rate risk in the banking book (IRRBB)	10.0	10.0	10.0
Leverage ratio requirement: ⁴⁾	3.0%	3.0%	3.0%

¹⁾ Valid from 1.1.2015 onwards.

²⁾ On 28 June 2023, the FIN-FSA decided not to set any countercyclical buffer.

³⁾ On 6 April 2020 the FIN-FSA decided to remove Systemic risk buffer requirement. On 29 March 2023, the FIN-FSA decided to set 1 percent Systemic risk buffer requirement, which will come to force on 1 April 2024.

⁴⁾ Valid from 28.6.2021 onwards.

Credit ratings

Issued covered bonds are rated 'Aaa' by Moody's Investor Services.

Employees and organisation

The Bank had 6 employees at the end of the reporting period (31 December 2022: 6). The average amount of personnel in January- June was 6 (financial period 2022: 6).

Danske Mortgage Bank Plc's Board of Directors and auditors

The Annual General Meeting of the Bank was held on 28 March 2023. The composition of the Board of Directors was unchanged. As members of the Bank's Board of Directors remained Stojko Gjurovski (Chairman), Robert Wagner (Deputy Chairman), Terese Dissing, Tomi Dahlberg and Maisa Hyrkkänen.

Pekka Toivonen is the CEO of the Bank and Jari Raassina is his deputy.

The Annual General Meeting chose Deloitte Ltd Audit Firm, as its auditor, with Aleksi Martamo, APA, as the Key audit partner.

Danske Mortgage Bank Plc's shares, ownership and group structure

Danske Mortgage Bank Plc is part of the Danske Bank Group. The parent company of the Danske Bank Group is Danske Bank A/S.

The Bank's share capital is EUR 70 million, divided into 106,000 shares. Danske Bank A/S holds the entire stock of Danske Mortgage Bank Plc's shares.

Significant accounting policies

This interim report covers Danske Mortgage Bank Plc. The interim report has been drawn up according to the same accounting principles as in the annual financial statements for 2022. Accounting policies are explained in the Notes to the Interim report and are presented in detail in the Notes to the 2022 financial statements.

Risk management

The Bank's principles for risk management are based on legislation for mortgage banks. The main objective of risk management is to ensure that the capital base is adequate in relation to the risks arising from the business activities. The Board of Directors of the Bank establishes the principles of risk management, risk limits and other general guidelines according to which risk management is organized at the Bank.

To ensure that the Bank's risk management organization meets both the external and internal requirements, the Board of Directors has also set up a Risk Council composed of the operative management members. The Risk Council's main objective is to ensure that the Bank is compliant with the risk management guidelines issued by the Board of Directors and that the Bank monitors all types of risk and provides reports to concerned parties.

The main risks associated with the Bank's activities are credit risk, interest rate and liquidity risks of banking book, non-financial and various business risks. Credit risk has the largest impact on capital requirement. The majority of the operative risks are related to outsourced services and processes.

The Bank's risk position has been low. The main risks associate with the increased future uncertainty due to war in Ukraine and development in the general economic environment, investment market and future changes in financial regulations.

The Finnish Financial Stability Authority has determined the minimum requirement for own funds and eligible liabilities for the Bank. The internal MREL consists of requirement based on the total risk exposure amount

(TREA), amounting to 17.25 per cent, and requirement based on the leverage ratio exposure measure (LRE) amounting to 5.33 per cent. Starting from 1 January 2024 the 19.85 per cent requirement based on TREA has to be met and a requirement of 5.91 per cent based on LRE must be met.

The Bank's Definition of Default for accounting aligns with the regulatory purposes. All exposures in stage 3 are considered defaulted. As a result, all non-performing loans are considered defaulted, and hence equal to the total of stage 3 exposures. Non-performing loans were at a low level in relation to the loan portfolio totalling to EUR 0.3 million (EUR 0.0 million at the end of December 2022).

More detailed information of risks and risk management can be found in the 2022 Annual report. More information regarding credit exposures can be found in this interim report on page 16.

Events after the reporting period

Pekka Toivonen has decided to leave his role as CEO of Danske Mortgage Bank Plc from 4 August 2023. Head of Operations Jari Raassina acts as interim CEO of Danske Mortgage Bank Plc.

Outlook for 2023

If inflation remains high, the ECB can still raise key interest rates in the fall 2023, in which case the 3-month Euribor would rise from its current level. However, inflation is predicted to gradually fall closer to the ECB's 2 percent target. We expect the ECB to lower key interest rates in 2024, anticipation of which may push the 12-month Euribor lower in the end of 2023. However, the risk of inflation remaining high is significant, so market interest rates may remain high for longer.

The economy is threatened by a weak period, as uncertainty, inflation and rising interest rates strain consumers, and the weak flow of new orders in companies weighs on manufacturing industry and the construction sector. In the main scenario, however, we expect the economic situation to remain fairly stable. The growth of service industries continues, and employment remains higher than in recent years, although at the same time unemployment also rises slightly. In the housing market, fewer transactions are made than last year, but the price level or the demand for mortgages do not change significantly compared to the beginning of the year. Housing construction will clearly decrease during the rest of the year. Population development affects the housing market regionally. Next year, the economic development is expected to become more favourable and the demand for financing will increase.

We expect the Bank's result for 2023 to be better than the previous year. The improvement in earnings is mainly due to the larger balance sheet and a large increase in interest rates. Impairments are expected to remain at the current level in relation to the amount of the credit portfolio. The good quality of the credit portfolio is based on the fact, that the loans are mortgage-backed, risk-profile-based customer choice and the regular sales of the non-performing loans.

The Bank's solvency is expected to remain strong. In the future, the Bank seeks to issue at least one benchmark-size covered bond each year.

This guidance is generally subject to uncertainty related to future macroeconomic and business development.

Helsinki, 18 August 2023
Danske Mortgage Bank Plc
Board of Directors

Further information:

Jari Raassina, Interim CEO

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The figures in this interim report have not been audited.

Releases and other company information can be found on the Bank's website at danskebank.com/investor-relations/debt/danske-mortgage-bank.

STATEMENT OF COMPREHENSIVE INCOME

MEUR	Note	1-6/2023	1-6/2022	1-12/2022
Interest income calculated using the effective interest method	1	64.7	11.7	37.4
Other interest income	1	-15.2	3.7	7.4
Interest expense	1	-29.0	0.1	12.5
Net interest income	1	20.5	15.5	32.3
Fee income		0.9	0.8	1.6
Fee expenses		0.0	0.0	0.0
Net result from items at fair value		-2.9	0.2	-2.4
Other income		0.1	0.2	0.3
Total operating income		18.6	16.7	31.9
Staff costs		-0.3	-0.3	-0.7
Other operating expenses		-5.1	-7.9	-13.6
Total operating expenses		-5.4	-8.3	-14.3
Loan impairment charges	2	-1.3	-0.5	-1.3
Profit before taxes		11.9	7.9	16.3
Taxes		-2.4	-1.6	-3.3
Net profit after tax		9.5	6.3	13.1
Total comprehensive income for the financial year		9.5	6.3	13.1

BALANCE SHEET

MEUR	Note	30 June 2023	30 June 2022	31 December 2022
Assets				
Cash and balances with central banks		12.4	170.0	29.5
Loans and receivables to credit institutions	2	211.4	1.7	62.8
Trading portfolio assets	5, 6	7.6	8.0	21.3
Loans and receivables to customers	2	4,851.3	3,683.7	4,028.6
Tax assets		-	1.0	-
Other investment securities		56.8	29.7	91.5
Other assets		7.2	1.0	3.6
Total assets		5,146.8	3,895.1	4,237.3
Liabilities				
Due to credit institutions and central banks	7	800.0	1,300.0	390.1
Trading portfolio liabilities	5, 6	234.4	149.6	256.6
Debt securities in issue	8	3,737.5	2,097.1	3,228.2
Tax liabilities		0.4	-	0.6
Other liabilities		25.8	2.3	9.0
Total liabilities		4,798.1	3,549.0	3,884.4
Equity				
Share capital		70.0	70.0	70.0
Reserves		215.0	215.0	215.0
Retained earnings		63.7	61.1	67.9
Total equity		348.7	346.1	352.9
Total equity and liabilities		5,146.8	3,895.1	4,237.3

STATEMENT OF CHANGES IN EQUITY

EURm	Share capital	Reserves for invested unrestricted equity	Retained earnings	Total
Equity at 1 January 2022	70.0	215.0	54.8	339.8
Total comprehensive income			6.3	6.3
Equity at 30 June 2022	70.0	215.0	61.1	346.1
Equity at 1 January 2022	70.0	215.0	54.8	339.8
Total comprehensive income			13.1	13.1
Equity at 31 December 2022	70.0	215.0	67.9	352.9
Equity at 1 January 2023	70.0	215.0	67.9	352.9
Total comprehensive income			9.5	9.5
Dividend distribution			-13.7	-13.7
Equity 30 June 2023	70.0	215.0	63.7	348.7

CASH FLOW STATEMENT

EURm	1-6/2023	1-6/2022	1-12/2022
Cash flow from operations			
Profit before tax	11.9	7.9	16.3
Loan impairment charges	1.3	0.5	1.3
Tax paid	-2.6	-2.2	-2.3
Other non-cash operating items	13.2	1.5	5.6
Total	23.8	7.8	20.9
Changes in operating capital			
Due to credit institutions	409.9	-432.5	-1,342.4
Trading portfolio	-8.5	136.9	230.5
Other financial instruments	34.7	5.7	-56.1
Loans and receivables	-824.0	432.8	87.1
Debt securities in issue net ¹⁾	509.3	-148.2	982.9
Other assets/liabilities	-9.5	11.4	20.6
Cash flow from operations	135.8	13.9	-56.5
Cash flow from financing activities			
Dividends	-13.7	-	-
Cash flow from financing activities	-13.7	-	-
Cash and cash equivalents, beginning of period	92.2	148.8	148.8
Change in cash and cash equivalents ²⁾	122.2	13.9	-56.5
Cash and cash equivalents, end of period	214.4	162.6	92.2
Cash in hand and demand deposits with central banks ²⁾	3.0	160.9	29.5
Amounts due from credit institutions and central banks within 3 months	211.4	1.7	62.8
Total	214.4	162.6	92.2

¹⁾ Debt securities in issue are presented separately including both debt securities issued and matured during the financial year. Comparison period corrected correspondingly.

²⁾ The minimum reserve is not included in the amount.

Reconciliation of liabilities arising from financing activities

On 30th June 2023 there were no liabilities arising from financing activities.

SEGMENT INFORMATION

Danske Mortgage Bank Plc has only one business segment and therefore a separate segment report outlined in IFRS 8 is not presented.

DANSKE MORTGAGE BANK PLC'S FINANCIAL HIGHLIGHTS

		1-6/2023	1-6/2022	1-12/2022
Net interest income	EURm	20.5	15.5	32.3
Total operating income	EURm	18.6	16.7	31.9
Total operating expenses	EURm	5.4	8.3	14.3
Impairment charges on loans and receivables ¹⁾	EURm	1.3	0.5	1.3
Profit before taxes	EURm	11.9	7.9	16.3
Cost to income ratio	%	29.2	49.6	44.8
Total amount of balance sheet at the end of the period	EURm	5,146.8	3,895.1	4,237.3
Equity at the end of the period	EURm	348.7	346.1	352.9
Return on equity ²⁾	%	5.4	3.7	3.8
Solvency ratio	%	41.5	72.5	60.2
Number of staff (FTE) at the end of the period		6	7	6
Average number of staff		6	6	5
Return on assets ²⁾	%	0.4	0.3	0.3
Equity/assets ratio	%	6.8	8.9	8.3

¹⁾ Impairment on loans and receivables includes impairment charges, reversals of them, write-offs and recoveries. (-) net loss positive.

²⁾ Annualized

Definition of Alternative Performance Measures:

Danske Mortgage Bank Plc's management believes that the alternative performance measures (APMs) used in the Board of Directors' report provide valuable information to readers of the financial statements. The APMs provide more consistent basis for assessing the performance of the Bank. The APM's play an important role when the Bank's management monitors performance.

There are no adjusting items, which means that net profit is the same in the financial highlights and in the IFRS income statement. The differences between the financial highlights and the IFRS financial statements relate only to additional figures being presented in Board of Directors' disclosure which are not required by the IFRS -standards.

Definitions of additional performance measures presented in Financial Highlights:
Cost to income ratio, %:

$$\frac{\text{Staff costs + other operating expenses + depreciations and impairments}}{\text{Net interest income + net trading income + net fee income + share profit from associated undertakings + other operating income}} \times 100$$

Return on equity, %:

$$\frac{\text{Profit before taxes - taxes}}{\text{Equity + non-controlling interests (average)}} \times 100$$

Return on assets, %:

$$\frac{\text{Profit before taxes - taxes}}{\text{Average total assets}} \times 100$$

Equity/assets ratio, %:

$$\frac{\text{Equity + non-controlling interests}}{\text{Total assets}} \times 100$$

NOTES TO THE INTERIM REPORT

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

General

Danske Mortgage Bank Plc prepares its financial statements in accordance with the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) and IFRIC Interpretations issued by IFRS Interpretations Committee, as adopted by the EU. In addition, certain requirements based on the Finnish Accounting Act, Finnish Act on Credit Institutions, Finnish Financial Supervisory Authority's regulations and guidelines as well as on the decision of the Ministry of Finance on financial statements of credit institutions have also been applied.

Danske Mortgage Bank Plc's Interim Report January - June 2023 has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by EU. The report is condensed and should be read in conjunction with the Annual Report 2022.

A new standard, IFRS 17 (Insurance contracts) became effective for the period beginning 1 January 2023. In addition, amendments to IAS 1 (classification of liabilities; disclosure of accounting policies), IAS 8 (definition of accounting estimates), and IAS 12 (deferred tax; Pillar Two income taxes) became effective for the period beginning 1 January 2023. IFRS 17 and the amendments to other standards had no impact on the financial statements. The accounting policies are unchanged from those applied in Annual Report 2022. Annual Report 2022 provides a full description of the significant accounting policies.

Financial statements figures are stated in euro (EUR) and in whole millions with one decimal, unless otherwise stated. The figures in the notes are rounded so that combined individual figures might differ from the presented total amount.

Accounting estimates and assessments

The Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the financial statements. Management's judgement is also used with the adaption of accounting policies. The estimates and assumptions that are deemed critical to the financial statements are described in Notes to the Annual Report 2022.

Financial calendar

The interim report has not been audited. The financial statements for 2022 are available on Danske Mortgage Bank Plc's web site <https://danskebank.com/investor-relations/debt/danske-mortgage-bank>.

The Bank publishes one interim report during the financial year 2023.

OTHER NOTES
1 NET INTEREST INCOME

EURm	1-6/2023	1-6/2022	1-12/2022
Interest income calculated using effective interest method			
Loans and receivables to credit institutions	1.9	-0.2	0.1
Loans and receivables to customers	62.8	11.9	37.4
Other interest income	0.0	0.0	0.0
Total	64.7	11.7	37.4
Interest income			
Debt securities	0.6	-0.1	-0.1
Derivatives, net	-15.8	3.8	7.4
Total	-15.2	3.7	7.4
Interest expenses			
Amounts owed to credit institutions	-10.9	2.1	0.0
Debt securities in issue	-18.0	-2.0	-12.4
Other interest expenses	0.0	0.0	0.0
Total	-29.0	0.1	-12.5
Net interest income	20.5	15.5	32.3

Negative interest income and negative interest expenses amounted to EUR 0.0 million (1-6/2022: EUR 0.2 million) and EUR 0.0 million (1-6/2022: EUR 2.1 million), respectively. Negative interest income is offset against interest income and negative interest expenses against interest expenses.

Credit exposure from lending activities

Credit exposure from lending activities in the Danske Mortgage Bank Plc's core banking business includes loans, amounts due from central banks and irrevocable loan commitments. The exposure is measured net of expected credit losses. For reporting purposes, all collateral values are net of haircuts and capped at the exposure amount.

The table below breaks down the credit exposure by rating categories and stages. Further information on classification of customers from the Annual Report 2022 Risk Management Disclosure starting from page 17.

Further information regarding Loan impairment charges is presented in the Annual Report 2022, note 6.

Credit portfolio broken down by rating category and stages in IFRS 9

6/2023	PD level		Gross exposure			Expected Credit Loss			Net exposure			Net exposure, ex collateral		
	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	1	0.00	0.01	-	-	-	-	-	-	-	-	-	-	-
2	0.01	0.03	250.6	0.1	-	0.0	0.0	-	250.6	0.1	-	170.4	0.0	-
3	0.03	0.06	633.5	0.6	-	0.0	0.0	-	633.5	0.6	-	2.8	0.0	-
4	0.06	0.14	1,196.6	0.7	-	0.1	0.0	-	1,196.5	0.7	-	7.6	0.0	-
5	0.14	0.31	1,010.1	4.3	-	0.1	0.0	-	1,010.0	4.3	-	9.5	0.0	-
6	0.31	0.63	457.1	33.2	-	0.1	0.1	-	457.0	33.1	-	6.1	0.7	-
7	0.63	1.90	135.7	70.3	-	0.1	0.3	-	135.6	70.0	-	2.0	0.6	-
8	1.90	7.98	7.3	14.8	-	0.0	0.1	-	7.3	14.7	-	0.1	0.1	-
9	7.98	25.70	10.9	8.7	-	0.0	0.1	-	10.9	8.6	-	0.1	0.1	-
10	25.70	99.99	2.3	29.2	-	0.0	0.8	-	2.3	28.4	-	0.0	0.2	-
11 (default)	100.00	100.00	0.1	0.2	-	0.0	0.0	-	0.1	0.2	-	0.0	0.0	0.0
Total			3,704.2	162.1	0.0	0.4	1.4	0.0	3,703.8	160.7	0.0	198.7	1.7	0.0

12/2022	PD level		Gross exposure			Expected Credit Loss			Net exposure			Net exposure, ex collateral		
	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	1	0.00	0.01	-	-	-	-	-	-	-	-	-	-	-
2	0.01	0.03	107.5	-	-	0.0	-	-	107.5	-	-	29.5	-	-
3	0.03	0.06	631.8	0.2	-	0.0	0.0	-	631.8	0.2	-	2.1	-	-
4	0.06	0.14	1,286.1	0.6	-	0.1	0.0	-	1,286.0	0.6	-	7.2	-	-
5	0.14	0.31	1,147.1	7.2	-	0.2	0.0	-	1,146.9	7.1	-	8.8	0.0	-
6	0.31	0.63	526.2	55.3	-	0.2	0.1	-	526.1	55.1	-	5.4	0.4	-
7	0.63	1.90	149.3	70.9	-	0.1	0.3	-	149.2	70.6	-	1.7	0.7	-
8	1.90	7.98	9.0	13.9	-	0.0	0.1	-	9.0	13.8	-	0.1	0.4	-
9	7.98	25.70	13.0	8.1	-	0.0	0.1	-	13.0	8.0	-	0.1	0.0	-
10	25.70	99.99	3.3	30.0	-	0.0	1.1	-	3.3	28.9	-	0.1	0.3	-
11 (default)	100.00	100.00	0.7	0.6	-	0.0	0.0	0.2	0.7	0.6	-0.2	0.0	0.0	-
Total			3,873.8	186.9	0.0	0.6	1.8	0.2	3,873.2	185.1	-0.2	54.8	1.8	0.0

3 THE BALANCE SHEET CLASSIFICATION

EURm	Amortised cost		Fair value through profit or loss			Non-financial assets and liabilities	Total
	Held to collect financial assets	Liabilities	Managed at fair value	Hedge			
ASSETS							
Cash and balances with central banks	12.4						12.4
Loans and receivables to credit institutions	211.4						211.4
Trading portfolio assets							
Derivatives				7.6			7.6
Investment securities, bonds			56.8				56.8
Loans and receivables to customers	4,842.2			9.1			4,851.3
Other assets						7.2	7.2
Total 30 June 2023	5,066.0	-	56.8	16.7	7.2		5,146.8

LIABILITIES

Due to credit institutions and central banks		800.0					800.0
Trading portfolio liabilities				234.4			234.4
Debt securities in issue							
-> Bonds		3,483.5		254.0			3,737.5
Tax liabilities						0.4	0.4
Other liabilities						25.8	25.8
Total 30 June 2023	-	4,283.5	-	488.4	26.2		4,798.1

EURm	Amortised cost		Fair value through profit or loss			Non-financial assets and liabilities	Total
	Held to collect financial assets	Liabilities	Managed at fair value	Hedge			
ASSETS							
Cash and balances with central banks	29.5						29.5
Loans and receivables to credit institutions	62.8						62.8
Trading portfolio assets							
Derivatives				21.3			21.3
Investment securities, bonds			91.5				91.5
Loans and receivables to customers	4,008.0			20.6			4,028.6
Other assets						3.6	3.6
Total 31 December 2022	4,100.2	-	91.5	42.0	3.6		4,237.3

LIABILITIES

Due to credit institutions and central banks		390.1					390.1
Trading portfolio liabilities				256.6			256.6
Debt securities in issue							
-> Bonds		2,965.3		262.8			3,228.2
Tax liabilities						0.6	0.6
Other liabilities						9.0	9.0
Total 31 December 2022	-	3,355.4	-	519.4	9.6		3,884.4

4 MATURITY ANALYSIS OF THE BALANCE SHEET
EURm

Assets	Total	< 1 year	> 1 year
Cash and balances with central banks	12.4	12.4	-
Loans and receivables to credit institutions	211.4	211.4	-
Trading portfolio assets	7.6	7.0	0.6
Other investment securities	56.8	9.7	47.1
Loans and receivables to customers	4,851.3	428.1	4,423.2
Other assets	7.2	7.2	-
Total 30 June 2023	5,146.8	675.9	4,470.9

Liabilities	Total	< 1 year	> 1 year
Due to credit institutions and central banks	800.0	800.0	-
Derivatives and other financial liabilities held for trading	234.4	99.3	135.2
Debt securities in issue	3,737.5	723.5	3,014.0
Tax liabilities	0.4	0.4	-
Other liabilities	25.8	25.8	-
Total 30 June 2023	4,798.1	1,648.9	3,149.1

Assets	Total	< 1 year	> 1 year
Cash and balances with central banks	29.5	29.5	-
Loans and receivables to credit institutions	62.8	62.8	-
Trading portfolio assets	21.3	19.9	1.5
Other investment securities	91.5	19.1	72.4
Loans and receivables to customers	4,028.6	276.1	3,752.5
Other assets	3.6	3.6	-
Total 31 December 2022	4,237.3	410.9	3,826.4

Liabilities	Total	< 1 year	> 1 year
Due to credit institutions and central banks	390.1	0.1	390.0
Derivatives and other financial liabilities held for trading	256.6	79.7	176.9
Debt securities in issue	3,228.2	758.9	2,469.3
Tax liabilities	0.6	0.6	-
Other liabilities	9.0	9.0	-
Total 31 December 2022	3,884.4	848.2	3,036.2

Maturity analysis of past due financial assets, net
EURm

	30 June 2023	December 2022
Assets past due 30-90 days	4.1	9.4
Unlikely to pay	3.8	1.0
Nonperforming assets past due at least 90 days but no more than 180 days	0.2	0.0
Nonperforming assets past due at least 180 days - 1 year	0.1	-
Nonperforming assets more than 1 year	-	-
Receivables with forbearance measures, gross carrying amount	43.0	26.4

5 FAIR VALUE INFORMATION FOR FINANCIAL INSTRUMENTS

Financial instruments are carried on the balance sheet at fair value or at amortised cost. There is more detailed description regarding classification of financial assets and liabilities by valuation type and measurement bases in Note 10 in the Annual Report 2022.

Financial instruments valued on the basis of quoted prices on an active market are recognised in the Quoted prices category (level 1). Financial instruments valued substantially on the basis of other observable input are recognised in the Observable input category (level 2). Other financial instruments are recognised in the Non-observable input category (level 3).

The classification of the instrument changes, if at the balance sheet date, a financial instrument's classification differs from its classification at the beginning of the year. Changes are considered to have taken place at the balance sheet date. During the reporting period ending 30 June 2023, there were no transfers between Level 1 (Quoted prices) and Level 2 (Observable input) fair value measurements, and no transfers into and out of Level 3 (Non-observable input) fair value measurement.

All financial assets and liabilities are measured at observable input. The company does not have any financial assets or liabilities that fall in the category non-observable input.

30 June 2023				
EURm	Quoted prices	Observable input	Non-observable input	Total
Financial assets				
Investment securities, bonds	28.8	28.0	-	56.8
Derivative financial instruments	-	7.6	-	7.6
Total	28.8	35.6	-	64.4
Financial liabilities				
Derivative financial instruments	-	234.4	-	234.4
Total	-	234.4	-	234.4
31 December 2023				
EURm	Quoted prices	Observable input	Non-observable input	Total
Financial assets				
Investment securities, bonds	63.4	28.1	-	91.5
Derivative financial instruments	-	21.3	-	21.3
Total	63.4	49.4	-	112.8
Financial liabilities				
Derivative financial instruments	-	256.6	-	256.6
Total	-	256.6	-	256.6

6 DERIVATIVE FINANCIAL INSTRUMENTS

EURm	30 June 2023		
	Fair value		Notional amount
	Assets	Liabilities	
Derivatives held for hedging			
Fair value hedges	9,719.2	42.1	9,761.3
Interest rate			
OTC derivatives	9,719.2	42.1	9,761.3
Total derivatives held for hedging	9,719.2	42.1	9,761.3
Nominal value of the underlying instrument			
Remaining maturity	Less than 1 year	1-5 years	Over 5 years
	9,747.1	14.2	-

EURm	31 December 2022		
	Fair value		Notional amount
	Assets	Liabilities	
Derivatives held for hedging			
Fair value hedges	21.3	256.6	8,127.7
Interest rate			
OTC derivatives	21.3	256.6	8,127.7
Total derivatives held for hedging	21.3	256.6	8,127.7

EURm	31 December 2022		
	Fair value		Notional amount
	Assets	Liabilities	
Derivatives held for hedging			
Fair value hedges	21.3	256.6	8,127.7
Interest rate			
OTC derivatives	21.3	256.6	8,127.7
Total derivatives held for hedging	21.3	256.6	8,127.7
Nominal value of the underlying instrument			
Remaining maturity	Less than 1 year	1-5 years	Over 5 years
	-	8,111.0	16.7

All of the Company's derivatives held for hedging are contracts with Group companies.

7 AMOUNTS OWED TO CREDIT INSTITUTIONS

EURm	6/2023	6/2022	12/2022
Deposits from credit institutions	800.0	1,300.0	390.1
Total	800.0	1,300.0	390.1

8 DEBT SECURITIES IN ISSUE

EURm	30 June 2023	30 June 2022	31 December 2022	
Finnish covered bonds	3,737.5	2,097.1	3,228.2	
Nominal value				
EURm	1 January 2023	Issued	Redeemed	30 June 2023
Covered bonds	3,500.0	500.0	-	4,000.0
	1 January 2022	Issued	Redeemed	31 December 2022
Covered bonds	2,250.0	1,250.0	-	3,500.0

The fair value of Debt securities in issue amounted to EUR 4,000.9 million (2022: EUR 3,500.7 million) compared to the carrying amount of EUR 3,737.5 million (2022: EUR 3,228.2 million).

9 CONTINGENT LIABILITIES AND COMMITMENTS

Danske Mortgage Bank Plc does not have significant off-balance sheet items or significant non-cancellable operating leases. Company's off-balance sheet items consists undrawn loans. However, there was no off-balance sheet items 30 June 2023 (EUR 0.0 thousand at 31 December 2022).

10 RELATED PARTY TRANSACTIONS WITH GROUP COMPANIES AND OTHER RELATED PARTIES

Related party comprises the parent company, the key management personnel and other related-party companies. Parties with significant influence include the parent company and its branches. The key management personnel comprises Board of Directors and executive management, including close family members and companies, in which the key management personnel or their close family members have considerable influence.

Related party transactions have not changed materially since 31.12.2022.