

Interim Report January-June 2019

Danske Mortgage Bank Plc

DANSKE MORTGAGE BANK PLC'S INTERIM REPORT FOR JANUARY-JUNE 2019

Danske Mortgage Bank Plc's financial performance remained solid in January-June 2019. Loan portfolio matures at a constant pace. Loan portfolio has been managed by buying and selling loans to Danske Bank A/S, Finland Branch. During the first half year of 2019, there was no new issuance of covered bonds and the net loan purchases were financed with assets received from matured loans and with short-term financing from Danske Bank A/S, Finland Branch. Demand for mortgage loans remained at a high level and the balance of cover pool eligible mortgages at Danske Bank Group's Finnish businesses has been at a good level.

Total operating income of Danske Mortgage Bank remained on the same level being EUR 19.7 million for January-June 2019 (EUR 20.4 million for January-June 2018). VAT-group in which Danske Mortgage Bank has been part of was dissolved on 31. December 2018. This has led to a slight increase in internal expenses charged by other Group companies. Non-performing assets that are delayed for over 90 days amounted to EUR 0.1 million (EUR 0.3 million at the end of December 2018) that is 0.00 % of loans. Annualized return on equity amounted to 7.0 % at the end of June 2019, in January-December 2018 return on equity reached 8.9 %. On February 2019, Danske Mortgage Bank Plc received a capital injection of EUR 45.0 million from the parent company, which increased company's equity and at the same time decreased return on equity.

Financial highlights of Danske Mortgage Bank Plc

		1-6/2019	1-6/2018	1-12/2018
Total operating income	EURm	19.7	20.4	40.0
Profit before taxes	EURm	12.1	14.0	28.2
Total assets at the end of the period	EURm	5,909.5	5,819.0	5,863.2
Number of staff at the end of the period		5	5	5

Danske Mortgage Bank Plc in brief

Danske Mortgage Bank Plc is a Finnish bank which is part of the Danske Bank Group. Danske Bank Group is one of the largest financial enterprises in the Nordic region. Danske Bank 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. Issuance of covered bonds is part of Danske Bank Group's long-term funding and part of housing financing in Danske Bank's operations in Finland. Danske Mortgage Bank Plc does not grant housing loans, instead the loans used to cover the bonds are purchased from Danske Bank A/S, Finland Branch. As part of loan pool management process Danske Mortgage Bank Plc sells loans with lower quality back to Finland Branch.

As a Nordic universal bank, Danske Bank Group offers Finnish customers a full range of banking services through Finland Branch, which is a branch of Danske Bank A/S, Denmark. Mortgage banking business is carried out by Danske Mortgage Bank Plc and as from the 1st of January, 2018 the banking business in Finland is carried out by the local branch.

Operating environment

Finnish GDP grew briskly 2.4% in 2018. Especially domestic consumption, construction and investment contributed to the growth, while foreign trade did not do as well as in 2017. GDP growth moderated to 1.2% in the first quarter of 2019. Domestic consumption was weak, partly due to drop in car sales caused by uncertainty over taxation. Investment demand was roughly flat. Business and consumer confidence indicators weakened from very strong figures during spring 2019. Export outlook has become weaker due to the trade conflict between US and China, as well as sluggish GDP growth in the EU. Public finances have improved as economic growth has increased tax revenues and reduced unemployment related costs. Government debt continues to grow, however.

Employment situation is good and there exists a large number of open job vacancies. Unemployment rate fell on average to 7.4% in 2018 and has fallen further below 7% in early 2019. There is already a lack of skilled labour in many industries and further improvement in employment is going to be slow. Earnings grew by 2.5% in first quarter 2019, which implies growing purchasing power. Household saving ratio rose slightly in 2018 and consumers did not spend all their purchasing power in early 2019, which implies stronger financial buffers for an average household.

Construction permits have fallen from high figures, which already begins to show as less new starts in early 2019. The number of unsold apartments has risen modestly and the risk of housing overhang makes construction companies cautious in 2019. Housing prices are nearly flat on average, but local differences are significant and prices have fallen in regions with diminishing population. Household home purchase intentions were relatively high in spring 2019 and urbanisation maintains demand for housing in growth centres.

Monetary policy has been accommodative and interest rates are expected to stay low beyond 2020. Low interest rates make debt burden easy for households and corporates. Housing loan stock has grown modestly by roughly 2 per cent, but housing company debt growth has stayed above 10 per cent. Total household debt growth is slower than growth in disposable income. All in all the operating environment supports stable credit markets, but growth is likely to slow down.

Financial review ¹

Danske Mortgage Bank Plc's profit before taxes for January-June 2019 was EUR 12.1 million (14.0 million). The result was EUR 9.7 million (11.2 million). Annualized return on equity amounted to 7.0 per cent for the first half of 2019 (9.0 per cent).

Total operating income for the first six months of 2019 decreased by 3.2 per cent compared to the same period a year earlier totalling EUR 19.7 million (20.4 million). The Mortgage Bank's net interest income developed as expected totalling to EUR 18.4 million (19.1 million), but decreased by 3.7 per cent compared to the same period last year.

Mortgage Bank's net fee income remained at the same level and amounted to EUR 1.0 million (1.0 million).

Net trading income has been stable and amounted to EUR 0.3 million (0.3 million).

Danske Mortgage Bank Plc's cost to income ratio was 33.8 per cent showing an increase of 3.0 percentage points compared to last year (30.8 per cent). Mortgage Bank's total operating income decreased compared to comparison period, which was mainly driven by the decrease in net interest income. Mortgage Bank's operating expenses from January-June increased slightly compared to the same period last year and totalled to EUR 6.7 million (6.3 million).

¹ The comparison figures in parentheses refer to the first six months of 2018.

Impairment charges and final write-offs totalled to EUR 1.0 million (0.1 million). Model change on calculation of loss given default has caused expected credit losses to increase compared to the same period last year.

Balance sheet and funding ²

Danske Mortgage Bank Plc's balance sheet total was EUR 5,909.5 million (5,863.2 million). Loans and receivables from customers increased by EUR 80.8 million to a total of EUR 5,582.0 million (5,501.3 million). The growth was due to loan purchases from Danske Bank A/S, Finland Branch.

The financial and liquidity situation remained good, and short-term funding from Danske Bank A/S, Finland Branch performed well during the period. The bank's liquidity buffer was EUR 177.0 million (230.6 million) and remained at a good level.

With a liquidity coverage ratio (LCR) of 522 per cent end of June 2019 (377 per cent), Danske Mortgage Bank Plc complies with the current regulatory minimum requirement of 100%. Under the Capital Requirements Regulation (EU) No 575/2013 banks must have a LCR of 100 percent as from 1.1.2018.

On February 2019, Danske Mortgage Bank Plc received a capital injection of EUR 45.0 million from parent company. The capital injection was included in equity as reserves for invested unrestricted equity.

Capital and solvency ³

Danske Mortgage Bank Plc 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 2019, the total capital amounted to EUR 280.3 million (233.8 million), and the total capital ratio was 31.7 (26.8) per cent. The common equity tier 1 capital ratio was 31.7 (26.8) per cent. Total capital has increased during the first half year of 2019 mainly due to capital injection of EUR 45.0 million received from parent company.

On 30 June 2019, Risk exposure amount (REA) was EUR 882.9 million (871.7 million).

Profit after taxes for January-June 2019 is not included in Tier 1 distributable capital.

Leverage ratio

Mortgage Bank's leverage ratio was 4.8 per cent on 30 June 2019 (4.0 at the end of December 2018). The leverage ratio is calculated based on the second quarter end figures whereby the tier 1 capital was EUR 280.3 million (233.8 million) and leverage ratio exposure EUR 5,826.3 million (5,776.4 million). Increase in leverage ratio is mainly due to the increase in tier 1 capital, which has grown from the year end because of a capital injection.

Leverage ratio table is presented after the solvency table as per 30 June 2019.

Capital buffers

In June 2018 FIN-FSA decided to impose on credit institutions a structural additional capital requirement that is systemic risk buffer. For Danske Mortgage Bank Plc it is at a level of 1.0 per cent. The additional capital requirement based on the systemic risk buffer will enter into effect on 1 July 2019 and it is reviewed annually in

² The comparison figures in parentheses refer to December 2018 figures.

³ The comparison figures in parentheses refer to December 2018 figures.

the future. In June 2019 FIN-FSA decided to keep the systemic risk buffer for Danske Mortgage Bank Plc at the level of 1.0 per cent also starting from 1 July 2020.

In June 2019 the FIN-FSA decided not to increase the countercyclical capital buffer requirement (variable capital add-on) applicable to banks. The requirement will remain at zero until further notice.

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

SOLVENCY

Own funds	30.6.2019	31.12.2018	30.6.2018
EURm			
Common Equity Tier 1 capital before deductions	294.7	261.6	250.4
Share capital	70.0	70.0	70.0
Reserves for invested unrestricted equity	215.0	170.0	170.0
Retained earnings *)	-	-0.9	-0.7
Total comprehensive income for the period	9.7	22.5	11.2
Deductions from CET1 capital	-14.4	-27.8	-16.0
Proposed/paid dividends /part of profit not included in CET1	-9.7	-22.5	-11.2
Value adjustments due to the requirements for prudent valuation	-0.2	-0.2	-0.2
IRB shortfall of credit risk adjustments to expected losses	-4.6	-5.0	-4.7
Common Equity Tier 1 (CET1)	280.3	233.8	234.4
Additional Tier 1 capital (AT1)	-	-	-
Tier 1 capital (T1 = CET1 + AT1)	280.3	233.8	234.4
Tier 2 capital (T2)	-	-	-
Total capital (TC = T1 + T2)	280.3	233.8	234.4
Total risk exposure amount (REA)	882.9	871.7	909.3
Capital requirement (8% of risk exposure amount)	70.6	69.7	72.7
Credit and counterparty risk	65.7	64.8	67.7
Operational risk	5.0	5.0	5.1
Common equity tier 1 capital ratio (%)	31.7%	26.8%	25.8%
Tier 1 capital ratio (%)	31.7%	26.8%	25.8%
Total capital ratio (%)	31.7%	26.8%	25.8%

*) Retained earnings from comparative periods include the effect from IFRS 9 implementation.

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	30.6.2019	31.12.2018	30.6.2018
Total assets	5,909.5	5,863.2	5,819.0
Derivatives accounting asset value	-118.8	-126.4	-134.5
Derivatives exposure to counterparty risk ex. collateral	40.2	44.7	42.0
Undrawn committed and uncommitted facilities, guarantees and loan offers	0.0	0.0	0.0
Adjustment to CET1 due to prudential filters	-4.6	-5.0	-4.9
Total exposure for leverage ratio calculation	5,826.3	5,776.4	5,721.5
Reported tier 1 capital (transitional rules)	280.3	233.8	234.4
Tier 1 capital (fully phased-in rules)	280.3	233.8	234.4
Leverage ratio (transitional rules)	4.8 %	4.0 %	4.1 %
Leverage ratio (fully phased-in rules)	4.8 %	4.0 %	4.1 %

MINIMUM OWN FUNDS REQUIREMENTS AND CAPITAL BUFFERS (% OF TOTAL RISK EXPOSURE AMOUNT):

Minimum requirements:	30.6.2019	31.12.2018	30.6.2018
Common Equity Tier (CET) 1 capital ratio	4.50 %	4.50 %	4.50 %
Tier 1 capital ratio	6.00 %	6.00 %	6.00 %
Total capital ratio	8.00 %	8.00 %	8.00 %
Capital buffers:			
Capital conservation buffer ¹⁾	2.50 %	2.50 %	2.50 %
Institution-specific countercyclical capital buffer	0.00 %	0.00 %	0.00 %
Countercyclical buffer ²⁾	0.00 %	0.00 %	0.00 %
Minimum requirement including capital buffers:			
Common Equity Tier (CET) 1 capital ratio	7.00 %	7.00 %	7.00 %

¹⁾ Valid from 1.1.2015 onwards.

²⁾ On 28th June 2019, FIN-FSA decided not to set any countercyclical buffer.

Credit ratings

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

Employees and organisation

Danske Mortgage Bank Plc had 5 employees (5) at the end of the reporting period. There were no changes in the amount of employees compared to end of year 2018.

Danske Mortgage Bank Plc's Board of Directors and auditors

There has been changes in the composition of Danske Mortgage Bank Plc's Board of Directors during February 2019. Riikka Laine-Tolonen was elected as new member of the Board. The following members remained on the Board: Glenn Söderholm (Chairman), Robert Wagner, Lisbet Kragelund, Tomi Dahlberg and Maisa Hyrkkänen.

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

The Annual General Meeting of Danske Mortgage Bank Plc 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 Danske Bank Group. The parent company of Danske Bank Group is Danske Bank A/S.

Danske Mortgage Bank Plc'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 includes Danske Mortgage Bank Plc. The interim report has been drawn up according to the same accounting principles as in the annual financial statements for 2018. Accounting policies are explained in the Notes to the Interim report, and are presented in detail in the Notes to the 2018 financial statements.

Risk management

Danske Mortgage 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 Danske Mortgage Bank Plc establishes the principles of risk management, risk limits and other general guidelines according to which risk management is organized at Danske Mortgage Bank Plc.

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

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

Danske Mortgage Bank Plc's risk position has been low. The main risks associate with the development in the general economic environment and investment market and future changes in financial regulations.

In relation to the loan portfolio, non-performing loans were at a low level. Non-performing loans that are past due for over 90 days amounted to EUR 0.1 million (31.12.2018: EUR 0.3 million).

More detailed information of risks and risk management can be found in the 2018 annual report. More information regarding credit exposures can be found in this interim report on page 22.

Events after the reporting period

No material events after the reporting period.

Outlook for 2019

The economic outlook for global and Finnish economy was relatively good end of June 2019.

It is expected that the net interest income will remain almost at the same level as in 2018. Net interest income is directly affected by the volume of loan portfolio, which is expected to remain almost unchanged.

Net fee and net trading income are expected to remain at the same level as for 2018. VAT group being dissolved at the end of 2018 is expected to increase the internal expenses between group companies.

Because of the economic development and high quality loans, the non-performing loans and impairments are expected to remain at a low level.

In the future, Danske Mortgage Bank Plc seeks to issue at least one benchmark-size covered bond each year.

This guidance is generally subject to uncertainty related to macroeconomic forecasts.

Helsinki, 18 July 2019

Danske Mortgage Bank Plc
Board of Directors

Further information:

Pekka Toivonen, CEO
Tel. 010 546 7718

The figures in this interim report have not been audited.

Danske Mortgage Bank Plc's financial statement for January–December 2019 will be released on 5 February 2020. Releases and other company information can be found on Danske Mortgage Bank Plc's website at danskebank.com/investor-relations/debt/danske-mortgage-bank.

STATEMENT OF COMPREHENSIVE INCOME

MEUR	Note	1-6/2019	1-6/2018	1-12/2018
Interest income calculated using the effective interest method	1	22.8	26.0	45.8
Other interest income	1	26.1	20.6	48.6
Interest expense	1	-30.5	-27.4	-56.9
Net interest income	1	18.4	19.1	37.5
Fee income		1.0	1.0	2.1
Fee expenses		0.0	0.0	0.0
Net trading income		0.3	0.3	0.4
Total operating income		19.7	20.4	40.0
Staff costs		-0.3	-0.3	-0.6
Other operating expenses		-6.3	-6.0	-10.9
Total operating expenses		-6.7	-6.3	-11.6
Loan impairment charges	2	-1.0	-0.1	-0.2
Profit before taxes		12.1	14.0	28.2
Taxes		-2.4	-2.8	-5.6
Net profit after tax		9.7	11.2	22.5
Total comprehensive income for the financial year		9.7	11.2	22.5

BALANCE SHEET

MEUR	Note	6/2019	6/2018	12/2018
Assets				
Cash and balances with central banks		139.1	113.4	186.1
Loans and receivables to credit institutions	2	25.5	1.4	1.9
Trading portfolio assets	5, 6	118.8	134.5	126.4
Loans and receivables to customers	2	5,582.0	5,519.9	5,501.3
Tax assets		1.0	0.2	0.1
Other investment securities		40.4	45.7	45.4
Other assets		2.7	4.0	2.0
Total assets		5,909.5	5,819.0	5,863.2
Liabilities				
Due to credit institutions and central banks	7	727.9	1,417.0	708.4
Trading portfolio liabilities	5, 6	20.3	17.8	16.4
Debt securities in issue	8	4,848.8	4,115.9	4,848.7
Tax liabilities		-	0.9	1.5
Other liabilities		17.8	16.9	26.6
Total liabilities		5,614.9	5,568.5	5,601.6
Equity				
Share capital		70.0	70.0	70.0
Reserves		215.0	170.0	170.0
Retained earnings		9.7	10.4	21.6
Total equity		294.7	250.4	261.6
Total equity and liabilities		5,909.5	5,819.0	5,863.2

STATEMENT OF CHANGES IN EQUITY

EURm	Share capital	Reserves for invested unrestricted equity	Retained earnings	Total
Equity, 31st December 2017	70.0	170.0	3.6	243.6
Effect from changed accounting practice (IFRS 9) *)	-	-	-0.9	-0.9
Restated equity, 1st of January 2018	70.0	170.0	2.6	242.6
Total comprehensive income			11.2	11.2
Dividend distribution			-3.6	-3.6
Equity, 30th June 2018	70.0	170.0	10.2	250.2
Restated equity, 1st of January 2018	70.0	170.0	2.6	242.6
Total comprehensive income			22.5	22.5
Dividend distribution			-3.6	-3.6
Equity, 31st December 2018	70.0	170.0	21.6	261.6
Equity, 1st of January 2019	70.0	170.0	21.6	261.6
Capital injection from parent company		45.0		45.0
Total comprehensive income			9.7	9.7
Dividend distribution			-21.6	-21.6
Equity, 30th June 2019	70.0	215.0	9.6	294.7

*) Figure for effect from changed accounting practice updated for comparative period.

CASH FLOW STATEMENT

EURm	1-6/2019	1-6/2018	1-12/2018
Cash flow from operations			
Profit before tax	12.1	14.0	28.2
Loan impairment charges	1.0	0.1	0.2
Tax paid	-4.9	-8.0	-10.3
Other non-cash operating items	-9.5	-10.9	0.3
Total	-1.3	-4.8	18.5
Changes in operating capital			
Due to credit institutions	19.6	278.9	-429.7
Trading portfolio	11.4	21.0	27.8
Other financial instruments	5.0	-45.7	-45.4
Loans and receivables	-81.7	-261.0	-242.6
Other assets/liabilities ¹⁾	0.1	-17.6	717.3
Cash flow from operations	-47.0	-29.1	45.8
Cash flow from financing activities			
Dividends	-21.6	-3.6	-3.6
Capital injection from parent company	45.0	-	-
Cash flow from financing activities	23.4	-3.6	-3.6
Cash and cash equivalents, beginning of period	187.1	146.1	144.8
Change in cash and cash equivalents ¹⁾	-23.6	-32.7	42.3
Cash and cash equivalents, end of period	163.5	113.5	187.1
Cash in hand and demand deposits with central banks ¹⁾	138.0	112.1	185.1
Amounts due from credit institutions and central banks within 3 months	25.5	1.4	1.9
Total	163.5	113.5	187.1

¹⁾ Presentation has been changed, so that the minimum reserve is not included. The comparison period has been changed accordingly.

Reconciliation of liabilities arising from financing activities

On 30th June 2019 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

		1-6/2019	1-6/2018	1-12/2018
Net interest income	EURm	18.4	19.1	37.5
Total operating income	EURm	19.7	20.4	40.0
Total operating expenses	EURm	6.7	6.3	11.6
Impairment charges on loans and receivables ¹⁾	EURm	1.0	0.1	0.2
Profit before taxes	EURm	12.1	14.0	28.2
Cost to income ratio	%	33.8	30.8	28.9
Total amount of balance sheet at the end of the period	EURm	5,909.5	5,819.0	5,863.2
Equity at the end of the period	EURm	294.7	250.4	261.6
Return on equity ²⁾	%	7.0	9.0	8.9
Solvency ratios	%	31.7	25.8	26.8
Number of staff (FTE) at the end of the period		5	5	5
Return on assets ²⁾	%	0.3	0.4	0.4
Equity/assets ratio	%	5.0	4.3	4.5

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 Company. The APM's play an important role when Danske Mortgage Bank's management monitors performance.

The annual report contains a number of key performance indicators (so-called alternative performance measures - APMs), which provide further information about Danske Mortgage Bank Plc. 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 is part of Danske Bank Group. 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 additional 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.

On 1 January 2019, Danske Mortgage Bank Plc implemented IFRS 16, Leases, amendments to various standards (IFRS 9, Prepayment Features with Negative Compensation, Annual Improvements to IFRS Standards 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23), IAS 19, Plan Amendment, Curtailment or Settlement and IAS 28, Long-term Interests in Associates and Joint Ventures) and the interpretation IFRIC 23, Uncertainty over Income Tax Treatments. None of the changes had an impact on the financial statements. Except for these changes, Danske Mortgage Bank Plc has not changed its significant accounting policies from those applied in the Annual Report 2018. Annual Report 2018 provides a full description of the significant accounting policies.

Danske Mortgage Bank Plc's Interim Report January - June 2019 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 2018.

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

Standards and interpretations not yet in force

Annual report 2018 provides a full description of new IFRSs and amendments to IFRSs that have not yet come into force. As mentioned in the Annual report 2018, there are no new standards and amendments that are likely to affect the Company's future financial reporting. Danske Mortgage Bank Plc has not early adopted any of those changes to IFRS.

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 adaptation of accounting policies. The estimates and assumptions that are deemed critical to the financial statements are described in Notes to the Annual Report 2018.

Financial calendar

The interim report has not been audited. The financial statements for 2018 are available on Danske Mortgage Bank Plc's web site <https://danskebank.com/investor-relations/debt/danske-mortgage-bank>.

Danske Mortgage Bank Plc publishes one interim report during the financial year 2019. The annual report for January-December 2019 will be published 5.2.2020.

1 NET INTEREST INCOME

EURm	1-6/2019	1-6/2018	1-12/2018
Interest income calculated using effective interest method			
Loans and receivables to credit institutions	-0.1	0.0	-0.1
Loans and receivables to customers and public entities	22.7	22.0	45.4
Other interest income	0.2	4.0	0.5
Total	22.8	26.0	45.8
Interest income			
Debt securities	0.1	-0.2	0.2
Derivatives, net	25.9	20.8	48.4
Total	26.1	20.6	48.6
Interest expenses			
Amounts owed to credit institutions	0.6	1.3	3.0
Debt securities in issue	-31.1	-28.6	-59.8
Other interest expenses	0.0	0.0	0.0
Total	-30.5	-27.4	-56.9
Net interest income	18.4	19.1	37.5

Negative interest income and negative interest expenses amounted to EUR 0.1 million (1-6/2018: EUR 0.0 million) and EUR 0.7 million (1-6/2018: EUR 1.3 million), respectively. Negative interest income is offset against interest income and negative interest expenses against interest expenses.

Interest income from financial assets on stage 3 were EUR 0.0 million (1-6/2018: EUR 0.3 million).

2 LOANS AND RECEIVABLES TO CUSTOMERS AND LOAN IMPAIRMENT CHARGES

EURm	<u>6/2019</u>	<u>12/2018</u>
Loans and receivables to customers		
Private customers	5,583.7	5,502.1
Impairment charges	-1.6	-0.8
Total	5,582.0	5,501.3

Cash and balances at central banks and loans and receivables from credit institutions

Balances with central banks	139.1	186.1
Loans and receivables from credit institutions		
Other loans	25.5	1.9
Allowances	0.0	0.0
Total	164.5	188.0

Balances with central banks are situated on stage 1 in the stage division according to IFRS 9 -standard.

Loans and receivables total	5,746.6	5,689.3
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Loan impairment charges

1000 EUR	1-6/2019	1-6/2018	1-12/2018
ECL on new assets	-8.9	-0.3	-11.6
ECL on assets derecognised	55.1	-55.6	957.5
Impact of net remeasurement of ECL (incl. changes in models)	-911.7	-24.0	-376.8
Final write-off charges	-115.0	-7.9	-821.5
Interest income, effective interest method	2.0	-2.7	2.5
Total	-978.5	-90.5	-249.9

Presentation has been updated and comparison figures changed accordingly.

Reconciliation of total allowance account on loans

1000 EUR

				6/2019
	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the period, 1.1.2019	156.6	635.9	3.0	795.5
Transferred to Stage 1 during the period	152.8	-151.6	-1.2	-
Transferred to Stage 2 during the period	-7.4	16.6	-9.2	-
Transferred to Stage 3 during the period	-0.3	-15.3	15.6	-
ECL on new assets	-4.7	13.6	0.0	8.9
ECL on assets derecognised	-7.4	43.5	23.8	59.8
Impact of net remeasurement of ECL (incl. changes in models)	-79.5	960.7	30.5	911.7
Write-offs debited to the allowance account	-	-83.9	-31.1	-115.0
Other changes	26.2	-31.2	-26.6	-31.6
Balance at end of period, 30.6.2019	236.3	1,388.2	5.0	1,629.4

				12/2018
	Stage 1	Stage 2	Stage 3	Total
Collective and individual impairment charges under IAS 39, 31 December 2017				416.0
Transition effect (ECL at 1 January 2018)	249.1	678.3	408.8	920.1
Transferred to Stage 1 during the period	176.2	-167.6	-8.5	-
Transferred to Stage 2 during the period	-14.1	101.6	-87.5	-
Transferred to Stage 3 during the period	0.0	-0.3	0.3	-
ECL on new assets	5.5	6.1	0.0	11.6
ECL on assets derecognised	-32.1	-91.4	-12.4	-136.0
Impact of net remeasurement of ECL (incl. changes in models)	-190.0	414.9	151.9	376.8
Write-offs debited to the allowance account	-	-551.5	-270.0	-821.5
Other changes	-37.9	245.9	-179.6	28.4
Balance at end of period, 31.12.2018	156.6	635.9	3.0	795.5

Presentation has been updated and comparison figures changed accordingly.

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	139.1					139.1
Loans and receivables to credit institutions	25.5					25.5
Trading portfolio assets						
Derivatives				118.8		118.8
Investment securities, bonds			40.4			40.4
Loans and receivables to customers	5,561.4			20.7		5,582.0
Tax assets					1.0	1.0
Other assets					2.7	2.7
Total 30.6.2019	5,725.9	-	40.4	139.5	3.7	5,909.5
LIABILITIES						
Due to credit institutions and central banks		727.9				727.9
Trading portfolio liabilities				20.3		20.3
Debt securities in issue						
-> Bonds		4,745.1		103.8		4,848.8
Other liabilities					17.8	17.8
Total 30.6.2019	-	5,473.0	-	124.0	17.8	5,614.9

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	186.1					186.1
Loans and receivables to credit institutions	1.9					1.9
Trading portfolio assets						
Derivatives				126.4		126.4
Investment securities, bonds			45.4			45.4
Loans and receivables to customers	5,484.7			16.5		5,501.3
Tax assets					0.1	0.1
Other assets					2.0	2.0
Total 31.12.2018	5,672.7	-	45.4	142.9	2.1	5,863.2
LIABILITIES						
Due to credit institutions and central banks		708.4				708.4
Trading portfolio liabilities				16.4		16.4
Debt securities in issue						
-> Bonds		4,743.2		105.4		4,848.7
Tax liabilities					1.5	1.5
Other liabilities					26.6	26.6
Total 31.12.2018	-	5,451.6	-	121.9	28.1	5,601.6

4 MATURITY ANALYSIS OF THE BALANCE SHEET
EURm

Assets	Total	< 1 year	> 1 year
Cash and balances with central banks	139.1	139.1	-
Loans and receivables to credit institutions	25.5	25.5	-
Trading portfolio assets	118.8	-	118.8
Other investment securities	40.4	35.3	5.1
Loans and receivables to customers	5,582.0	452.9	5,129.1
Tax assets	1.0	1.0	-
Other assets	2.7	2.7	-
Total 30.6.2019	5,909.5	656.5	5,253.1

Liabilities	Total	< 1 year	> 1 year
Due to credit institutions and central banks	727.9	727.9	-
Derivatives and other financial liabilities held for trading	20.3	-	20.3
Debt securities in issue	4,848.8	1,003.5	3,845.3
Other liabilities	17.8	17.8	-
Total 30.6.2019	5,614.9	1,749.3	3,865.6

Assets	Total	< 1 year	> 1 year
Cash and balances with central banks	186.1	186.1	-
Loans and receivables to credit institutions	1.9	1.9	-
Trading portfolio assets	126.4	-	126.4
Other investment securities	45.4	10.0	35.4
Loans and receivables to customers	5,501.3	445.5	5,055.7
Tax assets	0.1	0.1	-
Other assets	2.0	2.0	-
Total 31.12.2018	5,863.2	645.7	5,217.5

Liabilities	Total	< 1 year	> 1 year
Due to credit institutions and central banks	708.4	708.4	-
Derivatives and other financial liabilities held for trading	16.4	-	16.4
Debt securities in issue	4,848.7	1,009.6	3,839.1
Tax liabilities	1.5	1.5	-
Other liabilities	26.6	26.6	-
Total 31.12.2018	5,601.5	1,746.0	3,855.5

Maturity analysis of past due financial assets, net
EURm

	6/2019	12/2018
Assets past due 30-90 days	5.6	6.0
Unlikely to pay	3.1	3.7
Nonperforming assets past due at least 90 days but no more than 180 days	0.1	0.3
Nonperforming assets past due at least 180 days - 1 year	-	-
Nonperforming assets more than 1 year	-	-
Receivables with forbearance measures, gross carrying amount	88.9	91.9

5 FAIR VALUE INFORMATION

Financial instruments are carried on the balance sheet at fair value or at amortised cost. Note 10 in Annual Report 2018 includes description for classification of financial assets and liabilities by valuation type and detailed measurement bases of financial assets and liabilities.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

There is more specific information regarding company's financial instruments measured at fair value in Annual Report 2018, note 10.

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).

If, at the balance sheet date, a financial instrument's classification differs from its classification at the beginning of the year, the classification of the instrument changes. Changes are considered to have taken place at the balance sheet date.

During the reporting period ending 30 June 2019, 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.

EURm	6/2019			Total
	Quoted prices	Observable input	Non-observable input	
Financial assets				
Investment securities, bonds	20.3	20.1	-	40.4
Derivative financial instruments	-	118.8	-	118.8
Total	20.3	138.9	-	159.2
Financial liabilities				
Derivative financial instruments	-	20.3	-	20.3
Total	-	20.3	-	20.3

EURm	12/2018			Total
	Quoted prices	Observable input	Non-observable input	
Financial assets				
Investment securities, bonds	25.3	20.1	-	45.4
Derivative financial instruments	-	126.4	-	126.4
Total	25.3	146.5	-	171.8
Financial liabilities				
Derivative financial instruments	-	16.4	-	16.4
Total	-	16.4	-	16.4

Note 10 in the Annual Report 2018 provides information on the financial instruments at amortised cost and the carrying amounts and the fair values of financial instruments recognised at amortised cost. There is not a significant difference between the carrying amount and the fair value of the company's financial instruments at amortised cost.

6 DERIVATIVE FINANCIAL INSTRUMENTS

EURm	6/2019		
	Fair value		Notional amount
	Assets	Liabilities	
Derivatives held for hedging			
Fair value hedges	118.8	20.3	9,323.6
<u>Interest rate</u>			
OTC derivatives	118.8	20.3	9,323.6
Total derivatives held for hedging	118.8	20.3	9,323.6
<u>Nominal value of the underlying instrument</u>			
Remaining maturity	Less than 1 year	1-5 years	Over 5 years
	1,000.0	8,080.5	243.1
<u>12/2018</u>			
	Fair value		Notional amount
	Assets	Liabilities	
Derivatives held for hedging			
Fair value hedges	126.4	16.4	9,244.0
<u>Interest rate</u>			
OTC derivatives	126.4	16.4	9,244.0
Total derivatives held for hedging	126.4	16.4	9,244.0
<u>Nominal value of the underlying instrument</u>			
Remaining maturity	Less than 1 year	1-5 years	Over 5 years
	1,000.0	7,973.0	271.0

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

EURm	6/2019		12/2018
Derivatives with positive fair value			
Derivatives with positive fair value before netting		118.8	126.4
<u>Netting (under accounting rules)</u>		-	-
Carrying amount		118.8	126.4
<u>Netting (under capital adequacy rules)</u>		20.3	16.4
Net current exposure		98.6	110.0
Collateral		97.9	108.4
Net amount		0.6	1.6

7 AMOUNTS OWED TO CREDIT INSTITUTIONS

EURm	6/2019	12/2018	6/2018
Deposits from credit insitutions	727.9	708.4	1,417.0
Total	727.9	708.4	1,417.0

8 DEBT SECURITIES IN ISSUE

EURm	6/2019	12/2018	6/2018
Finnish covered bonds	4,848.8	4,848.7	4,115.9

In 2018, Danske Mortgage Bank Plc issued a covered bond with nominal value EUR 750.0 million. During the first half year of 2019, there has not been issues or redemptions of covered bonds.

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, overdraft facilities and other commitments to lend that totalled EUR 2.6 thousand at 30.6.2019 (EUR 43.3 thousand at 31.12.2018). Allowances on off-balance sheet items totalled to EUR 0.3 thousand at 30.6.2019 (EUR 0.3 thousand on 31.12.2018). Off-balance sheet items are mainly on stage 1.

Danske Mortgage Bank Plc is a party to lawsuits but the company does not expect the outcomes of these pending to have any material effect on its financial position.

Company's non-cancellable operating leases consist of premises. Danske Mortgage Bank Plc's minimum lease payments under non-cancellable operating leases that are to be paid within one year totalled to EUR 3.8 thousand at 30.6.2019 (EUR 2.0 thousand at 31.12.2018).

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 31.12.2018.

Credit exposure

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 accumulated impairment charges. For reporting purposes, all collateral values are net of haircuts and capped at the exposure amount.

Credit exposure, lending activities

EURm

	6/2019	12/2018
Balance sheet items		
Demand deposits with central banks	139.1	186.1
Loans	5,582.0	5,501.3
Off-balance-sheet items		
Loan commitments shorter than 1 year	0.0	0.0
Loan commitments longer than 1 year	-	0.0
Total	5,721.1	5,687.4

Classification of customers

The main objectives of risk classification are to rank the Company's customers according to risk and to estimate each customer's probability of default (PD). As part of the credit process customers are classified according to risk using scoring models. Customers' classifications are updated monthly as part of automatic process.

In its credit risk management, the Company uses point-in-time (PIT) PD estimates for risk classification. These PIT PD estimates express a customer's probability of default within the next 12 months in the current economic situation. The Company's classification scale consists of 11 main rating categories with fixed PD bands. During a downturn, a customer's PIT PD may increase, and the customer may migrate to a lower rating category. The effect from a downturn is thus larger when PIT PD is used than if the classification was based on through-the-cycle (TTC) PD, which the Company uses to calculate the risk exposure amount for credit risk.

Customers with credit-impaired loans are placed in rating category 10 or 11. This includes customers with loans for which no impairment charges have been recognised, for example because adequate collateral has been provided.

The classification of facilities between stage 1 and 2 for the purpose of calculating expected credit loss impairments under IFRS 9 depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether the credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the facility and incorporate forward-looking information. A facility is transferred from stage 1 to stage 2 based on observed increases in the probability of default:

- For facilities originated below 1% in PD: An increase in the facility's 12-month PD of at least 0.5 percentage points since initial recognition and a doubling in the facility's lifetime PD since origination
- For facilities originated above 1% in PD: An increase in the facility's 12-month PD of 2 percentage points since origination or a doubling of the facility's lifetime PD since origination

Further, facilities that are more than 30 days past due are moved to stage 2. Finally, customers subject to forbearance measures are placed in stage 2, if the Company, in the most likely outcome, expects no loss or the customers are in the 2-year probation for performing forbome exposures.

Exposures which are considered to be in default for regulatory purposes will always be considered stage 3 under IFRS 9. This applies both to 90-days-past-due considerations and unlikely-to-pay factors leading to regulatory default.

Credit exposure continued

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

EURm 6/2019	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	0.4	-	-	0.0	-	-	0.4	-	-	0.0	-
2	0.01	0.03	783.9	0.8	-	0.0	0.0	-	783.9	0.8	-	143.8	-	-
3	0.03	0.06	1,504.3	2.9	-	0.0	0.0	-	1,504.3	2.9	-	22.6	0.0	-
4	0.06	0.14	1,638.7	4.9	-	0.0	0.0	-	1,638.7	4.9	-	29.6	0.1	-
5	0.14	0.31	1,059.3	8.9	-	0.0	0.0	-	1,059.3	8.9	-	26.5	0.2	-
6	0.31	0.63	340.9	20.8	-	0.0	0.0	-	340.9	20.8	-	9.2	0.5	-
7	0.63	1.90	131.7	42.9	-	0.1	0.1	-	131.6	42.8	-	3.9	1.0	-
8	1.90	7.98	23.1	31.4	-	0.0	0.1	-	23.1	31.3	-	0.6	0.9	-
9	7.98	25.70	8.7	84.4	0.0	0.0	1.2	-	8.7	83.2	0.0	0.2	2.2	-
10	25.70	99.99	23.4	11.2	0.1	-	0.0	0.0	23.4	11.2	0.1	0.5	0.3	-
11 (default)	100.00	100.00	0.0	0.2	0.2	-	-	0.0	0.0	0.2	0.2	0.0	0.0	-
Total			5,514.3	208.2	0.3	0.2	1.4	0.0	5,514.0	206.8	0.3	237.0	5.3	-

12/2018	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	0.2	-	-	0.0	-	-	0.2	-	-	0.0	-
2	0.01	0.03	792.1	0.6	-	0.0	0.0	-	792.1	0.6	-	189.9	-	-
3	0.03	0.06	1,432.9	5.6	-	0.0	0.0	-	1,432.9	5.6	-	18.5	0.1	-
4	0.06	0.14	1,601.1	8.4	-	0.0	0.0	-	1,601.1	8.4	-	28.3	0.1	-
5	0.14	0.31	1,085.5	19.3	-	0.0	0.0	-	1,085.4	19.3	-	26.4	0.4	-
6	0.31	0.63	346.3	35.4	-	0.0	0.0	-	346.3	35.4	-	8.3	1.1	-
7	0.63	1.90	130.4	64.9	-	0.0	0.1	-	130.4	64.8	-	3.4	1.4	-
8	1.90	7.98	16.9	35.0	-	0.0	0.1	-	16.9	34.9	-	0.3	0.9	-
9	7.98	25.70	3.8	80.1	0.0	0.0	0.4	-	3.8	79.8	0.0	0.1	1.8	-
10	25.70	99.99	13.9	14.7	0.2	-	0.0	0.0	13.9	14.7	0.2	0.2	0.5	-
11 (default)	100.00	100.00	0.2	0.6	0.1	-	-	0.0	0.2	0.6	0.1	0.0	0.0	-
Total			5,423.3	264.5	0.3	0.2	0.6	0.0	5,423.2	263.9	0.3	275.5	6.2	-