Annual Report 2018

Danske Mortgage Bank Plc

Danske Bank

Contents

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. This Financial Statement and Board of Directors' report covers Danske Mortgage Bank Plc.

Danske Mortgage Bank Plc Board of Directors' Report 2018

Danske Mortgage Bank Plc in brief

Danske Mortgage Bank Plc was established via partial demerger on October 31, 2017. All Danske Bank Plc's assets, liabilities and reserves of the mortgage credit banking business were transferred to the new acquiring company, called Danske Mortgage Bank Plc.

Danske Mortgage Bank Plc is operating as an issuer of covered bonds. Bonds issued by Danske Mortgage Bank Plc are covered by a pool of loans consisting of Finnish household mortgages. Danske Mortgage Bank Plc does not act as the originator of housing loans as it purchases loans from Danske Bank A/S, Finland Branch. Loan servicing process as many other processes are outsourced to Danske Bank A/S. This way loan purchases are not having an effect to the service provided to customers. Loans included in the mortgage bank's balance sheet are Finnish households' mortgage loans with residential real estate or shares of housing company as collateral.

Danske Mortgage Bank Plc's operations continued stable during 2018. The Irish Central Bank approved the Base Prospectus Danske Mortgage Bank's programme for issuance of covered bonds in October. Under the programme, Danske Mortgage Bank issued a covered bond with nominal value EUR 750 million. Unlike the old covered bonds, the new covered bond is listed in Euronext Dublin. Hedging and short-term funding was executed through Danske Bank A/S. The amount of cover pool eligible loans in Danske Bank Group's Finnish operations has been stable.

In this Annual Report the comparison figures are presented from the start of the business, meaning that comparison report covers November and December of 2017. Throughout this report terms "Danske Mortgage Bank", "Mortgage Bank", "Bank" and "Company" refer to Danske Mortgage Bank Plc. Danske Mortgage Bank Plc is a wholly-owned subsidiary of Danske Bank A/S, the parent company of Danske Bank Group. The Danske Bank Group is referred to as "Group".

Danske Mortgage Bank Plc is domiciled in Helsinki and its business identity code is 2825892-7.

Operating environment

Finland's GDP growth has continued in 2018 relatively rapidly even though the fastest increase slowed down after the speedy start of the year. Especially after spring, the development of exports and investments was poorer than expected. The economic outlook for global economy weakened during 2018 especially in the euro area, which had an effect on the domestic export industry. Companies' business confidence was still above the average level and the order books were on a high level. For 2018, we are expecting an increase of 2.3 per cent hence economy is still recovering according to the business cycle characteristics. Anyhow, the steadying towards Finnish economy's long-term trend growth rate is ongoing.

From the households' point of view, the economic recovery was visible contributed by better salaries and increase in employment, which in turn has caused economy's total salary to grow faster than ever after the finance crisis. At the same time, the consumer prices have increased moderately, which enhanced the households' purchasing power. In fall, the increase of employment has slowed down, but the unemployment rate has continued to decline. There is still a large amount of open positions available, which supports the interpretation that the labour markets are continuing to recover. On many industries, there appears difficulties in the availability of labour force and companies are reporting that difficulties in recruitment have increased. The increase in total salary has resulted in tax and payment income, which have supported public economy. The public sector's debt to GDP decreased to a level below 60 percent during 2018.

Residential construction was very vivid. The housing market as a whole was relatively stable and the large supply of new finished apartments eases the price pressure in the future. On average the housing prices increased just slightly, but the situation varied geographically between growth centres' and regions suffering from population loss. In October 2018, the nation's mortgage portfolio grew by 1.8 per cent. The growth rate was little slower than in the previous years. The housing company loans increased households' indebtedness.

Despite the increase, the household indebtedness was on a lower level than in the other Nordic countries and the low interest rates helped households to cope with their debt burden. There was a slight increase in the payment defaults.

The European Central Bank (ECB) ended its asset purchase program at the end of 2018. Otherwise, the loose monetary policy remained unchanged and the Euribor rates remained negative. The average interests for housing loans decreased slightly.

Financial review

The comparison figures in parentheses refer to November-December 2017 figures. Danske Mortgage Bank Plc's financials developed as expected on 2018.

Danske Mortgage Bank Plc's profit before taxes was EUR 28.2 million (4.5 million). The result was EUR 22.5 million (3.6 million). Return on equity remained at the same level as for the previous year and it amounted to 8.9 per cent for 2018 (11-12/2017 annualized 8.9 per cent).

Total operating income for 2018 amounted to EUR 40.0 million (6.8 million) and the net interest income was EUR 37.5 million (6.1 million). Mortgage Bank's net fee income totalled EUR 2.0 million (0.4 million). Net trading income was EUR 0.4 million (0.3 million).

Danske Mortgage Bank Plc's cost to income ratio was 28.9 per cent (31.8 per cent) when Mortgage Bank's operating expenses totalled EUR 11.6 million (2.2 million).

Individually assessed impairment charges and final write-offs were on low level and totalled EUR 0.2 million (0.2 million). Non-performing loans were sold regularly to Danske Bank A/S, Finland Branch.

Balance sheet and funding

Danske Mortgage Bank Plc's total balance sheet for 2018 was EUR 5,863.2 million (5,565.9 million). Loans and receivables from customers amounted to EUR 5,501.3 million (5,259.0 million). During 2018, Mortgage Bank has established new other investment securities portfolio consisting liquidity coverage ratio (LCR) eligible bonds. Other investment securities amounted to EUR 45.4 million at the end of December 2018.

The financial and liquidity situation was good. All short-term funding was received from the Group. Mortgage Bank's liquidity buffer was EUR 230.6 million at the end of December 2018 (135.0 million) and it consisted of deposits in central bank and central bank eligible high quality liquidity bonds.

With a liquidity coverage ratio (LCR) of 377 per cent end of December 2018 (274 per cent), Danske Mortgage Bank Plc was compliant with the regulatory minimum requirement of 100 % at the end of reporting period. According to the Capital Requirements Regulation (EU) No 575/2013 banks must have a LCR of 100 per cent from 1.1.2018.

At the beginning of 2018 Danske Mortgage Bank Plc's amount of equity was EUR 242.6 million when taking into account the effect from changed accounting practice. A dividend of EUR 3.6 million was paid to Danske Bank A/S. The result was EUR 22.5 million. At the end of 2018 the amount of equity totaled to EUR 261.6 million.

Prime quality Finnish housing loans

Danske Mortgage Bank Plc loan portfolio consists of prime quality Finnish housing loans. Loans have a high

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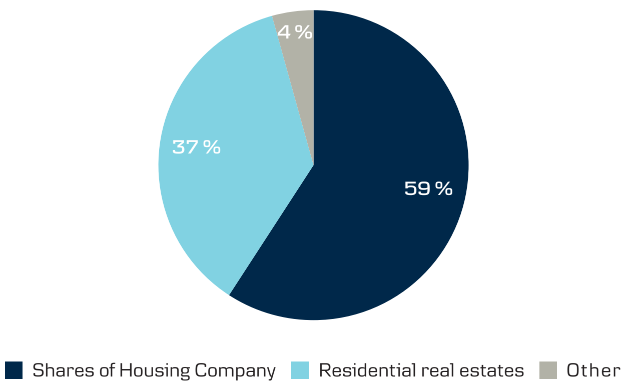
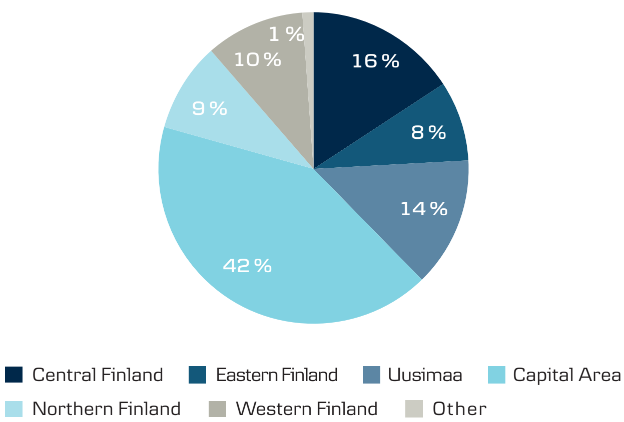


EXPOSURE DISTRIBUTION BY AREA



collateral degree and they are predominantly located in the growth areas. Customers are concentrated to best rating classes on the internal rating scale. Original average risk weight for the portfolio is well below the 15 per cent floor set by the FIN-FSA. Impairments are on the low level and non-performing loans are sold back to Danske Bank A/S, Finland Branch.

Capital and solvency

The objective of Danske Mortgage Bank Plc's capital and solvency management is to have an adequate amount of capital to support its business strategy and to fulfil the regulatory capital requirements. The Mortgage Bank also needs to ensure that it is sufficiently capitalized to withstand severe macroeconomic downturns.

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.

Capital management and practices are based on an internal capital and liquidity adequacy assessment process (ICLAAP). In this process, the Bank identifies its risks and determines its solvency need.

Total capital consists of tier 1 capital that is common equity tier 1 capital after deductions. On 31 December 2018, the total capital amounted to EUR 233.8 million (234.4 million), and the total capital ratio was 26.8 (40.5) per cent. The common equity tier 1 capital ratio was 26.8 (40.5) per cent. Total capital ratio decreased due to 15 per cent risk weight floor set by FIN-FSA for residential mortgage loans but still remained on strong level.

Risk exposure amount (REA) was EUR 871.7 million (579.1 million).

Profit after taxes for year 2018 is not included in Tier 1 distributable capital.

Leverage ratio

According to the Capital Requirements Directive (CRD IV) credit institutions must have a well-established practice to identify, manage and monitor risks to avoid excessive leverage. Indicators for excessive leverage shall include the leverage ratio and shall be monitored under the Pillar II process. Credit institutions must also be able to withstand a range of different stress events with respect to the risk of excessive leverage.

CRR/CRD IV requires credit institutions to calculate, report and monitor their leverage ratios. The leverage ratio is defined as ratio of tier 1 capital from the total exposure. In order to count in the leverage ratio, the tier 1 capital must be eligible under CRR. The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items not deducted from tier 1 capital. Specific adjustments apply to derivatives.

Danske Mortgage Bank Plc has processes in place for the identification, management and monitoring of the risk of excessive leverage. The leverage ratio is also part of Danske Mortgage Bank's risk appetite framework.

Mortgage Bank´s leverage ratio was 4.0 (4.3) per cent on 31 December 2018. The leverage ratio is calculated based on the fourth quarter end figures whereby the tier 1 capital was EUR 233.8 million (234.4 million) and leverage ratio exposure EUR 5,776.4 million (5,443.5 million). Leverage ratio table is presented after the solvency table as per 31 December 2018.

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 the future. In December 2018 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 are listed under the leverage ratio table for Danske Mortgage Bank Plc.

SOLVENCY Own funds EURm	1-12/2018	11-12/2017
Common Equity Tier 1 capital before deductions	**261.6**	**243.6**
Share capital	70.0	70.0
Reserves for invested unrestricted equity	170.0	170.0
Retained earnings *)	-0.9	-
Total comprehensive income for the period	22.5	3.6
Deductions from CET1 capital	**-27.8**	**-9.1**
Proposed/paid dividends/part of profit not included in CET1	-22.5	-3.6
Value adjustments due to the requirements for prudent valuation	-0.2	-0.2
IRB shortfall of credit risk adjustments to expected losses	-5.0	-5.4
Common Equity Tier 1 (CET1)	**233.8**	**234.4**
Additional Tier 1 capital (AT1)	-	-
Tier 1 capital (T1 = CET1 + AT1)	**233.8**	**234.4**
Tier 2 capital (T2)	-	-
Total capital (TC = T1 + T2)	**233.8**	**234.4**
Total risk exposure amount (REA)	**871.7**	**579.1**
Capital requirement (8 % of risk exposure amount)	**69.7**	**46.3**
Credit and counterparty risk	64.8	41.3
Operational risk	5.0	5.1
Common equity tier 1 capital ratio (%)	**26.8 %**	**40.5 %**
Tier 1 capital ratio (%)	**26.8 %**	**40.5 %**
Total capital ratio (%)	**26.8 %**	**40.5 %**

**) Retained earnings 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	31/12/2018	31/12/2017
Total assets	5,863.2	5,565.9
Derivatives (accounting asset value)	-126.4	-158.1
Derivatives (exposure to counterparty risk ex. collateral)	44.7	41.3
Undrawn committed and uncommitted facilities, guarantees and loan offers	0.0	0.0
Adjustment to CET1 due to prudential filters	-5.0	-5.6
Total exposure for leverage ratio calculation	5,776.4	5,443.5
Reported tier 1 capital (transitional rules)	233.8	234.4
Tier 1 capital (fully phased-in rules)	233.8	234.4
Leverage ratio (transitional rules)	4.0%	4.3%
Leverage ratio (fully phased-in rules)	4.0%	4.3%

MINIMUM OWN FUNDS REQUIREMENTS AND CAPITAL BUFFERS (% of total risk exposure amount):	31/12/2018	31/12/2017
Minimum requirements:		
Common Equity Tier (CET) 1 capital ratio	4.50 %	4.50 %
Tier 1 capital ratio	6.00 %	6.00 %
Total capital ratio	8.00 %	8.00 %
Capital buffers:		
Capital conservation buffer [1)]	2.50 %	2.50 %
Institution-specific countercyclical capital buffer	0.00 %	0.00 %
Countercyclical buffer [2)]	0.00 %	0.00 %
Minimum requirement including capital buffers:		
Common Equity Tier (CET) 1 capital ratio	7.00 %	7.00 %

1) Valid from 1.1.2015 onwards.
2) On 20th December 2018, FIN-FSA decided not to set any countercyclical buffer.

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

Employees and organization
Danske Mortgage Bank Plc had 5 (4) employees at the end of the financial year.

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 in January, May and December, 2018. Lisbet Kragelund has been elected to join Danske Mortgage Bank Plc's Board of Directors on 4th of January, 2018. Jacob Aarup-Andersen, Christoffer Møllenbach and Risto Tornivaara resigned from the Board as from 2.5.2018 and on 29.5.2018 Glenn Söderholm (chairman), Kenneth Kaarnimo and Robert Wagner were elected as new members. Kenneth Kaarnimo resigned from the Board as from 31.12.2018. The following members remained on the Board: Tomi Dahlberg and Maisa Hyrkkänen.

Pekka Toivonen is the CEO of Danske Mortgage Bank Plc and Leena Antila is his deputy.

On March 14, 2018 the annual general meeting of Danske Bank Plc elected Deloitte Ltd Audit Firm, as auditor of Danske Mortgage Bank Plc, with Aleksi Martamo, APA, as the Key audit partner.

Related party loans and receivables are listed in note 19 and corporate governance on page 11.

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.

Danske Mortgage Bank Plc's share capital is EUR 70.0 million, divided into 106,000 shares. Danske Bank A/S holds the entire stock of Danske Mortgage Bank Plc.

Risk management
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 0.3 million (1.4 million). Net impairment charges were EUR 0.2 million (0.2 million).

More detailed information of risks and risk management can be found in the Risk Management Disclosure on page 46.

Events after the reporting period
There are no material events after the reporting period.

Outlook for 2019
It is expected that short-term interest rates remain very low also in 2019. It is also expected that ECB would raise the interest rate at the end of year, which would increase the 12-month Euribor rate gradually during this year.

The economic outlook for global economy and for Finnish economy was relatively good in December 2018. Households' outlook is stable when it comes to employment and salary development. Residential construction continues to be vivid, but as the amount of construction permissions decreased during 2018 it would indicate a gradual decline in the construction boom that has been apparent in recent years.

Mortgage bank is well protected for changes in level of interest rates. The development in the Finnish economy affects it mostly through credit losses and level of new sales loan margins. The refinancing cost is dependent on the developments in the global and Finnish economy.

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

Mortgage Bank's business has stabilized and the size of personnel is expected to remain at the current level.

VAT-group in which Danske Mortgage Bank has been part of was dissolved on 31. December 2018. It is expected that this will lead to a slight increase in internal expenses charged by other Group companies. It is expected that the net interest income develops positively, and leads to net profit for 2019 being slightly higher than on 2018.

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

Helsinki, 1 February 2019
Danske Mortgage Bank Plc
Board of Directors

Danske Bank

FINANCIAL HIGHLIGHTS

EURm	2018	2017
Revenue	96.9	15.8
Net interest income	37.5	6.1
% of revenue	38.7	39.0
Profit before taxes	28.2	4.5
% of revenue	29.1	28.3
Total income 1)	40.0	6.8
Total operating expenses 2)	11.6	2.2
Cost to income ratio	28.9	31.8
Total assets	5,863.2	5,565.9
Equity	261.6	243.6
Return on assets, % 5)	0.4	0.4
Return on equity, % 5)	8.9	8.9
Equity/assets ratio, %	4.5	4.4
Solvency ratio, % 3)	26.8	40.5
Impairment on loans and receivables 4)	0.2	0.2
Off-balance sheet items	0.0	0.0
Average number of staff	5	4
FTE at end of period	5	4

The financial highlights have been calculated as referred to in the regulations of the Finnish Financial Supervision Authority, taking into account renamed income statement and balance sheet items due to changes in the accounting practice.

Danske Mortgage Bank Plc was corporated at the 31st of October 2017 hence comparative period 2017 is shorter than usual and its length is two months (November and December, 2017). Figures for November-December 2017 are not comparable with January-December 2018 figures.

1) Total income comprises the income in the formula for the cost to income ratio.

2) Total operating expenses comprise the cost in the formula for the cost to income ratio.

3) Capital adequacy ratio has been calculated both in accordance with Credit Institutions Act Sect 9-10 and EU Capital Requirement Regulation (CRR). For calculation of credit risk exposure amount in Retail, Danske Mortgage Bank Plc applies internal rating based model (IRB) and otherwise standard method. For calculation of risk exposure amount in operational risk, it applies standard method.

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

5) Comparison figures are 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. They are also important aspect of the way in which Danske Mortgage Bank's management monitor's 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:

Revenues:	interest income, fee income, net trading income, other operating income and share of profit from associated undertakings
Cost to income ratio, %:	$\frac{\text{staff costs + other operating expenses + depreciations and impairments}}{\text{net interest income + net trading income + net fee income + share of profit from associated undertakings + other operating income}}$
Return on equity, %	$\frac{\text{profit before taxes - taxes}}{\text{equity (average) + non-controlling interests (average)}}$
Return on assets, %	$\frac{\text{profit before taxes - taxes}}{\text{average total assets}}$
Equity/assets ratio, %	$\frac{\text{equity + non-controlling interests}}{\text{total assets}}$

Corporate Governance

Danske Mortgage Bank Plc's corporate governance complies with the general requirements laid down in Chapters 7, 8 and 9 of the Act on Credit Institutions. Further information on Danske Mortgage Bank Plc's corporate governance is available on the web: www.danskebank.com/investor-relations/debt/danske-mortgage-bank under section Corporate Governance.

General meeting
The supreme decision-making power in the company is exercised by its shareholders at a General Meeting of shareholders.

Board of Directors
The Board of Directors shall consist of at least three and not more than seven ordinary members. The term of office of a member of the Board of Directors ends at the end of the first Annual General Meeting following the election. At their first meeting following the Annual General Meeting, the members of the Board of Directors shall elect a Chairperson from amongst themselves and a Vice Chairperson for a term of office that ends at the end of the first Annual General Meeting following the election.

At the end of the financial year the members of the Board of Directors were Glenn Söderholm (chairman), Lisbet Kragelund, Robert Wagner, Tomi Dahlberg and Maisa Hyrkkänen.

Tomi Dahlberg and Maisa Hyrkkänen are independent of the Danske Bank Group.

The Board of Directors is responsible for company's administration and for organizing operations, and for ensuring that the supervision of the company's accounting and asset management has been arranged properly. The Board handles all important and significant issues of general scope relevant to the operation of the company. The Board takes decisions on matters such as Danske Mortgage Bank Plc's business strategy. It approves the budget and the principles for arranging Danske Mortgage Bank Plc's risk management and internal control. The Board also decides the basis for the Mortgage Bank's remuneration system and other far-reaching matters that concern the personnel. In accordance with the principles of good governance, the Board also ensures that the company, in its operations, endorses the corporate values set out for compliance.

The Board of Directors has approved written rules of procedure defining the Board's duties and its meeting arrangements. The Board of Directors and the chief executive officer (CEO) shall manage the company in a professional manner and in accordance with sound and prudent business principles.

The Board of Directors of Danske Mortgage Bank Plc convened 8 times during 2018. The fee resulting from 2018 was EUR 24.0 thousand for the Danske Mortgage Bank Plc's Board members who are independent of the Danske Bank Group.

Chief Executive Officer and Management team
Danske Mortgage Bank Plc's Board of Directors appoints the CEO and Deputy CEO. The CEO is responsible for the company's day-to-day management in accordance with the Limited Liability Companies Act and the instructions and orders issued by the Board of Directors. The CEO's duties include managing and overseeing the company's business operations, preparing matters for consideration by the Board of Directors and executing the decisions of the Board.

Danske Mortgage Bank Plc's CEO is Pekka Toivonen (b. 1967) and Deputy CEO Leena Antila (b. 1981).

In 2018 the CEO and Deputy CEO were paid a salary and fringe benefits of EUR 0.25 million.

CEO's period of notice is six (6) months and the severance compensation to the CEO in addition to the salary paid for the period of notice equal to six (6) months' salary.

The Management Team assists the CEO. It convenes at the invitation of its chairman once a month. The Management team is responsible for supporting the CEO in the preparation and implementation of corporate strategy, coordination of the Mortgage Bank's operations, preparation and implementation of significant or fundamental matters, and ensuring internal cooperation and communication.

In its operations Danske Mortgage Bank Plc has high moral and ethical standards. The company constantly ensures that its operations comply with all applicable laws and regulations. The responsibility for supervising compliance with laws and regulations lies with the operating management and the Board of Directors. Various rules and regulations have been issued to support operations and ensure that applicable laws and regulations are respected throughout the organisation.

Remuneration

Preparation of Danske Mortgage Bank Plc's remuneration policy is based on the remuneration policy of Danske Bank Group and takes into account the Finnish regulations.

The remuneration policy is subject to the approval of Danske Mortgage Bank Plc's Board of Directors, which also monitors the implementation and functioning of the policy each year.

Danske Mortgage Bank Plc has a remuneration scheme covering the entire personnel. The aim of the remuneration scheme is to support the implementation of the company's strategy and to achieve the targets set.

More information regarding remuneration can be found from the Company's remuneration policy from Internet address: www.danskebank.com/investor-relations/debt/danske-mortgage-bank under section Remuneration.

Auditors

Danske Mortgage Bank Plc has one auditor, which must be a firm of authorised public accountants approved by the Finnish Patent and Registration Office's Audit Oversight. The term of the auditor lasts until the next Annual General Meeting following the auditor's appointment.

Danske Mortgage Bank Plc's auditor is Deloitte Ltd Audit Firm with Aleksi Martamo, Authorized Public Accountant as the Key audit partner. The primary function of the statutory audit is to verify that the company's financial statements provide a true and fair view of the company's performance and financial position for each accounting period.

Description of the main features of the internal control and risk management systems related to the financial reporting process

Danske Mortgage Bank Plc is a wholly owned subsidiary of Danske Bank A/S. Danske Bank A/S is a listed company and is the parent company of the Danske Bank Group. The governance of the Danske Bank Group accords with the legislative requirements concerning Danish listed companies and especially with the legislative requirements concerning companies in the financial sector. Danske Mortgage Bank Plc complies in all essential respects with the good governance recommendations issued by Denmark's Committee on Corporate Governance. Further information on the principles concerning corporate governance in the Danske Bank Group is available at the following Internet address: www.danskebank.com.

Danske Mortgage Bank Plc is a bond issuer and therefore publishes the following description of the main features of the internal control and risk management systems related to its financial reporting process. Further information on the principles concerning corporate governance in the Danske Mortgage Bank Plc is available at the following Internet address www.danskebank.com/investor-relations/debt/danske-mortgage-bank.

In Danske Mortgage Bank Plc internal control is used for purposes that include ensuring

- the correctness of financial reporting and of other information used in management decision-making
- compliance with laws and regulations and with the decisions of administrative organs and other internal rules and procedures.

The company's management operates the system of control and supervision in order to reduce the financial reporting risks and to oversee compliance with reporting rules and regulations. With the controls imposed the aim is to prevent, detect and rectify any errors and distortions in financial reporting, though this cannot guarantee the complete absence of errors.

Danske Mortgage Bank Plc's Board of Directors regularly assesses whether the company's internal control and risk management systems are appropriately organised. The Board's assessment is based on e.g. reports prepared by the Group's Internal Audit unit. The Board also receives the report of an external auditor on the Company's administration and on the state of its internal control. The Board and the CEO regularly receive information on the company's financial position, changes in rules and regulations and compliance with these within the Danske Bank Group.

The work of Internal Audit is subject to the Danske Bank Group's Term of Reference. This guidance states that the internal auditing tasks include ensuring the adequacy and efficiency of internal control and of the controls on administrative, accounting and risk management procedures. Internal Audit also ensures that reporting is reliable and that laws and regulations are complied appropriately.
In the auditing process Internal audit complies with the international internal auditing standards and ethical prin-

ciples and audit also uses auditing procedures approved by the Group that are based on examining and testing the functioning of the control arrangements.

Local internal auditing is undertaken in cooperation with the Group's Internal Audit. Danske Mortgage Bank Plc's Board of Directors approves the yearly plan of internal audit. Internal audit reports its auditing work to the Board of Directors and monitors the measures taken in order to reduce the risks detected.

Good control environment practice is based on carefully specified authorisations within the Group, appropriate division of work tasks, regular reporting and the transparency of activities. In management's internal reporting the same principles are observed as in external reporting, and the principles are the same throughout the Group. The Group's common IT system creates the basis for reliable documentation of accounting data and reduces the financial reporting risks.

Management Reporting supports the Company's senior management by producing monitoring and analysis of the performance. The indicators monitored vary from monitoring of the quantity and quality of activities and operations to reporting of risk-adjusted profitability. Most of the indicators are monitored monthly, but selected indicators are monitored weekly or even daily. Internal Accounting also monitors the Company's market share and developments among competitors and in the operating environment.

Besides the parties referred to above, supervision at Danske Mortgage Bank Plc is also undertaken by the Company's Risk Committee. The Committee's chairman is the Company's CEO. The purpose of the Risk Committee is to oversee the Company's compliance with all guidance on risk management set by the Board of Directors.

More on the Danske Mortgage Bank Plc's risk management can be read on page 46 of the financial statements.

IFRS financial statements

Statement of comprehensive income			
EURm	Note	1-12/2018	11-12/2017
Interest income calculated using the effective interest method	1	45.8	7.8
Other interest income	1	48.6	7.3
Interest expense	1	-56.9	-9.0
Net interest income	1	37.5	6.1
Fee income	2	2.1	0.4
Fee expenses	2	0.0	0.0
Net trading income	3	0.4	0.3
Total operating income		**40.0**	**6.8**
Staff costs	4	-0.6	-0.1
Other operating expenses	5	-10.9	-2.1
Total operating expenses		**-11.6**	**-2.2**
Loan impairment charges	6	-0.2	-0.2
Profit before taxes		**28.2**	**4.5**
Taxes	7	-5.6	-0.9
Net profit after tax		**22.5**	**3.6**
Total comprehensive income for the financial year		**22.5**	**3.6**

Balance sheet			
EURm	Note	2018	2017
Assets			
Cash and balances with central banks	11	186.1	135.0
Loans and receivables to credit institutions	11	1.9	11.1
Trading portfolio assets	12	126.4	158.1
Loans and receivables to customers	6	5,501.3	5,259.0
Tax assets	13	0.1	-
Other investment securities	10	45.4	-
Other assets	14	2.0	2.7
Total assets		**5,863.2**	**5,565.9**
Liabilities			
Due to credit institutions and central banks	15	708.4	1,138.1
Trading portfolio liabilities	12	16.4	20.4
Debt securities in issue	16	4,848.7	4,132.2
Tax liabilities	13	1.5	5.9
Other liabilities	17	26.6	25.7
Total liabilities		**5,601.6**	**5,322.3**
Equity			
Share capital	20	70.0	70.0
Reserves	20	170.0	170.0
Retained earnings	20	21.6	3.6
Total equity		**261.6**	**243.6**
Total equity and liabilities		**5,863.2**	**5,565.9**

Statement of changes in Equity EURm	Share capital	Reserves for invested unre-stricted equity	Retained earnings	Total
Equity, 31st October 2017	70.0	170.0	-	240.0
Total comprehensive income			3.6	3.6
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			22.5	22.5
Dividend distribution			-3.6	-3.6
Equity, 31st December 2018	70.0	170.0	21.6	261.6

Cash flow statement

Danske Mortgage Bank Plc has prepared its cash flow statement according to the indirect method. The statement is based on the pre-tax profit for the year and shows the cash flows from operating activities and the increase or decrease in cash and cash equivalents during the financial year.

Cash and cash equivalent consists of cash in hand and demand deposits with central banks and amounts due from credit institutions and central banks with original maturities shorter than three months.

EURm	1-12/2018	11-12/2017
Cash flow from operations		
Profit before tax	28.2	4.5
Loan impairment charges	0.2	0.2
Tax paid	-10.3	-0.8
Other non-cash operating items	0.3	7.3
Total	**18.5**	**11.1**
Changes in operating capital		
Due to credit institutions	-429.7	-223.8
Trading portfolio	27.8	4.6
Other financial instruments	-45.4	-
Loans and receivables	-242.6	182.3
Other assets/liabilities [1)]	717.3	-14.6
Cash flow from operations	**45.8**	**-40.4**
Cash flow from financing activities		
Dividends	-3.6	-
Cash flow from financing activities	**-3.6**	**-**
Cash and cash equivalents, beginning of period	144.8	185.2
Change in cash and cash equivalents	42.3	-40.4
Cash and cash equivalents, end of period	**187.1**	**144.8**
Cash in hand and demand deposits with central banks [2)]	185.1	133.7
Amounts due from credit institutions and central banks within 3 months	1.9	11.1
Total	**187.1**	**144.8**

1) Amount in row Other assets/liabilities is mainly caused by issued bonds. During 2018 a new emission (nominal amount 750 million) was issued.

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

Reconciliation of liabilities arising from financing activities

On 31st December 2018 there were no liabilities arising from financing activities.

Danske Mortgage Bank Plc notes to the financial statements

Accounting principles

Summary of 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 endorsed by the EU. In addition, certain additional requirements in accordance with Finnish Accounting Act, Finnish Act on Credit Institutions, Finnish Financial Supervisory Authority's regulations and guidelines and the decision of the Ministry of Finance on financial statements and consolidated statements of credit institutions have also been applied.

The financial statements are presented in euro (EUR), in million euros with one decimal, unless otherwise stated. The Risk management Disclosure is presented in euro (EUR), in million euros with one decimal. Figures in notes are rounded so combined individual figures might differ from the presented total amount.

For the purpose of clarity, the primary financial statements and the notes to the financial statements are prepared using the concepts of materiality and relevance. This means that line items not considered material in terms of quantitative and qualitative measures or relevant to financial statement users are aggregated and presented together with other items in the primary financial statements. Similarly, information not considered material is not presented in the notes.

Significant accounting policies have been incorporated into the notes to which they relate. Except for the changes implemented during the year and explained below, Danske Mortgage Bank Plc has not changed its significant accounting policies from those applied in Annual Report 2017.

Changes to significant accounting policies and presentation during the year
On 1 January 2018, Danske Mortgage Bank Plc implemented IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contract with Customers. The annual Report 2017 provides a full description of the significant accounting policies of IFRS 9.

The key impact of the implementation of IFRS 9 is:

- The implementation of IFRS 9 resulted in an increase in the allowance account of EUR 0.9 million as a result of the introduction of the new expected credit loss impairment model.
- The business model assessment and the SPPI test (solely payment of principal and interest on the principal amount outstanding) of the contractual cash flows did not result in any reclassifications between amortised cost and fair value through profit or loss. Danske Mortgage Bank Plc does not have financial assets that fall under the measurement category fair value through other comprehensive income.
- The effect of EUR 0.9 million, reduced shareholders' equity at 1 January 2018 resulting from the expected credit loss impairment on loans at amortised cost.
- The impact of the expected credit loss (ECL) impairment model will not be phased-in but the full impact is taken at immediately in the capital statement. The impact on CET1 capital ratio is a reduction of 0.1 percentage points at 1 January 2018.

The comparative information has not been restated.

The implementation of IFRS 15 did not change the timing of the recognition of income in Danske Mortgage Bank Plc and had no impact on shareholder's equity, assets or liabilities.

Standards and interpretations not yet in force
The IASB has issued two new IFRSs (IFRS 16 and IFRS 17), and amended several standards (IFRS 3, IFRS 9, IAS 1, IAS 8, IAS 12, IAS 19, IAS 23 and IAS 28) that have not yet come into force. Similarly, the IFRIC has issued a new interpretation (IFRIC 23) that has not yet come into force. Danske Mortgage Bank Plc has not early adopted any of those changes to IFRS. IFRS 16, Leases is not likely to affect the Company's future financial reporting as Company does not have leases which would be

effected by the implementation of IFRS 16. For the other changes to IFRS no significant impact is expected and therefore not presented here.

Critical judgements and estimation uncertainty
Management's judgment, estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the financial statements. The estimates and assumptions that are deemed critical to the financial statements are

- the fair value measurement of financial instruments
- the measurement of loans and receivables

The estimates and assumptions are based on premises that management finds reasonable but are inherently uncertain and unpredictable. The premises may be incomplete, unexpected future events or situations may occur, and other parties may arrive at other estimated values.

Measurement of expected credit losses on loans, financial guarantees and loan commitments and bonds measured at amortised cost
At 1 January 2018, the Danske Bank Group and at the same time Danske Mortgage Bank implemented the three-stage expected credit loss impairment model in IFRS 9. The impairment charge for expected credit losses depends on whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly, the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months (stage 1). If the credit risk has increased significantly, the loan is more than 30 days past due, or the loan is in default or otherwise impaired, the impairment charge equals the lifetime expected credit losses (stages 2 and 3).

The expected credit loss is calculated for all individual facilities as a function of probability of default (PD), exposure at default (EAD) and loss given default (LGD) and incorporates forward-looking information. The estimation of expected credit losses involves forecasting future economic conditions over a number of years. Such forecasts are subject to management judgement and those judgements may be sources of measurement uncertainty that have a significant risk of resulting in a material adjustment to a carrying amount within the next financial years. The incorporation of forward-looking elements reflects the expectations of the Group's senior management and involves the creation of scenarios (base case, upside and downside), including an assessment of the probability for each scenario. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on the expected credit losses. The base case scenario enters with a probability of 70%, the upside scenario with a probability of 15% and the downside scenario with a probability of 15%. Based on these assessments, the allowance account at 31 December 2018 amounted to EUR 0.8 million.

According to the Company's definition of a significant increase in credit risk, i.e. when loans are transferred from stage 1 to stage 2, facilities with an initial PD below 1% are transferred to stage 2 if the facility's 12-month PD increases by at least 0.5 percentage points and the facility's lifetime PD doubles since origination.

The group has the possibility to apply post-model adjustments, but these are not used for the Company at 31 December 2018.

Non-performing loan agreements are sold back to Danske Bank A/S, Finland Branch.

More information regarding expected credit losses can be found from Risk Management Disclosure starting from page 46. At 31 December 2018, loans accounted for about 93.8 % of total assets (31 December 2017: 94.5 %).

Fair value measurement of financial instruments
Measurements of financial instruments based on prices quoted in an active market or based on generally accepted models employing observable market data are not subject to critical estimates.

Measurements of financial instruments that are only to a limited extent based on observable market data, such as unlisted shares and certain bonds for which there is no active market, are subject to estimates. The estimated fair value of illiquid bonds significantly depends on the estimated current credit spread.

Translation of transactions in foreign currency
The presentation currency of the financial statement is euro which is also the functional currency. Monetary assets and liabilities in foreign currency are translated at the exchange rates at the balance sheet date. Exchange rate adjustments of monetary assets and liabilities arising as a result of differences in the exchange rates at the transaction date and at the balance sheet date are recognised in the income statement.

Transactions in foreign currency are translated at the exchange rate of the unit's functional currency at the transaction date. Gains and losses on exchange rate differences between the transaction date and the settlement date are recognised in the income statement. Non-monetary assets and liabilities in foreign currency that are subsequently revalued at fair value are translated at the exchange rates at the date of revaluation. Exchange rate adjustments are included in the fair value adjustment of an asset or liability. Other non-monetary items in foreign currency are translated at the exchange rates at the transaction date.

Segment information

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

Other notes

1. Net interest income

Interest income and expenses arising from interest-bearing financial instruments measured at amortised cost are recognised in the income statement according to the effective interest method on the basis of the cost of the individual financial instrument. Interest includes amortised amounts of fees that are an integral part of the effective yield on a financial instrument, such as origination fees, and amortised differences between cost and redemption price, if any.

Interest income and expenses also include interest on financial instruments measured at fair value through profit or loss, but not interest on assets and deposits under pooled schemes and unit-linked investment contracts; the latter is recognised under Net trading income.

EURm	1-12/2018	11-12/2017
Interest income calculated using effective interest method		
Loans and receivables to credit institutions	-0.1	-0.2
Loans and receivables to customers and public entities	45.4	7.8
Other interest income	0.5	0.1
Total	**45.8**	**7.8**
Interest income		
Debt securities	0.2	-
Derivatives, net	48.4	7.3
Total	**48.6**	**7.3**
Interest expenses		
Amounts owed to credit institutions	3.0	0.7
Debt securities in issue	-59.8	-9.6
Other interest expenses	0.0	-
Total	**-56.9**	**-9.0**
Net interest income	**37.5**	**6.1**
Of which entities of the same group		
Interest income	48.7	-0.2
Interest expenses	-3.0	-0.6

Negative interest income and negative interest expenses during 2018 amounted to 0.1 million euros (last two months of 2017: 0.2 million euros) and 3.0 million euros (last two months of 2017: 0.6 million euros), 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 0.3 million (11-12/2017 EUR 0.3 million from impaired financial assets).
Interest income from loans and receivables to customers and public entities includes EUR 0,89 million negative item.

2. Fee income and expenses

Fee income and expenses are presented on a net fee income basis as presented to key management for decision making purposes. Net fee income is broken down by fee type, on the basis of the underlying activity.

Fee income is recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received in exchange for such services. The Company identifies the performance obligation agreed with the customer and the consideration, and recognises income in line with the transfer of services, the performance obligation, agreed with the customer.

Fee income consists mainly of loan invoicing fees and loan change fees.

Fees that form an integral part of the effective rates of interest loans, advances and deposits are carried under Interest income or Interest expense.

EURm Net fee income by fee type	1-12/2018
Money transfers, account fees, cash management	0.0
Loan fees and Guarantees	2.1
Total, fee income	2.1
Fee expenses	0.0
Total	**2.0**

Fee income	11-12/2017
Financing (loans, advances and guarantees)	0.4
Fees generated by activities	0.4
Services (payment services and cards)	0.0
Fees generated by portfolios	0.0
Total	**0.4**

Fee expenses	
Services (payment services and cards)	0.0
Fees generated by portfolios	0.0
Total	**0.0**

Net fee income	0.4

The presentation has not been changed for the comparative period.

3. Net trading income

Net trading income includes realised and unrealised capital gains and losses on trading portfolio assets and other securities as well as exchange rate adjustments and dividends. The effect on profit or loss of fair value hedge accounting is also recognised under Net trading income.

EURm	1-12/2018	11-12/2017
Trading assets/liabilities		
Other	-1.8	-0.2
Total	**-1.8**	**-0.2**
Gains/losses from hedge accounting, fair value hedging	**2.2**	**0.6**
Net trading income, total	**0.4**	**0.3**

Presentation has been changed. More information regarding hedge accounting can be found in note 12.

4. Staff costs

Salaries and other remuneration that the Mortgage Bank expects to pay for work carried out during the year are expensed under Staff costs and administrative expenses. This item includes salaries, holiday allowances, pension costs and other remuneration. The note has been presented on a cash basis (excluding Staff costs and Management's and Board of Director's Remuneration tables). More about remuneration can be read from the Company's remuneration policy from Internet address: www.danskebank.com/investor-relations/debt/danske-mortgage-bank under section Remuneration.

The Mortgage Bank's pension obligations consist of defined contribution benefit pension plan for its personnel. Under defined contribution pension plans, the company pays regular contributions to insurance company and has no legal of constructive obligations to pay future contribution. Such payments are expensed as they are earned by the staff, and the obligations under the plans are taken over by the insurance companies and other institutions.

EURm **Staff costs**	1-12/2018	11-12/2017
Wages and salaries	-0.5	-0.1
Pension costs - defined contribution plans	-0.1	0.0
Other social security costs	0.0	0.0
Other	0.0	0.0
Staff costs, total	**-0.6**	**-0.1**

Employees were not paid variable remunerations during 2018.

Danske Bank Group is required to identify all employees whose professional activities could have a material impact on the risk profile of the Bank in accordance with current legislation. In Danske Mortgage Bank Plc, there are four Risk Takers including Managing Director and Deputy Managing Director.

Compensation paid by the Mortgage Bank for termination of employment contracts is determined in accordance with legislation in force. During the accounting period Danske Mortgage Bank Plc has not paid any signing bonuses for new employees. During 2018 Danske Mortgage Bank Plc has not granted severance packages.

Average staff numbers	1-12/2018	11-12/2017
Full-time staff	5	4

Key management personnel
The key management personnel in Danske Mortgage Bank Plc consists of the members of the Board of Directors of Danske Mortgage Bank Plc, Managing Director and Deputy Managing Director.

Pension benefits
The retirement age of the Managing Director and Deputy Managing Director is statutory.

1000 EUR	1-12/2018	11-12/2017
Post employment benefits	46.6	7.2
Total	46.6	7.2

Post employment benefits include benefits under the Employees' Pensions Act (TyEL) in Finland and voluntary supplementary pension benefits.

Management's and Board of Directors' remuneration (eur 1,000)	2018
Remuneration for Managing Director, Deputy Managing Director	251,8
Remuneration for the members of Board of Directors	29,3

Danske Mortgage Bank's Board of Directors were paid a remuneration of EUR 29.3 thousand of which EUR 5.3 thousand relates to 2017.

The members of the Board of Directors of Danske Mortgage Bank Plc, who are employees of the Danske Bank Group, receive no fee for the membership of the Board of Directors of Danske Mortgage Bank Plc.

Loans and receivables

EURm	
At January 1, 2018	-
Additions	-
Repayments	-
At December 31, 2018	-

Includes key management personnel with close family members and entities that are controlled or significantly influenced by these.

The interest on loans to the key management personnel is as required in the staff loans. Also other terms of the loans equal to the terms of the staff loans confirmed in the Danske Bank Group.

The loans are secured. The terms of the loans to the entities controlled or significantly influenced by the above mentioned persons equal to those granted to other corporate customers.

Share-based payments
Danske Mortgage Bank Plc has not paid nor granted rights for share-based payments or to conditional shares during 2018. During 2018, a provision for possible future share-based payments was booked.

Performance-based pay is expensed as it is earned. Part of the performance-based pay for the year is paid in the form of conditional shares to Top Management and Management. Incentive payments reflected individual performance and also depended on financial results and other measures of value creation for a given year. Rights were granted in the first quarter of the year following the year in which they were earned. The fair value of share-based payments at the grant date is expensed over the service period that unconditionally entitles the employee to the payment.

Conditional shares – program 2018
Rights to buy Danske Bank A/S shares under the conditional share programme vest up to three years after being granted provided that the employee, with the exception of retirement, has not resigned from the Group. In addition to this requirement, rights to shares vest only if the Group as a whole and the employee´s department meet certain performance targets within the next three years. Rights to buy Danske Bank A/S shares under the conditional share programme are granted as a portion of the annual bonus earned.

The fair value of the conditional shares is calculated as the share price less the payment made by the employee.

Intrinsic value is expensed in the year in which rights to conditional shares are earned, while the time value is accrued over the remaining service period, which is the vesting period of up to three years.

Effective from 2018, Danske Mortgage Bank Plc has granted rights to conditional shares to the Top Management and Management as part of the variable remuneration. Such employees have a performance agreement based on the performance of the Company and the individual employee.

5. Other operating expenses and audit fees and financial stability authority contributions

EURm	1-12/2018	11-12/2017
Other operating expenses		
Financial stability fund expenses	1.3	-
Other services *)	9.6	2.1
Other operating expenses, total	**10.9**	**2.1**

**) Other operating expenses is mainly coming from the costs from services bought from the Group.*

Amont of audit fees from other operating expenses		
1000 EUR		
Audit fees	**1-12/2018**	**11-12/2017**
Audit	61.4	70.2
Audit-related services	22.3	-
Tax	-	-
Other services	-	-
Audit fees, total (incl. VAT)	**83.7**	**70.2**

Financial stability authority contributions
The Financial Stability Authority manages the Financial Stability Fund, which includes the Resolution Fund.

Resolution Fund
Contributions are used for building up the Resolution Fund. Contributions are collected from all credit institutions and investment firms within the scope of resolution legislation. The contributions are determined based on the size of the institution and risks involved in its business.

The contributions of credit institutions are determined on the level of the Banking Union, and they are calculated by the Single Resolution Board (SRB).

In the Banking Union, a single target level for the Single Resolution Fund is introduced gradually. In other words, the annual individual contributions of Finnish institutions is increasingly dependent on the aggregate amount of covered deposits in the entire Banking Union, not only in Finland.

Amount of Financial stability authority contributions from other operating expenses		
EURm		
	1-12/2018	**11-12/2017**
Financial stability authority contributions		
Resolution contributions [1)]	1.3	-
Administration fee	0.0	-
Financial stability authority contributions, total	**1.3**	-

6. Loan impairment charges and loans and receivables from customers

Danske Mortgage Bank Plc buys the loans from Danske Bank A/S, Finland Branch. Loans and receivables consists of loans and receivables acquired after disbursement. Loans and receivables includes conventional bank loans, except for transactions with credit institutions and central banks.

At initial recognition, loans and receivables are measured at fair value plus transaction costs. Subsequently, they are measured at amortised cost, according to the effective interest method, less impairment charges for expected credit losses. The difference between the value at initial recognition and the redemption value is amortised over the term to maturity and recognised under Interest income. If fixed-rate loans and receivables and amounts due are accounted for under hedge accounting that is determined effective, the fair value of the hedged interest rate risk is added to the amortised cost of the assets.

EURm Loans and receivables from customers	Stage 1	Stage 2	Stage 3	2018 Total
Gross carrying amount at 1 January 2018	4,944.8	262.1	52.5	5,259.4
Transferred to Stage 1	80.4	-80.2	-0.2	-
Transferred to Stage 2	-124.7	131.7	-7.1	-
Transferred to Stage 3	-0.1	-0.1	0.2	-
New assets	1,323.2	21.1	0.1	1,344.3
Assets derecognised	-585.0	-53.2	-44.4	-682.7
Other *)	-401.4	-16.8	-0.8	-419.0
Gross carrying amount 31 December 2018	**5,237.2**	**264.5**	**0.3**	**5,502.1**

**) Other row includes loan repayments.*

EURm Loans and receivables from customers	2017
Private customers	5,259.4
Imparment charges	-0.4
Total	**5,259.0**

Presentation for comparison periods has not been changed.

1000 EUR Loan impairment charges	1-12/2018
ECL on new assets	11.6
ECL on assets derecognised	-136.0
Impact of net remeasurement of ECL (incl. changes in models)	376.8
Interest income, effective interest method	-2.5
Total	**249.9**

Impairment for expected credit losses (ECL)
At 1 January 2018, the Company implemented the expected credit loss impairment model in IFRS 9. The impairment charge for expected credit losses depends on whether the credit risk has increased significantly since initial recognition and follows a three stage model:

- Stage 1: If the credit risk has not increased significantly, the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months.
- Stage 2: If the credit risk has increased significantly, the loan is transferred to stage 2 and an impairment charge equal to the lifetime expected credit losses is recognised.
- Stage 3: If the loan is in default or otherwise credit impaired, it is transferred to stage 3, for which the impairment charge continues to equal the lifetime expected credit losses but with interest income being recognised on the net carrying amount,

The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EaD) and the loss given default (LGD) and incorporates forwards looking elements. For facilities in stages 2 and 3, the lifetime expected credit losses cover the expected remaining lifetime of a facility.

Expected credit loss impairment charges are booked in an allowance account and allocated to individual exposures.

Danske Mortgage Bank Plc sells non-performing loan agreements back to Danske Bank A/S, Finland Branch.

Reconciliation of total allowance account 1000 EUR	Stage 1	Stage 2	Stage 3	2018 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
Other changes *)	-37.9	-305.6	-449.6	-793.1
Balance at end of period	**156.6**	**635.9**	**3.0**	**795.5**

**) Other changes includes loan transfers during the financial year and their effect on the allowance account.*

Impairment charges, 1000 EUR	Individual	Collective	Total
From loans and receivables			
At October 31, 2017	234.3	-	234.3
+ New and increased impairment charges	202.8	-	202.8
- Reversals of impairment charges	-21.0	-	-21.0
- Write-offs debited to allowance account	-	-	-
- Foreign currency translation and other items	-	-	-
At December 31, 2017	**416.0**	**-**	**416.0**

Further explanation

Classification and measurement – The SPPI test (solely payment of principal and interest on the principal amount outstanding)

All loans are held with a purpose of collecting the contractual cash flow. For each loan in the Company, it is assessed if the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest presents consideration for the time value of money, credit risk, other basic lending risks and profit margin consistent with basic lending features, only. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the loan is mandatorily recognised at fair value through profit or loss. Features that are not genuine does not affect the classification. A feature is not genuine if it affects the contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

In general, the SPPI test of the Company's portfolios of loans covers, for instance, the following elements:

- Compensation for the time value of money. For some of the Company's variable-rate loans, the market standard for these loans is that the reset frequency and the tenor of the reference rate do not match. It has been assessed that the mismatch does not significantly modify the compensation for the time value of money. No loans have interest rates that are leveraged or linked to, for instance, the development in share prices etc.
- Prepayment options are consistent with the SPPI test, if the prepayment amount represents the principal amount outstanding, accrued interest and may include a reasonable compensation for the early repayment. This is generally the case with the Company's loans.
- Extension options are consistent with the SPPI test, if the cash flows during the extension period represent cash flows that are solely payments of principal and interest on the principal amount outstanding. Only very few loans include a contractual right for the customer to extend the loan, and for such loans the interest rate will be updated to the current market rate for such loans.
- Compensation for credit risk and other basic lending risks. The interest rate includes a credit margin to compensate the Company for the credit risk, and may be fixed initially. The Company does not incorporate profit sharing agreements, for example by contractual terms that increase the credit margin if the customer's earnings increase.
- The Company does not have loans where non-payment would not constitute a breach of contract.

Significant increase in credit risk (transfer from stage 1 to stage 2)

The classification of facilities between stages 1 and 2 for the purpose of calculating expected credit losses depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether 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 incorporating 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 and a doubling up of 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 or a doubling of the facility's lifetime PD since origination.

In addition, 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 if the customers are subject to the two-year probation period for performing forborne exposures.

Stage 3 (credit-impaired facilities)

A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for financial or contractual reasons relating to the borrower's financial difficulty, having been granted a concession that would not otherwise have been considered; (d) it is becoming probable that the borrower will enter into bankruptcy or other financial restructuring; and (e) the purchase or origination of a financial asset at a high rate of discount that reflects the incurred credit loss. It may not be possible to identify a single individual event – instead, the combined effect of several events may cause financial asset to become credit-impaired. Credit-impaired facilities are placed in rating category 10 or 11. For customers in rating category 10, the stage 3 classification applies only to customers where a loss is expected in the most likely scenario. For rating category 11 (default), all facilities are classified as stage 3 exposures.

Definition of default

The definition of default used in the measurement of expected credit losses and the assessment to determine movements between stages is consistent with the definition of default used for internal credit risk management purposes and is aligned with the CRR. As a result, exposures which are considered to be in default for regulatory purposes will always be considered stage 3 exposures. This applies both for 90-days-past-due considerations and unlikely-to-pay factors leading to a regulatory default.

Calculation of expected credit losses

The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EaD) and the loss given default (LGD). In general, the Company's IFRS 9 impairment models and parameters draw on the Mortgage Bank's internal models in order to ensure alignment of models across the Group. New models and calculations have been developed especially for IFRS 9 purposes, including models for lifetime PD, prepayment and forward-looking LGD. All expected credit loss impairment charges are allocated to individual exposures.

Expected remaining lifetime

For most facilities, the expected lifetime is limited to the remaining contractual maturity and is adjusted for expected prepayment. For exposures with weak credit quality, the likelihood of prepayment is not included. For exposures that include both a loan and an undrawn commitment and where a contractual ability to demand prepayment and cancellation of the undrawn commitment does not limit the Company's exposure to credit losses to the contractual notice period, the expected lifetime is the period during which the Company expects to be exposed to credit losses. This period is estimated on the basis of the normal credit risk management actions.

Incorporation of forward-looking information

The forward-looking elements of the calculation reflect the current unbiased expectations of the bank's senior management. The process consists of the creation of macroeconomic scenarios (base case, upside and downside), including an assessment of the probability of each scenario, by the Group's independent macroeconomic research unit, the review and sign-off of the scenarios (through the organization) and a process for adjusting scenarios given new information during the quarter. The purpose of using multiple scenarios is to model the non-linear impact of assunptions about macroeconomic factors on the expected credit losses. Management's approval of scenarios can include adjustments to the scenarios, probability weighting and management overlays to cover the outlook for particular high-risk portfolios, which are not provided by the Group's macroeconomists. The approved scenarios are used to calculate the impairment levels. Technically, the forward-looking information is used directly in the PDs through an estimate of general changes to the PDs and the LGDs in the expected credit loss calculation.

The forward-looking information is based on a three year forecast period converging to steady state in year seven. The base case is based on the macroeconomic outlook as disclosed in the Danske Bank Group's Nordic Outlook reports.

Modification

When a loan is replaced by a new loan or the original loan contract is modified it is assessed whether this should be accounted for as derecognition of the loan and recognition of a new loan, or as a modification of the old loan. This depends on whether the changes to the contractual cash flows or other contractual terms are significant or not. If the change is significant, it is accounted for as derecognition of the old loan and recognition of the new loan. If the change is not significant, the modification is accounted for as a modification of the old loan. In general, if the modification results in a new loan contract and loan identification, the modification is considered significant and leads to derecognition and recognition of a new loan. If this is not the case, the modification does not lead to derecognition of the original loan.

If the old financial asset is not derecognised, the original effective interest rate remains unchanged, and the net present value of the changed contractual cash flows represents the carrying amount of the financial asset after the modification. The difference between the net present value of the original contractual cash flows and the modified contractual cash flows are recognised in P/L as a modification gain or loss. If the modification loss relates to modifications on loans subject to forbearance measures the modification loss is presented in the income statement under Loan impairment charges.

In terms of stage allocation, it is important whether a modification leads to derecognition and recognition of a new loan or not. If the replacing loan is considered to be a new loan, the loan will (unless the new loan is credit-impaired at initial recognition) be recognised in stage 1 at initial recognition, i.e. the initial credit risk is reset. If the replacing loan is considered an amendment to the old loan, the initial credit risk is not reset.

Danske Mortgage Bank buys new loans from Danske Bank A/S, Finland Branch. During the lifetime of purchased loans there might be modifications to the loans that are in Mortgage Bank's balance sheet.

Impairment under IAS 39

See Annual Report 2017 Note 15 Loans and receivables from customers for more information on impairments under IAS39.

7. Taxes

Calculated current and deferred tax on the profit for the year are recognised in the income statement. Current tax is calculated based on the valid tax rate.

EURm	1-12/2018	11-12/2017
Taxes on taxable income for the year	-5.6	-0.9
Taxes arising from previous years	-5.9	0.0
Deferred taxes	5.9	-
Taxes for the financial year total	**-5.6**	**-0.9**
Effective tax rate	19.88 %	20.00 %

Reconciliation between income taxes in income statement and taxes calculated at Finnish tax rate 20% (20%)		
Profit before taxes	28.2	4.5
Taxes calculated at Finnish tax rate	-5.6	-0.9
Undeductible expenses	0.0	-
Taxes arising from previous years	0.0	-
Taxes in Income statement	**-5.6**	**-0.9**

8. Classification of financial instruments and non-financial assets

Under IFRS 9, financial assets are classified on the basis of the business model adopted for managing the assets and on their contractual cash flow characteristics (including embedded derivatives, if any) into one of the following measurement categories:

- Amortised cost (AMC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

Financial assets are measured at AMC if they are held within a business model for the purpose of collecting contractual cash flows (held to collect) and if cash flows are solely payments of principal and interest on the principal amount outstanding.

Danske Mortgage Bank Plc does not have financial assets that are measured at FVOCI.

All other financial assets are mandatorily measured at FVPL including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

Generally, financial liabilities are measured at amortised cost with bifurcation of embedded derivatives not closely related to the host contract. Derivatives are measured at fair value.

The SPPI test (solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being “held to collect” and “held to collect and sell” relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only consideration for the time value of money, credit risk, other basic lending risks and a profit margin consistent with basic lending features. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVPL.

In general, the Company's portfolios of financial assets that are "held to collect" (loans) have contractual cash flows that are consistent with the SPPI test, i.e. they have basic lending features.

Financial liabilities

Financial liabilities are generally measured at amortised cost with bifurcation of embedded derivatives not closely related to the host contract. Financial liabilities measured at fair value comprise derivatives and, the trading portfolio.

IFRS 9 allows the designation of financial liabilities at FVPL when doing so results in more relevant information, because either (1) it eliminates or significantly reduces an accounting mismatch that would otherwise arise, or (2) is part of a portfolio of financial instruments managed and performance reported on a fair value basis to the management.

	Amortised cost		Fair value through profit or loss			
EURm Assets	Held to collect financial assets	Liabilities	Managed at fair value	Hedge	Non-financial assets and liabilities	Total
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**

EURm Liabilities						
Due to credit institutions and central banks		708.4				708.4
Trading porfolio 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**

EURm Assets	Loans and receiva-bles	Held to maturity	Held for trading	Desig-nated at fair value through profit or loss	Deriva-tives used for hedging	Non-financial assets	Total
		Financial liabilities at fair value through profit or loss					
Cash and balances with central banks	135.0						135.0
Loans and receivables to credit institutions	11.1						11.1
Trading portfolio assets							
Derivatives					158.1		158.1
Loans and receivables to customers	5,259.0						5,259.0
Other assets						2.7	2.7
Total 31.12.2017	**5,405.1**	**-**	**-**	**-**	**158.1**	**2.7**	**5,565.9**

EURm Liabilities	Amortised cost	Held for trading	Designated at fair value through profit or loss	Derivatives used for hedging	Non-financial liabilities	Total
		Financial liabilities at fair value through profit or loss				
Due to credit institutions and central banks	1,138.1					1,138.1
Trading porfolio liabilities				20.4		20.4
Debt securities in issue						
-> Bonds	4,132.2					4,132.2
Tax liabilities					5.9	5.9
Other liabilities					25.7	25.7
Total 31.12.2017	**5,270.2**	**-**	**-**	**20.4**	**31.7**	**5,322.3**

The presentation for comparison figures has not been changed to reflect the new presentation.

9. Balance sheet items broken down by expected due date

The balance sheet items are presented in order of liquidity instead of distinguishing between current and non-current items. The table below shows the balance sheet items expected to mature within one year (current) and after more than one year (non-current).

2018 EURm	Total	< 1 year	> 1 year
Assets			
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	**5,863.2**	**645.7**	**5,217.5**
Liabilities			
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	**5,601.5**	**1,746.0**	**3,855.5**

2017 EURm	Total	< 1 year	> 1 year
Assets			
Cash and balances with central banks	135.0	135.0	-
Loans and receivables to credit institutions	11.1	11.1	-
Trading portfolio assets	158.1	-	158.1
Loans and receivables to customers	5,259.0	423.5	4,835.4
Other assets	2.7	2.7	-
Total	**5,565.9**	**572.3**	**4,993.5**
Liabilities			
Due to credit institutions and central banks	1,138.1	1,138.1	-
Derivatives and other financial liabilities held for trading	20.4	-	20.4
Debt securities in issue	4,132.2	-	4,132.2
Tax liabilities	5.9	5.9	-
Other liabilities	25.7	25.7	-
Total	**5,322.3**	**1,169.7**	**4,152.6**

Maturity analysis of past due financial assets, net EURm	2018	2017
Assets past due 30-90 days	6.0	6.2
Unlikely to pay	3.7	52.8
Nonperforming assets past due at least 90 days but no more than 180 days	0.3	1.4
Nonperforming assets past due at least 180 days - 1 year	-	-
Nonperforming assets more than 1 year	-	-
Receivables with forbearance measures, gross carrying amount	91.9	145.9

Maturity analysis for derivatives is included in note 12.

10. Fair value information

The fair value of financial assets and liabilities is measured on the basis of quoted market prices of financial instruments traded in active markets. If an active market exists, fair value is based on the most recently observed market price at the balance sheet date.

If a financial instrument is quoted in a market that is not active, the Company bases its valuation on the most recent transaction price. It adjusts the price for subsequent changes in market conditions, for instance by including transactions in similar financial instruments that are motivated by normal business considerations.

If an active market does not exist, the fair value of standard and simple financial instruments, such as interest rate and currency swaps and unlisted bonds, is measured according to generally accepted measurement methods. Market-based parameters are used to measure fair value. The fair value of more complex financial instruments, such as swaptions, interest rate caps and floors, and other OTC products, is measured on the basis of internal models, many of which are based on valuation techniques generally accepted within the industry.

The results of calculations made on the basis of valuation techniques are often estimates, because exact values cannot be determined from market observations. Consequently, additional parameters, such as liquidity and counterparty risk, are sometimes used to measure fair value.

If, at the time of acquisition, a difference arises between the value of a financial instrument calculated on the basis of non-observable inputs and actual cost [day-one profit and loss] and the difference is not the result of transaction costs, the Company calibrates the model parameters to the actual cost.

Financial instruments are carried on the balance sheet at fair value or amortised cost. Summary of significant account policies describes classification of financial assets and liabilities by valuation type and detailed measurement bases of financial assets and liabilities.

Financial instruments measured at fair value
Generally, the Company applies valuation techniques to OTC derivatives and unlisted trading portfolio assets and liabilities. The most frequently used valuation and estimation techniques include the pricing of transactions with future settlement and swap models that apply present value calculations, credit pricing models and options models, such as Black & Scholes models. In most cases, valuation is based substantially on observable input.

Financial instruments valued on the basis of quoted prices in 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).

During the reporting period ending 31 December 2018, 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 measurements.

2018 EURm	Quoted prices	Observable input	Non-observable input	Total
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
2017				
Financial assets				
Derivative financial instruments	-	158.1	-	158.1
Total	-	158.1	-	158.1
Financial liabilities				
Derivative financial instruments	-	20.4	-	20.4
Total	-	20.4	-	20.4

Financial instruments at amortised cost

For vast majority of amounts due to the Mortgage Bank, loans and receivables, active market does not exist. Consequently, the company bases its fair value estimates on data showing changes in market conditions after the initial recognition of the individual instrument and affecting the price that would have been fixed if the terms had been agreed at the balance sheet date. Other people may make other estimates. The maturity of items included in cash and balances at central bank is so short, that carrying amount represents also fair value.

In the table below are presented fair values and carrying amounts of financial assets and liabilities at amortised costs, including the fair value adjustment of hedged interest rate risk.

	2018		2017	
EURm	Fair value	Carrying amount	Fair value	Carrying amount
Financial assets				
Cash and balances at central banks	186.1	186.1	135.0	135.0
Loans and receivables	5,501.3	5,501.3	5,259.0	5,259.0
Other financial assets	1.9	1.9	11.1	11.1
Total	5,689.2	5,689.2	5,405.1	5,405.1
Financial liabilities				
Amounts owed to credit institutions	708.4	708.4	1,139.1	1,138.1
Debt securities in issue	4,871.7	4,848.7	4,177.6	4,132.2
Total	5,580.1	5,557.1	5,316.7	5,2702

11. Cash and balances at central banks and loans and receivebles from credit institutions

Amounts due from credit institutions and central banks comprise amounts due from other credit institutions and term deposits with central banks.

Amounts due from credit institutions and central banks are measured at amortised cost as described under Loans and receivables at amortised cost.

EURm	2018	2017
Balances with central banks	186.1	135.0
Loans and receivables from credit institutions		
Other loans	1.9	11.1
Allowances	0.0	-
Total	**188.0**	**146.1**

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

12. Financial instruments

The purchase and sale of financial assets and liabilities at fair value through profit or loss are recognised in the balance sheet on the settlement date, or the date on which the Company agrees to buy or sell the asset or liability in question. Loans are recognised as financial assets on the settlement date mentioned in the loan purchase contract between Danske Mortgage Bank Plc and Danske Bank A/S, Finland Branch.

Derivative instruments, quoted securities and foreign exchange spot transactions are recognized on and derecognized from the balance sheet on the settlement date.

Financial assets and liabilities are offset and the net amount reported in balance sheet only if there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

Financial assets are derecognised when the contractual right to receive cash flows from the financial assets has expired or the Company has transferred all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancels or expires.

Transaction costs are included in the initial carrying amount, unless the item is measured at fair value through the profit and loss.

Information regarding classification can be found in note 8.

	2018		2017	
EURm	Assets	Liabilities	Assets	Liabilities
Investment securities, bonds	45.4	-	-	-
Derivative financial instruments	126.4	16.4	158.1	20.4
Financial instruments, total	**171.8**	**16.4**	**158.1**	**20.4**

Derivative financial instruments

The Mortgage Bank uses derivative instruments for hedging purposes. The derivatives used are interest rate derivatives. Derivatives held for hedging purposes are used for hedging loans and issued bonds.

Interest rate swaps are designated as fair value hedges. Hedges protect the Mortgage Bank against fair value changes caused by the changes in market interest rates.

The Mortgage Bank measures all loans and issued bonds at amortised cost. Majority of the loans in the Mortgage Bank are floating rate loans. When a floating rate loan has a fixing to a fixed rate, the interest rate risk against market rates arises on the current period of the floating rate loan. The Mortgage Bank uses derivatives to hedge the interest rate risk of the fixed interest rate period of the fixed rate loans, floating rate loans and fixed rate issued bonds.

If the hedge criteria cease to be met, the accumulated value adjustments of the hedged items are amortised over the term to maturity.

EURm	2018			2017		
	Fair value		Notional	Fair value		Notional
Derivatives held for hedging	Assets	Liabilities	amount	Assets	Liabilities	amount
Fair value hedges	**126.4**	**16.4**	**9,244.0**	**158.1**	**20.4**	**8,244.4**
Interest rate OTC derivatives	126.4	16.4	9,244.0	158.1	20.4	8,244.4
Total derivatives held for hedging	**126.4**	**16.4**	**9,244.0**	**158.1**	**20.4**	**8,244.4**
Contracts with Group companies	**126.4**	**16.4**	**9,244.0**	**158.1**	**20.4**	**8,244.4**

Nominal value of the underlying instrument Remaining maturity	Less than 1 year	1-5 years	Over 5 years	Less than 1 year	1-5 years	Over 5 years
	1,000.0	7,973.0	271.0	-	7,890.3	354.1
with Group companies:	1,000.0	7,973.0	271.0	-	7,890.3	354.1

Explanation of hedge accounting

Hedge of interest rate risk

The interest rate risk arising on the fixed-rate periods of assets and liabilities is hedged by derivatives. Hedges are executed when it is required to match the risk arising from assets and liabilities to minimize the total interest rate risk.

For hedged assets and liabilities to which a fixed rate of interest applies for a specified period of time starting at the commencement date of the agreement, future interest payments are divided into basic interest and a customer margin and into periods of time. By entering into swaps or forwards with matching payment profiles in the same currencies and for the same periods, the Company hedges the risk at a portfolio level from the commencement date of the hedged items. The fair values of the hedged interest rate risk and the hedging derivatives are measured at frequent intervals to ensure that changes in the fair of hedged interest rate risk lie within a band of 80-125% of the changes in the fair value of the hedging derivatives. Portfolios of hedging derivatives are adjusted if necessary.

Hedge ineffectiveness relates to the fact that fair value changes to hedged items are measured based on the interest rate curve relevant for each hedged item while the fair value of the fixed legs of the hedging derivatives are measured based on a swap curve. Further, the adjustment of the portfolios of hedging derivatives to changes in hedged positions is not done instantly, and some hedge ineffectiveness can therefore exist.

The Mortgage bank uses the option in IFRS 9 to continue to use the fair value hedge accounting provisions in IAS 39. With effective hedging, the hedged interest rate risk on hedged assets and liabilities is measured at fair value and recognised as a value adjustment of the hedged items. Value adjustments are carried in the income statement under Net trading income. Any ineffective portion of a hedge that lies within the range for effective hedging is therefore also included under Net trading income.

At the end of 2018, the carrying amounts of effectively hedged financial assets and liabilities were EUR 5,510.5 million (5,259.4 million) and EUR 3,855.4 million (3,139.6 million), respectively. The table below shows the value adjustments of these assets and liabilities and the hedging derivatives. The value adjustments have been recognised in the income statement as Net trading income.

EURm Effect of interest rate hedging on profit	2018	2017
Effect of fixed-rate assets hedging on profit		
Hedged loans	-3.9	-2.8
Hedging derivatives	3.9	2.8
Total	**0.0**	**0.0**
Effect of fixed-rate liability hedging on profit		
Hedged issues	34.1	14.7
Hedging derivatives	-31.9	-14.2
Total	**2.2**	**0.6**

The tables below shows the hedging derivatives and the hedged fixed interest rate financial instruments.

		Carrying amount of hedging derivatives		
	Nominal amount of hedging derivatives	Assets	Liabilities	Changes in fair value used for calculating hedge ineffec-tiveness
Interest rate risk (interest rate swaps). 2018	9,239.8	126.4	16.4	-28.0
Interest rate risk (interest rate swaps). 2017	8,226.3	158.1	20.4	-11.3

	Carrying amount of hedged items		Accumulated amount of fair value hedge adjustments on the hedged item included in		Change in value used for calculating hedge ineffec-tiveness
Fixed interest rate risk on 2018	**Assets**	**Liabilities**	**Assets**	**Liabilities**	
Loans	5,510.5		16.5		-3.9
Issued bonds		3,855.4		105.4	34.1
Total, 2018	**5,510.5**	**3,855.4**	**16.5**	**105.4**	**30.2**
2017					
Loans	5,264.8		20.5		-2.8
Issued bonds		3,139.6		139.6	14.7
Total, 2017	**5,264.8**	**3,139.6**	**20.5**	**139.6**	**11,9**
Hedge ineffectiveness recognised in the income statement, 2018		2.2			
Hedge ineffectiveness recognised in the income statement, 2017		0.6			

Offsetting

Assets and liabilities are netted when the Company and the counterparty has a legally enforceable right to set off recognised amounts and intends either to settle the balance on a net basis or to realise the asset and settle the liability simultaneously.

EURm Derivatives with positive fair value	12/2018	12/2017
Derivatives with positive fair value before netting	126.4	158.1
Netting (under accounting rules)	-	-
Carrying amount	126.4	158.1
Netting (under capital adequacy rules)	16.4	20.4
Net current exposure	110.0	137.7
Collateral	108.4	137.7
Net amount	**1.6**	**0.0**

13. Tax assets and tax liabilities

Current tax assets and liabilities are recognised on the balance sheet as the estimated tax payable on the profit for the year adjusted for prepaid tax and accrued and due tax payments for previous years. Tax assets and liabilities are netted if permitted by law and provided that the items are expected to be subject to net or simultaneous settlement.

Deferred tax on all temporary differences between the tax base of assets and liabilities and their carrying amounts is accounted for in accordance with the balance sheet liability method. Deferred tax is recognised under Deferred tax assets and Deferred tax liabilities.

The company does not recognise deferred tax on temporary differences between the tax base and the carrying amounts of goodwill not subject to amortisation for tax purposes and other items if the temporary differences arose at the time of acquisition without effect on net profit or taxable income. If the tax base may be calculated according to several sets of tax regulations, deferred tax is measured in accordance with the regulations that apply to the use of the asset or settlement of the liability as planned by management.

Tax assets arising from unused tax losses and unused tax credits are recognised to the extent that such unused tax losses and unused tax credits can be used.

Deferred tax is measured on the basis of the tax regulations and rates that, according to the rules in force at the balance sheet date, are applicable in the relevant countries at the time the deferred tax is expected to crystallise as current tax. Adopted changes in deferred tax as a result of changes in tax rates applied to expected cash flows are recognised in the income statement.

EURm	2018	2017
Deferred tax assets	0.1	-
Total tax assets	**0.1**	**-**
Income tax liabilities	1.5	0.1
Deferred tax liabilities	-	5.8
Total tax liabilities	**1.5**	**5.9**
Deferred tax assets		
Due to other items	0.1	-
Total	**0.1**	**-**
Deferred tax liabilities		
Due to provisions and impairments on receivables	-	5.8
Total	**-**	**5.8**
Net deferred tax asset (+)/liability (-)	**0.1**	**-5.8**
Changes in deferred taxes		
Deferred tax assets/liabilities, beginning of the period	-5.8	-5.8
Recognised in the income statement:		
Provisions and impairments on receivables	5.8	-
Other	0.1	-
Net deferred tax assets (+)/liabilities (-), total 31.12.	**0.1**	**-5.8**
Income tax assets, asset (+)/liability (-), net	**-1.5**	**-0.1**
Total tax assets (+)/liabilities (-), net	**-1.4**	**-5.9**

14. Other assets

Other assets includes interest and commission due and other receivables.

EURm	2018	2017
Other assets		
Accrued interest	2.0	2.7
Other	-	0.0
Total	**2.0**	**2.7**

15. Amounts owed to credit institutions

Amounts due to credit institutions are measured at amortised cost.

EURm	2018	2017
Amounts owed to credit institutions		
Deposits from credit insitutions	708.4	1,138.1
Total	**708.4**	**1,138.1**

16. Debt securities in issue and financial liabilities at fair value through p/l

Other issued bonds comprise bonds issued by the Company.

Other issued bonds are measured at amortised cost plus the fair value of the hedged interest rate risk.

EURm	2018	2017
Debt securities in issue		
Finnish covered bonds	**4,848.7**	**4,132.2**

17. Other liabilities

Other liabilities includes accrued interest, fees and commissions that do not form part of the amortised cost of a financial instrument. Other liabilities also includes pension obligations.

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If a lawsuit is likely to result in a payment obligation, a liability is recognised if it can be measured reliably. The liability is recognised at the present value of expected payments.

EURm	2018	2017
Provisions	0.0	-
Other liabilities		
Accruals and deferred income		
Deferred interest	25.3	25.6
Other accruals	1.2	0.1
Other	0.1	0.0
Total other liabilities	**26.6**	**25.7**

Impairment charges on loans and receivables are presented in notes 6.

18. Contingent liabilities and commitments

At initial recognition, irrevocable loan commitments are recognised at the amount of premiums received. Provisions for irrevocable loan commitments are recognised under Other liabilities if it is probable that drawings will be made under a loan commitment.

The liability is measured at the present value of expected payments. Irrevocable loan commitments are discounted in accordance with the interest terms.

1000 EUR	2018	2017
Off-balance sheet items		
Undrawn loans, overdraft facilities and other commitments to lend	43.3	23.8
Allowances	0.3	-
Total	**43.6**	**23.8**

Off-balance sheet items are mainly at the stage 1.

Off-balance sheet items consist mainly of commitments to extend credit. Commitments to extend credit are irrevocable commitments and comprise undrawn loans. The commitments are stated to the amount that can be required to be paid on the basis of the commitment.

Asset encumbrance EURm Assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets December 31, 2018	**5,613.3**	-	**183.7**	-
Equity instruments	-	-	-	-
Debt securities	-	-	-	-
Other assets	5,613.3		183.7	
Assets December 31, 2017	**5,419.1**	-	**146.7**	-
Equity instruments	-	-	-	-
Debt securities	-	-	-	-
Other assets	5,419.1		146.7	

Collateral received

Danske Mortgage Bank didn't have any received collaterals at 31 December 2018.

EURm Encumbered assets/collateral received and associated liabilities	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities 2018	4,294.0	5,613.8
Carrying amount of selected financial liabilities 2017	4,315.7	5,419.1

Loans and securities serving as collateral for covered bond issuance is the main category of encumbered assets. Coverd bond issuance is a strategic long-term funding measure that entails ring-fencing assets according to statutory regulation.

Encumbered assets and associated liabilities in 2018 are disclosed based on median values of quarterly data. In 2017 end of December values were used.

Rental commitments

Assets in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases and they are included in the lessor's balance sheet. Payment made on operating leases are recognised on a straight-line basis over the lease term as rental expenses in profit and loss.

1000 EUR	2018	2017
Non-cancellable operating leases (from premises)		
Minimum lease payments under non-cancellable operating leases not later than one year	2.0	2.0
Total	2.0	2.0

19. Related party transactions with group companies and other related parties

EURm	Parties with significant influence 2018	Parties with significant influence 2017	Other entities of the same group 2018	Other entities of the same group 2017	Key management personnel 2018	Key management personnel 2017	Other 2018	Other 2017
Loans and receivables	1.9	11.1	-	-	-	-	-	-
Securities	126.4	158.1	-	-	-	-	-	-
Deposits	708.4	138.1	-	1,000.0	-	-	-	-
Derivatives	16.4	20.4	-	-	-	-	-	-
Interest income	48.7	7.2	-	-	-	-	-	-
Interest expenses	-3.0	-	-	-0.6	-	-	-	-
Purchases from group companies	9.4	0.6	-	1.4	-	-	-	-
Sales to group companies	0.1	-	-	-	-	-	-	-

There is no expected credit losses booked for receivables from related parties.

Interest expenses from related parties are positive interest.

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

Comparison figures on rows securities, derivatives and interest income have been corrected. Comparison figures have not been changed to correspond to the division on 2018. In comparison figures parties with significant influence consisted of Danske Bank A/S and other entities of the same group consisted Danske Bank Plc (now Danske Bank A/S, Finland Branch).

20. Equity and reserves

Equity	Number of shares	Share capital EURm
At 1 January 2018	106,000	70.0
At 31 December 2018	106,000	70.0
Total amount of shares at 31 December 2018	106,000	70.0

Danske Bank A/S owns all the share capital of Danske Bank Plc. Each share has one vote.
Shares have no par value.

EURm Reserves and retained earnings	
Reserves at 31 December 2017	
Reserve for invested unrestricted equity	170.0
Total	**170.0**
Reserves at 31 December 2018	
Reserve for invested unrestricted equity	170.0
Total	**170.0**

Movements in reserves	
Retained earnings	
At 31 October 2017	-
Profit for the financial year	3.6
At 31 December 2017	**3.6**
Profit for the financial year	22.5
Effect from changed accounting practice (IFRS 9)	-0.9
Dividend distribution	-3.6
At 31 December 2018	**21.6**

Risk Management Disclosure

Risk management general principles and governance

The main objectives of the risk management processes are to ensure that risks are properly identified, risk measurement is independent and the capital base is adequate in relation to the risks. The risks related to the Danske Mortgage Bank Plc's activities and the sufficiency of the company's capitalisation in relation to these risks is regularly evaluated. Clearly defined strategies and responsibilities, together with strong commitment to the risk management process, are our tools to manage risks.

The Board of Directors of Danske Mortgage Bank Plc is responsible for ensuring that the Danske Mortgage Bank Plc's risks are properly managed and controlled. The Board of Danske Mortgage Bank Plc sets the principles of risk management and provides guidance on the organisation of risk management and internal controls. To ensure that the risk governance structure is adequate both in terms of internal and external needs, the Board has established a Risk Committee, which is composed of members of the executive management and nominated Danske Mortgage Bank Plc's CEO as the chairman of the committee.

The Committee's main tasks are:

- to ensure that Danske Mortgage Bank Plc is compliant with the risk instructions issued by the Board of Directors
- to ensure that all risk types in Danske Mortgage Bank Plc are monitored and reported to relevant parties including the Board of Directors
- to ensure that Danske Mortgage Bank Plc's risk position is aligned with Danske Bank Group's risk strategy
- to ensure that Danske Bank Group's risk policies are implemented in Danske Mortgage Bank Plc
- to ensure that Danske Mortgage Bank Plc fulfils all regulatory requirements.

The Bank's day-to-day risk management practices are organised in three lines of defence. This organization ensures a segregation of duties between (1) units that enter into business transactions with customers or otherwise expose the Bank to risk, (2) units in charge of risk oversight and control and (3) the internal audit function.

The first line of defence is represented by the operations and service organisations and their support functions. Each unit operates in accordance with risk policies and delegated mandates. The units are responsible for having adequate skills, operating procedures, systems and controls in place to comply with policies and mandates and to exercise sound risk management.

The second line of defence is represented by functions that monitor whether the operations and service organisations adhere to the general policies and mandates. These functions are located in Risk Management and Compliance units.

The third line of defence is represented by Internal Audit. Danske Mortgage Bank Plc's Risk Management, which is an independent unit, monitors Danske Mortgage Bank Plc's risk position according to the principles and limits set by the Board of Danske Mortgage Bank Plc. Chief Risk Officer (CRO) is responsible for adequate and sound oversight of Danske Mortgage Bank Plc's risk management, providing an overview of Danske Mortgage Bank Plc's risks and creating an overall risk picture.
Finance is responsible for solvency reporting (including the ICLAAP process).

Principles and practices of risk management in Danske Mortgage Bank Plc are carried out consistently with risk policies of Danske Bank Group and supported by the corresponding Danske Bank Group functions. Additional information on Danske Bank Group level risks and risk approaches can be found in Danske Bank Group's annual report and Risk Management report for 2018.

Minimum regulatory capital

Banking is a highly regulated business. There are formal rules for minimum capital and capital structure in capital adequacy regulation. Also banks largest exposures are limited based on the own funds of the bank.
Credit Institutions Act gives multiple options for methods institutions may use in capital adequacy calculation. In December 2017 Danske Mortgage Bank Plc got approval from its supervisors to use the IRB methodology for Retail. Hence, Danske Mortgage Bank Plc uses Internal Ratings Based approach to its retail portfolio and standard method to other portfolios for credit risks. Standard method is used for operational risks.

Capital adequacy is reported quarterly to Finnish Financial Supervisory Authority (FIN-FSA). Danske Mortgage Bank Plc fulfilled the regulatory minimum capital requirements in 2018. Minimum capital requirements set by capital adequacy regulation are presented in the Risk Table 1 below. Total capital requirement was EUR 69.7 million at end of 2018. It increased EUR 23.4 million from 2017 mainly due to 15 per cent risk weight floor for the residential mortgage portfolio set by FIN-FSA for institutions that apply IRB approach for calculating capital requirement.

RISK TABLE 1 Pillar 1 regulatory capital requirements by portfolio, EURm	Capital requirement		Risk exposure amount	
	2018	2017	2018	2017
Credit and counterparty credit risk:				
Standardised approach:				
Institutions	2.3	2.6	28.4	32.3
Corporates	0.1	0.0	1.4	0.4
Secured by mortgages on immovable property	0.0	0.0	0.0	0.2
Covered bonds	0.2	0.0	2.5	0.0
Other items	0.0	0.0	0.5	0.0
Standardised approach, total	2.6	2.6	32.9	33.0
IRB approach:				
Retail	62.1	38.6	776.6	483.0
Other non-credit obligation	0.0	0.0	0.0	0.0
IRB approach, total	**62.1**	**38.6**	**776.6**	**483.0**
Credit and counterparty credit risk, total	**64.8**	**41.3**	**809.5**	**515.9**
Operational risk - standardised, total	**5.0**	**5.1**	**62.2**	**63.1**
Total risk exposure amount			**871.7**	**579.1**
Total minimum capital requirement	**69.7**	**46.3**		

Capital management process

Danske Mortgage Bank Plc follows the capital management practices in the ICAAP (Internal Capital Adequacy Assessment Process) for Pillar 2 that are defined the regulatory framework in the Capital Requirements Directive (CRD).

Danske Mortgage Bank Plc's ICAAP consists of evaluating all relevant risks that the Danske Mortgage Bank Plc is exposed to. Besides the Pillar I risk types – credit and operational risks – the Bank sets capital aside for interest rate risk of the banking book, business risk and, if required by stress tests, for business cycle volatility buffer. Liquidity risk is taken into account through stress testing.

The Danske Mortgage Bank Plc ICLAAP (Internal Capital and Liquidity Adequacy Assessment Process) 2017 report has been approved by the Board of Directors and delivered to regulators. The ICLAAP 2018 report will be prepared during Q1 2019 as requested by regulators.

Main risk types

The major risk associated with Danske Mortgage Bank Plc's activities is the credit risk arising from the loans. Interest rate risk arising from loan portfolio and its refinancing is hedged. Operational and business risks are inherent in all business areas.

The mortgage banking result mainly depends on loan and deposit margins, business volumes, the size and structure of the balance sheet, impairment losses and cost efficiency. The margin between loans and deposits in banking, with a hedged interest rate and liquidity risk profile, changes slowly. Possible sources of result fluctuations are unexpected losses in the credit and operational risk areas.

Credit risk

Credit risk is the risk of losses arising because counterparties or debtors fail to meet all or part of their payment obligations to the Bank. Credit risk includes country, settlement and counterparty credit risk.

Danske Mortgage Bank Plc's loan portfolio consists of Finnish mortgages that have been granted based on Danske Bank Group's policies. In addition, the loans bought to Danske Mortgage Bank Plc need to be cover pool eligible. Mortgage Bank buys loans regularly. Danske Bank Group's guidelines lay down uniform principles for credit risk taking, with the aim of ensuring high quality in the credit process. Loans that are not cover pool eligible are sold to Danske Bank A/S, Finland Branch on regular basis.

Credit decision authority in Danske Mortgage Bank Plc is delegated to the management of the Danske Bank A/S, Finland Branch Credit department and to authorised credit officers in the business units. The amount of the authorisation varies according to customer rating, total exposure and collateral level. All credit applications are initiated and prepared in the business units. Credit decisions are primarily based on rating, loan repayment ability, collateral and other risk mitigates offered, as well as acceptable return on allocated capital.

Customer classification

All customers of Danske Bank Group are assigned a credit grade describing the creditworthiness of customer prior to granting of credit facilities in order to ensure good credit quality and provide credit to the customers in the most capital efficient manner. The main objective of the risk classification is to rank customer base according to default risk by estimating the probability of default (PD) of each customer. This credit grade consists of 11 main rating grades and 26 subgrades.

The Bank assigns credit scores to retail customers. These customers include personal customers and small business customers. The Bank has developed statistical models based on the information it possesses about customers to predict the likelihood that a customer will default. These scoring models utilise public and internal information on the borrowers' payment behaviour, education, employment and other relevant factors as explanatory variables in forecasting customer credit worthiness. On top of the statistical calculation, the score can be downgraded to another classification if a risk event is registered on the customer. Risk events are registered either automatically or manually by an advisor. The credit scores are updated monthly through an automated process. For more information about Danske Bank's classification models, including changes and improvements to the models, see Risk Management 2018 -report of Danske Bank Group.

Credit risks of customers

As part of loan granting process, the debt servicing capacity is assessed and stressed by using higher interest rates compared to current levels. Loans are collateralised by housing company shares or residential real estate. Delinquencies are followed daily.

Credit exposure

The figures in Risk Tables 2 and 3 show the Danske Mortgage Bank Plc's credit exposure. At the end of 2018 Danske Mortgage Bank Plc's lending-related credit exposure activities amounted to EUR 5.7 billion (5.4 billion). Exposures to Danske Bank Group were EUR 1.9 million (11.1 million) and they are excluded from the tables.

RISK TABLE 2
Credit exposure relating to lending activities by segments, EURm

	2018	2017
Public Institutions	186.1	135.0
Personal Customers	5,501.3	5,259.0
Total	5,687.3	5,394.0

Danske Mortgage Bank Plc's credit exposure by credit classification is presented in Risk Table 3. The rating distribution is good. At the end of 2018, the share of customers classified into the seven best rating classes was 97 per cent of the total exposure (97 per cent). Exposures are concentrated to Capital area and to largest cities.

RISK TABLE 3.
Credit portfolio broken down by rating category and stages in IFRS 9, EURm

	PD level		Gross exposure			Expected Credit Loss			Net exposure			Net exposure, ex collateral		
2018	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	0.24	-	-	0.00	-	-	0.24	-	-	0.00	-	-
2	0.01	0.03	792.07	0.59	-	0.00	0.00	-	792.07	0.59	-	189.92	-	-
3	0.03	0.06	1,432.90	5.57	-	0.01	0.00	-	1,432.89	5.57	-	18.47	0.06	-
4	0.06	0.14	1,601.11	8.42	-	0.03	0.00	-	1,601.08	8.42	-	28.34	0.07	-
5	0.14	0.31	1,085.49	19.31	-	0.05	0.01	-	1,085.44	19.31	-	26.45	0.43	-
6	0.31	0.63	346.32	35.42	-	0.03	0.03	-	346.29	35.39	-	8.27	1.12	-
7	0.63	1.90	130.42	64.86	-	0.03	0.09	-	130.39	64.77	-	3.42	1.43	-
8	1.90	7.98	16.95	35.01	-	0.01	0.14	-	16.94	34.88	-	0.27	0.89	-
9	7.98	25.70	3.76	80.11	0.03	0.00	0.36	-	3.76	79.75	0.03	0.05	1.78	-
10	25.70	99.99	13.94	14.67	0.22	-	0.01	0.00	13.94	14.66	0.21	0.24	0.47	-
11 (def.)	100.00	100.00	0.16	0.56	0.06	-	-	0.00	0.16	0.56	0.06	0.05	0.00	-
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	-

RISK TABLE 3

Credit exposure relating to lending activities by classification, EURm	PD scale (%)		
Rating category	Lower	Upper	2017
1	0.00	0.01	0.5
2	0.01	0.03	820.9
3	0.03	0.06	1,367.9
4	0.06	0.14	1,436.9
5	0.14	0.31	1,025.8
6	0.31	0.63	346.0
7	0.63	1.90	216.3
8	1.90	7.98	63.1
9	7.98	25.70	44.1
10	25.70	99.99	68.6
11	100.00	100.00	4.0
Total			5,394.0

In relation to the loan portfolio, non-performing loans were at a low level. Non-performing loans that are delayed for over 90 days amounted to EUR 0.3 million (1.4 million). Net impairment charges were EUR 0.2 million (0.2 million).

Credit risk mitigation and collateral management

In order to mitigate credit risk, Danske Mortgage Bank Plc applies a number of credit risk mitigation measures, including collateral and guarantees. Loans in Danske Mortgage Bank Plc have shares of housing company or residential real estates as collateral. All collaterals are located in Finland. Collateral is also a key component in the Danske Bank Group's calculation of economic capital and risk exposure amount.

Collateral is valued in accordance with the Danske Bank Group's written collateral valuation instructions. All collaterals are valued at the time they are pledged and regularly thereafter.

Residential properties, shares in a housing companies and shares in real estate companies in residential use must be assessed by a valuer who is independent of the credit decision process. An independent valuer refers to a person who has sufficient qualifications for and experience in valuation. Valuations are made within Danske Bank Group by an independent valuator or in some cases, external independent valuators are used. The requirement for an independent valuation is also met if there exists a maximum one year old genuine contract of sale, meaning a contract that is not between related parties.

Regional housing price indices are used to incorporate latest price information in the quarterly model based evaluation process into the calculation of fair value estimates for these collateral types. The risk of changes in fair value is covered by a similar haircut process throughout Danske Bank Group. Risk Table 4 presents the amount of collateral allocated to agreements after haircuts.

RISK TABLE 4

Types of collateral, EURm	2018	2017
Real property	5,404.3	5,303.9
Bank accounts	5.8	7.2
Custody accounts/securities	0.8	0.9
Guarantees	68.8	34.4
Other assets	0.0	0.0
Total	5,479.8	5,346.4

Internal credit exposure relating to derivatives

At the end of 2018 Danske Mortgage Bank Plc's credit exposure relating to derivatives with positive fair value amounted to EUR 126.4 million (158.1 million). Exposure consisted entirely of internal exposures.

Non-performing assets and forbearance

Danske Mortgage Bank Plc applied the same principles as Danske Bank Group starting from beginning of 2018 and defines non-performing loans as facilities in stage 3. However, for non-retail exposures with one or more non-performing loans, the entire amount of the customer's exposure is considered to be non-performing. For retail exposures, only impaired facilities are included in non-performing loans. The Group excludes exposures in stage 3 with no impairment charges or where the allowance account is considered immaterial to the gross exposure.

Danske Mortgage Bank Plc can make use of forbearance measures to assist the customers in financial difficulties. Concessions granted to customers include interest-reduction schedules, interest-only schedules, temporary payment holidays, term extensions and cancellation of outstanding fees. Because of the length of the workout processes, the Danske Bank Group is likely to maintain stage 3 impairments for these customers for years.

Forbearance plans must comply with the Danske Bank Group's Credit Policy and are used as an instrument to maintain long-term customer relationships during economic downturns if there is a realistic possibility that the customer will be able to meet obligations again. The purpose of the plans is therefore to minimise loss in the event of default.

If it proves impossible to improve a customer's financial situation by forbearance measures, the Danske Bank Group will consider whether to subject the customer's assets to a forced sale or whether the assets could be realised later at higher net proceeds.

Market risk

Market risk is defined as the risk of losses caused by changes in the market value of financial assets, liabilities and off-balance sheet items resulting from changes in market prices or rates. Market risk in Danske Mortgage Bank Plc consists of the EUR interest rate risk in the banking book. The Bank measures the effects of interest rate risk on valuation changes based on net present value.

Governance and limit structure

Danske Mortgage Bank Plc's Board of Directors approves the market risk policy and overall limits for market risk. The Board also decides on the general principles for managing and monitoring market risks based on the market risk policy and delegated market risk limits provided by the Danske Bank Group. Chief Executive Officer (CEO) is responsible for the risks. Danske Mortgage Bank Plc's Treasury actively manages market risks within the set of allocated limits. Trades related to position management are executed in the Treasury and Trading function of the Danske Bank Group.

Measurement, monitoring and management reporting on market risks is carried out on a daily basis in Risk Management. Market risk exposure is calculated in a limit control system that is linked to the trading systems. Limits are monitored systematically, and in case of limit violations, follow-up procedures have been established. In addition, Risk Management monitors risk levels intraday and conducts intra-day spot checks.

Market risk position

Danske Mortgage Bank Plc's banking book interest rate risk arises primarily from issued covered bonds, mortgages and derivatives hedging both of these items. Also the liquidity buffer bonds and short-term funding have an impact on the interest rate risk. The goal is to hedge the balance sheet in a way that interest rate risk changes do not have essential impact to the Bank's profitability. During 2018 The Bank had only EUR denominated business activities. As part of the limit monitoring the banking book interest rate position is stress tested by a 1 percentage point parallel increase and decrease of yield curves as well as a 1 percentage point increase and decrease of volatilities.

Danske Mortgage Bank Plc also estimates interest rate risk exposure in the banking book from the earnings perspective, called net interest income (NII) risk. It is calculated as the greatest loss of earnings over a 12 month period from the Bank's assets and liabilities upon a parallel shift in yields of 1 percentage point.

At the year-end of 2018, net present value based interest rate risk of Danske Mortgage Bank Plc in the scenario of parallel downward shift of one percent across the yield curve is EUR -0.1 million.

Liquidity risk

Liquidity risk means the risk that the costs to obtain funds becomes excessive, lack of financing prevents the Bank from maintaining its current business model, or the Bank ultimately cannot fulfil its payment obligations due to lack of funds. The Board of Directors has approved a liquidity policy for the Bank. The policy specifies the aims, limits, calculation and responsibilities of all parts of the Bank's liquidity risk control and management.

Danske Mortgage Bank Plc minimises the short liquidity risk. Danske Mortgage Bank Plc conforms to the Liquidity Coverage Ratio (LCR) defined in Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR).

Structural liquidity risk is an inherent part of Danske Mortgage Bank Plc's business strategy and it is managed in support of a cautious and conservative risk profile.

Danske Mortgage Bank Plc's Treasury is responsible for the practical and day-to-day liquidity management and execution of the Policy. Risk Management is responsible for day-to-day monitoring, controlling and reporting the liquidity risk limits. Danske Mortgage Bank Plc has a liquidity line from Danske Bank A/S, Finland Branch for short and medium term funding needs.

Liquidity management is based on monitoring and management of short-term and long-term liquidity risks. The management of liquidity risk aims primarily at ensuring that Danske Mortgage Bank Plc always has a liquidity buffer that is able, in the short term, to absorb the net effects of current transactions and expected changes in liquidity, under both normal and stressed conditions. Danske Mortgage Bank Plc's liquidity buffer consists of cash assets in Bank of Finland.

RISK TABLE 5
Maturity profile of financial liabilities based on contractual maturities, EURm

Liabilities	2018 Total	< 3 months	3–12 months	1–5 years	>5v
Due to credit institutions and central banks	708.4	108.4	600.0	-	-
Debt securities in issue	4,848.7	-	1,009.6	3,839.1	-
Financial liabilities total	**5,557.0**	**108.4**	**1,609.6**	**3,839.1**	-
Undrawn loans, overdraft facilities and other	0.0	0.0	0.0	-	-

Liabilities	2017 Total	< 3 months	3–12 months	1–5 years	>5v
Due to credit institutions and central banks	1,138.1	138.1	1,000.0	-	-
Debt securities in issue	4,132.2	-	-	4,132.2	-
Financial liabilities total	**5,270.2**	**138.1**	**1,000.0**	**4,132.2**	-
Undrawn loans, overdraft facilities and other	0.0	-	0.0	-	-

Risk Table 5 presents Danske Mortgage Bank Plc's financial liabilities as of 31 December by maturity classes based on contractual maturities. Financial liabilities without contractual maturity are included in the maturity class 'Less than 3 months'.

Operational risk

Operational risk is the risks of losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risks.
In Danske Mortgage Bank Plc reputation risk is assessed and managed as a type of severity of impact in line with the operational risk management approach and can be seen as a consequence of operational risk events or a failure to comply with laws, rules, related self-regulatory organisation standards and code of conduct applicable to the Bank.

Operational risks are divided into the following categories:

- Internal fraud
- External fraud
- Employment practices and workplace safety
- Clients, products and business practices
- Damage to physical assets
- Systems and data failure
- Execution, delivery and process management
- Information technology security
- Model risk

Danske Mortgage Bank Plc defines operational risk events as operational risks, which have occurred and have caused a monetary loss (a loss event), a reputational impact (a reputational event), or may have caused a loss which was rapidly recovered or may give rise to a future potential loss (a near miss event). The management of operational risks enhances the efficiency of the Bank's internal processes and decreases fluctuations in returns.

Danske Mortgage Bank Plc's Board of Directors has approved proper and effective operational risk management framework. Risk Management is responsible for the independent oversight of operational risk management and governance, the establishment of the risk management framework, and performs a consulting and review role to the Danske Mortgage Bank Plc's approach to operational risk management. Internal audit assesses the adequacy and efficiency of internal control and risk management. The compliance function assists management in ensuring that the Danske Mortgage Bank Plc and its employees comply with applicable laws and regulations as well as ethical standards in order to mitigate the Bank's compliance risk as appropriate.

Danske Bank

Danske Mortgage Bank Plc applies Danske Bank Group's approach for identification, assessment and management of operational risks. Danske Mortgage Bank Plc conducts on ongoing basis the operational risk identification and assessment process to identify all material internal and external operational risks facing the organisation. In addition, likelihood, monetary, customer, regulatory and reputational impacts of the identified risks are assessed. The process also includes monitoring of the identified risks. Local key controls and possible key risk indicators are identified for the material risks, so that the status of the risks can be monitored over time. Action plans for material risks where the level of internal control has been assessed to be ineffective are established. General mitigation strategies for key risks are developed and implemented by Danske Bank Group and local mitigation strategies are developed and implemented by Danske Mortgage Bank. Danske Mortgage Bank Plc's Risk Committee approves annually a report of the Mortgage Bank's material risks.

Danske Mortgage Bank Plc operates a culture of open disclosure of risks in which staff should report errors and weaknesses within the Bank so future losses may be minimised by taking preventative measures. Each employee within the Bank is responsible for the day-to-day management of operational risks and reporting of actual events within their respective area. It is the responsibility of persons in charge of the outsourced services in resource areas to identify and manage the risks for which it is accountable and disclose information on operational risk events. Operational risk events are regularly reported to Danske Mortgage Bank Plc's Risk Committee and Board of Directors.

Danske Mortgage Bank Plc's Board of Directors' proposal to the Annual General Meeting for the distribution of profit and signing of Annual Report 2018

The company's distributable assets in the financial statements total EUR 191,627,578.76 of which profit for the financial year totals EUR 22,548,596.58.

The Board of Directors proposes to the Annual General Meeting of Shareholders that:

1. a dividend of EUR 21,627,578.76 be paid and
2. EUR 170,000,000.00 will be left in shareholders' equity.

Helsinki, 1st February 2019

Glenn Söderholm
(Chairman)

Lisbet Kragelund

Robert Wagner

Tomi Dahlberg

Maisa Hyrkkänen

Pekka Toivonen
(CEO)

The auditor's note

A report on the audit performed has been issued today.

Helsinki, 1st February 2019

Deloitte Ltd
Audit Firm

Aleksi Martamo
Authorized Public Accountant

Accounting material

Danske Mortgage Bank Plc
Danske Mortgage Bank Plc uses the accounting system of Danske Bank A/S which is administered by the Danske Bank Group headquarters in Denmark. In the year end this accounting material is filed electronically and stored in Finland as two copies.

General ledger accounting
Financial statement and Board of Directors' report as bound versions are stored in Danske Bank A/S, Finnish Branch's Accounting department.

Financial statement specifications are mainly included in the financial statement material gathered and stored by Accounting department.

General ledger accounting reports are stored electronically:
- Daily journals
- General ledger
- Income statements and balance sheets
- Charts of accounts
- Voucher for notes to the financial statements