Interim Report January-June 2018

Danske Mortgage Bank Plc

DANSKE MORTGAGE BANK PLC'S INTERIM REPORT FOR JANUARY-JUNE 2018

CEO's outlook

Danske Mortgage Bank Plc's financial performance remained solid in January–June 2018. Loan portfolio matures at a constant pace. In June loan portfolio was increased by buying and selling loans to Danske Bank A/S, Finland Branch. No new bonds were issued and the net loan purchase was financed with assets received through matured loans and with short-term financing from Danske Bank A/S, Finland Branch. Demand for mortgage loans remained at a high level and the balance of cover pool eligible mortgages at Danske Bank Group's Finnish businesses has been at good level.

Total operating income of Danske Mortgage Bank was EUR 20.4 million for January-June 2018 (EUR 6.8 million for November-December 2017). Operating expenses are expected to remain stable in the future. Non-performing assets that are delayed for over 90 days amounted to EUR 0.4 million that is 0.01 % of loans. Impairments amounted to EUR 90.4 thousand. Annualized return on equity amounted to 9.0 % at the end of June 2018, in November-December 2017 annualized return on equity reached 8.9 %. Because of the economic development and high quality loans, the non-performing loans and impairments are expected to remain at a low level.

Financial highlights of Danske Mortgage Bank Plc

		1-6/2018	11-12/2017
Total operating income	EURm	20.4	6.8
Profit before taxes	EURm	14.0	4.5
Total assets at the end of the period	EURm	5,819.0	5,565.9
Number of staff at the end of the period		5	4

Danske Mortgage Bank Plc in brief

Danske Mortgage Bank Plc is a Finnish bank which is part of the Danske Bank Group. Danske Bank Group is one of the largest financial enterprises in the Nordic region. Danske Bank Group operates in 15 countries and has its headquarters in Copenhagen. Danske Bank A/S's share is quoted on the Nasdaq Copenhagen.

Danske Mortgage Bank Plc is operating as an issuer of covered bonds according to the Finnish Act on Mortgage Bank Operations. Issuance of covered bonds is a part of Danske Bank Group's long-term funding and part of housing financing in Danske Bank's operations in Finland. Danske Mortgage Bank Plc does not grant housing loans, but the loans used to cover the bonds are purchased from Danske Bank A/S, Finland Branch. As part of loan pool management process Danske Mortgage Bank Plc sells loans with lower quality back to Finland Branch.

As a Nordic universal bank, Danske Bank Group offers Finnish customers' a full range of banking services through Finland Branch, which is a branch of Danske Bank A/S, Denmark. By way of partial demerger on October 31, 2017, all assets, liabilities and reserves of the mortgage credit banking business were transferred to one new acquiring company, called Danske Mortgage Bank Plc. Danske Bank Group has merged its activities in Finland – Danske Bank Plc and Danske Bank A/S, Helsinki Branch – into a single branch called Danske Bank A/S, Finland

Branch. Mortgage banking business is carried out by Danske Mortgage Bank Plc and as from the 1st of January, 2018 the banking business in Finland is carried out by the local branch.

Operating environment

Finland's GDP growth strengthened in 2017 to 2.7 per cent according to the latest information. Economic growth strengthened and its structure became more versatile as exports and companies' investments increased alongside private consumption and construction boosting economic growth. It is expected that during 2018 the growth would continue on the same level as on previous year. The outlook for global and Finnish economy has remained relatively good since the beginning of summer. Salary increases will enhance households' purchasing power and companies are investing to increase their production capacity during 2018.

At the beginning of the year export growth slowed down temporarily but it is expected to pick up later on generated by the good order book of the industrial sector and by the strong demand in the international economy. Economic growth has improved employment and the number of bankruptcies has decreased. The decline in unemployment rate is expected to continue during this year. The deficit of public sector decreased as the tax revenues increased and the public sector debt to GDB ratio is expected to fall below 60 per cent during 2018.

In spring 2018, consumers' confidence in the economy was clearly higher than on average. The housing market looks relatively stable as a whole although the house prices have risen in growth centres, whereas in the regions with decreasing population prices for old houses have declined slightly. The mortgage portfolio grew by 2.0 per cent in April. 2018. The housing company loans have kept on increasing generating bigger debt burden of households. However, the household indebtedness is on a lower level than in the other Nordic countries and the low interest rates helped households to cope with their debt burden.

The European Central Bank (ECB) pursues loose monetary policy and Euribor rates remained negative. In June 2018 the ECB announced that it will end the asset purchase program by the end of year 2018. At the same time ECB informed that they will not increase interest rate before summer next year. Short term interest rates are expected to remain very low also in 2018-2019.

Operating environment supports the stable growth in housing and mortgage loan markets. Because of the continuous interest rate hedging the interest environment does not have a direct effect on the Danske Mortgage Bank Plc's profit. In case the interest rates remain at a low level it will not have an effect on customers' ability to repay. It is expected that the quality of loan pool will remain good and the amount of write-offs at a low level. It is expected that the demand for covered bonds and their prices stay on the level that enables new issues in the future.

Financial review

(The comparison figures are not presented as Danske Mortgage Bank Plc was demerged on the 31st of October 2017).

Danske Mortgage Bank Plc's profit before taxes for January–June 2018 was EUR 14.0 million. The result was EUR 11.2 million. Return on equity (annualized) amounted to 9.0 per cent for the first half of 2018.

Total operating income for the first six months of 2018 totalled to EUR 20.4 million. The Bank's net interest income was EUR 19.1 million.

The Bank's net fee income amounted to EUR 1.0 million.

Net trading income was EUR 0.3 million.

Danske Mortgage Bank Plc's cost to income ratio was 30.8 per cent. The bank's operating expenses from January-June totalled to EUR 6.3 million.

Net impairments on loans and receivables were EUR 0.8 million. Individually assessed impairment charges totalled EUR 0.1 million.

Balance sheet and funding

(The comparison figures in parentheses refer to December 2017 figures).

Danske Mortgage Bank Plc's balance sheet total was EUR 5,819.0 million (5,565.9 million). Loans and receivables from customers increased by EUR 260.9 million to a total of EUR 5,519.9 million (5,259.0 million). The growth was due to the purchase of the loans in June.

The financial and liquidity situation remained good, and short-term funding from Danske Bank A/S, Finland Branch performed well during the period. The bank's liquidity buffer was EUR 159.1 million (135.0 million) and remained at a good level.

With a liquidity coverage ratio (LCR) of 255 per cent end of June 2018 (274 per cent), Danske Mortgage Bank Plc complies with the current regulatory minimum requirement of 100%. Under the Capital Requirements Regulation (EU) No 575/2013 banks must have a LCR of 100 percent as from 1.1.2018.

Capital and solvency

(The comparison figures in parentheses refer to December 2017 figures).

In December 2017 Danske Mortgage Bank Plc received the Finnish FSA's and Danish Finanstilsynet's approval to use the IRB approach for calculation of capital requirements for credit risk for retail exposures. The mortgage bank started to use the model as from 31 December 2017. In other respects Danske Mortgage Bank Plc applies the standard method (capital requirement for credit and operational risk)

Danske Mortgage Bank Plc's total capital consists of tier 1 capital (common equity tier 1 capital after deductions). On 30 June 2018, the total capital amounted to EUR 234.4 million (EUR 234.4 million), and the total capital ratio was 25.8 (40.5) per cent. The common equity tier 1 capital ratio stood at 25.8 (40.5) per cent. The decrease in total capital ratio and in common equity tier 1 capital ratio was mainly the consequence of increasing amount of risk-weighted assets. On 30 June 2018, risk-weighted assets amounted to EUR 909.3 million, against EUR 579.1 million at 31 December 2017. The increase in risk-weighted assets in turn was mainly due to the decision of Finnish FSA on a higher minimum level of the risk-weighted assets according to which the average risk weight on residential mortgage loans must be at least 15 per cent for the banks that have adopted IRB approach.

Profit after taxes for January-June is not included in Tier 1 distributable capital in solvency calculations at the end of June 2018.

Leverage ratio

Leverage ratio was 4.1 per cent at the end of June 2018 (4.3 per cent at the end of December 2017). Danske Mortgage Bank Plc's leverage ratio is calculated based on the second quarter end figures whereby the Tier 1 capital was EUR 234.4 million and leverage ratio exposure EUR 5,721.5 million. Under the solvency table is presented the leverage ratio table as per 30 June 2018.

Capital buffers

In June 2018 FIN-FSA has decided to impose on credit institutions a structural additional capital requirement, i.e. systemic risk buffer. It will be imposed on Danske Mortgage Bank Plc at a level of 1.0 per cent. The additional capital requirement based on the systemic risk buffer enters into effect on 1 July 2019 and it will be reviewed annually in the future. Also, FIN-FSA decided not to raise the countercyclical capital buffer requirement (variable capital add-on) applicable to banks. The requirement will remain at zero until further notice.

FIN-FSA decided earlier that the average risk weight on residential mortgage loans must be at a minimum level of 15 per cent for the banks that have adopted IRB approach and the minimum risk weight level entered into force on 1 January 2018.

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

SOLVENCY

Own funds	30.6.2018	31.12.2017
EURm		
Common Equity Tier 1 capital before deductions	**250.4**	**243.6**
Share capital	70.0	70.0
Reserves for invested unrestricted equity	170.0	170.0
Retained earnings *)	-0.7	-
Total comprehensive income for the period	11.2	3.6
Deductions from CET1 capital	**-16.0**	**-9.1**
Proposed/paid dividends	-	-3.6
Part of the interim profit not included in CET1	-11.2	-
Value adjustments due to the requirements for prudent valuation	-0.2	-0.2
IRB shortfall of credit risk adjustments to expected losses	-4.7	-5.4
Common Equity Tier 1 (CET1)	**234.4**	**234.4**
Additional Tier 1 capital (AT1)	-	-
Tier 1 capital (T1 = CET1 + AT1)	**234.4**	**234.4**
Tier 2 capital (T2)	-	-
Total capital (TC = T1 + T2)	**234.4**	**234.4**
Total risk exposure amount (REA)	**909.3**	**579.1**
Capital requirement (8% of risk exposure amount)	**72.7**	**46.3**
Credit and counterparty risk	67.7	41.3
Operational risk	5.1	5.1
Common equity tier 1 capital ratio (%)	**25.8 %**	**40.5 %**
Tier 1 capital ratio (%)	**25.8 %**	**40.5 %**
Total capital ratio (%)	**25.8 %**	**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	30.6.2018	31.12.2017
Total assets	5,819.0	5,565.9
Derivatives (accounting asset value)	-134.5	-158.1
Derivatives (exposure to counterparty risk ex. collateral)	42.0	41.3
Undrawn committed and uncommitted facilities, guarantees and loan offers	0.0	0.0
Adjustment to CET1 due to prudential filters	-4.9	-5.6
Total exposure for leverage ratio calculation	5,721.5	5,443.5
Reported tier 1 capital (transitional rules)	234.4	234.4
Tier 1 capital (fully phased-in rules)	234.4	234.4
Leverage ratio (transitional rules)	4.1 %	4.3 %
Leverage ratio (fully phased-in rules)	4.1 %	4.3 %

Minimum own funds requirements and Capital buffers (% of total risk exposure amount):

Minimum requirements:	30.6.2018	31.12.2017
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] Act on Credit Institutions Sect 10: 3 § and CRD IV. Valid from 1.1.2015 onwards.

[2] Act on Credit Institutions Sect 10: 4-6 § and CRD IV.
On 29th June 2018, FIN-FSA decided not to set any countercyclical buffer. Valid 12 months onwards from the decision.

Credit ratings

Issued covered bonds are rated 'Aaa' by Moody's Investor Services. The outlook is stable.

Employees and organisation

Danske Mortgage Bank Plc had 5 employees (4) at the end of the reporting period, which was an increase of 1 person (25 per cent) compared to end of year 2017.

Danske Mortgage Bank Plc's Board of Directors and auditors

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

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

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

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

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

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

Significant accounting policies

This interim report includes Danske Mortgage Bank Plc. The interim report has been drawn up according to the same accounting principles as in the annual financial statements for 2017. Accounting policies are explained in the Notes to the Interim report, and are presented in detail in the Notes to the 2017 financial statements.

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 bank's risk management organization meets both the external and internal requirements, the Board of Directors has 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. The credit risk exposure is the most important. Operative risks are managed by processes related to monitoring the outsourced services.

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 delayed for over 90 days amounted to EUR 0.4 million (31.12.2017: EUR 1.4 million). Net impairment charges were EUR 0.1 million (31.12.2017: EUR 0.2 million).

A more detailed account of risks and risk management can be found in the 2017 financial statements. More information regarding credit exposures can be found in this interim report on page 25.

Events after the reporting period

No material events after the reporting period.

Outlook for 2018

The outlook for global and Finnish economy were relatively good at end of June 2018. Moderate growth in the Finnish economy is expected to continue and support the mortgage banking business during 2018 and 2019. House prices are expected to increase slightly and the short-term interest rates are expected to remain at the historically low level also during 2019. Salary increases will enhance households' purchasing power and companies are investing to increase their production capacity.

Danske Mortgage Bank Plc is preparing a covered bond program in order to issue covered bonds.

We expect slight growth and that the Mortgage Bank's relative risk position will not change significantly during 2018.

Helsinki, 18 July 2018

Danske Mortgage Bank Plc
Board of Directors

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Further information:

Pekka Toivonen, CEO
Tel. 010 546 7718

The figures in this interim report have not been audited.

Danske Mortgage Bank Plc's financial statement for January–December 2018 will be released on 1 February 2019. Releases and other company information can be found on Danske Mortgage Bank Plc's website at danskebank.com/investor-relations/debt/danske-mortgage-bank.

STATEMENT OF COMPREHENSIVE INCOME

EURm	Note	1-6/2018
Interest income	1	46.5
Interest expense	1	-27.4
Net interest income	1	19.1
Fee income		1.0
Fee expenses		0.0
Net trading income		0.3
Total operating income		**20.4**
Staff costs		-0.3
Other operating expenses		-6.0
Total operating expenses		**-6.3**
Loan impairment charges	2	-0.1
Profit before taxes		**14.0**
Taxes		-2.8
Net profit after tax		**11.2**
Total comprehensive income for the period		**11.2**

BALANCE SHEET

EURm	Note	6/2018	12/2017
Assets			
Cash and balances with central banks		113.4	135.0
Loans and receivables from credit institutions	7	1.4	11.1
Trading portfolio assets	5, 6	134.5	158.1
Loans	7	5,519.9	5,259.0
Tax assets		0.2	-
Other investment securities		45.7	-
Other assets		4.0	2.7
Total assets		**5,819.0**	**5,565.9**
Liabilities			
Due to credit institutions and central banks	8	1,417.0	1,138.1
Trading portfolio liabilities	5, 6	17.8	20.4
Debt securities in issue	9	4,115.9	4,132.2
Tax liabilities		0.9	5.9
Other liabilities		16.9	25.7
Total liabilities		**5,568.5**	**5,322.3**
Equity			
Share capital		70.0	70.0
Reserves		170.0	170.0
Retained earnings		10.4	3.6
Total equity		**250.4**	**243.6**
Total equity and liabilities		**5,819.0**	**5,565.9**

STATEMENT OF CHANGES IN EQUITY

EURm	Share capital	Reserves for invested unrestricted 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)	**-**	**-**	**-0.7**	**-0.7**
Restated equity, 1st of January 2018	**70.0**	**170.0**	**2.8**	**242.8**
Total comprehensive income			11.2	11.2
Dividend distribution			-3.6	-3.6
Equity, 30th June 2018	**70.0**	**170.0**	**10.4**	**250.4**

CASH FLOW STATEMENT

EURm	1-6/2018	11-12/2017
Cash flow from operations		
Profit before tax	14.0	4.5
Loan impairment charges	0.1	0.2
Tax paid	-8.0	-0.8
Other non-cash operating items	-10.9	7.3
Total	**-4.8**	**11.1**
Changes in operating capital		
Cash in hand and demand deposits with central banks	278.9	-223.8
Trading portfolio	21.0	4.6
Other financial instruments	-45.7	-
Loans and receivables	-261.0	182.3
Other assets/liabilities	-16.2	-14.6
Cash flow from operations	**-27.8**	**-40.4**
Cash flow from financing activities		
Dividends	-3.6	-
Cash flow from financing activities	**-3.6**	**-**
Cash and cash equivalents, beginning of period	146.1	186.5
Change in cash and cash equivalents	-31.4	-40.4
Cash and cash equivalents, end of period	**114.8**	**146.1**
Cash in hand and demand deposits with central banks	113.4	135.0
Amounts due from credit institutions and central banks within 3 months	1.4	11.1
Total	**114.8**	**146.1**

SEGMENT INFORMATION

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

DANSKE MORTGAGE BANK PLC'S FINANCIAL HIGHLIGHTS

		1-6/2018	11-12/2017
Net interest income	EURm	19.1	
Total operating income	EURm	20.4	
Total operating expenses	EURm	6.3	
Impairment charges on loans and receivables [1]	EURm	0.1	
Profit before taxes	EURm	14.0	
Cost to income ratio	%	30.8	
Total amount of balance sheet at the end of the period	EURm	5,819.0	5,565.9
Equity at the end of the period	EURm	250.4	243.6
Return on equity [2]	%	9.0	8.9
Solvency ratios	%	25.8	40.5
Number of staff (FTE) at the end of the period		5	4
Return on assets [2]	%	0.4	0.4
Equity/assets ratio	%	4.3	4.4

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

[2] Annualized

Comparison figures are not presented for the profit and loss related figures as Danske Mortgage Bank Plc was demerged on the 31st of October 2017.

CALCULATION OF FINANCIAL HIGHLIGHTS

Cost to income ratio, % :

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

Return on equity, % :

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

Return on assets, % :

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

Equity/assets ratio, % :

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

NOTES TO THE INTERIM REPORT

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

Danske Mortgage Bank Plc's Interim Report January - June 2018 has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by EU. Annual Report 2017 provides a full description of the Bank's significant accounting policies and the changes compared to the year end in them resulting from the implementation of IFRS 9, Financial Instruments and IFRS 15, revenue from Contracts with Customers.

Financial statements figures are stated in euro (EUR) and in whole millions, unless otherwise stated. The figures in the notes are rounded so combined individual figures might differ from the presented total amount. The comparison figures are not presented for profit and loss related notes as Danske Mortgage Bank Plc was demerged on the 31st of October 2017.

Changes in accounting policies implemented on 1 January 2018
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 0.7 million, net of tax, 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
Annual report 2017 provides a full description of new IFRSs and amendments to IFRSs that have not yet come into force, but are likely to affect the Company's future financial reporting. Danske Mortgage Bank Plc has not early adopted any of those changes to IFRS.

Accounting estimates and assessments
The Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the financial statements. The estimates and assumptions that are deemed critical to the consolidated financial statements are described in Notes to the Annual Report 2017.

Financial calendar
The interim report has not been audited. The financial statements for 2017 are available on Danske Mortgage Bank Plc's web site https://danskebank.com/investor-relations/debt/danske-mortgage-bank.

Danske Mortgage Bank Plc publishes only one interim report during the financial year 2018. The annual report for January-December 2018 will be published 1.2.2019.

1 NET INTEREST INCOME

EURm	1-6/2018
Interest income	
Loans and receivables to credit institutions	0.0
Loans and receivables to customers	22.0
Debt securities	-0.2
Derivatives, net	20.8
Other interest income	4.0
Total	46.5
Interest expenses	
Amounts owed to credit institutions	1.3
Debt securities in issue	-28.6
Other interest expenses	0.0
Total	-27.4
Net interest income	**19.1**

Interest income includes 26.0 million euros (las two months of 2017: 7.8 million euros) calculated using the effective interest method. Negative interest income and negative interest expenses during the first six months of 2018 amounted to 0.0 million euros (last two months of 2017: 0.2 million euros) and 1.3 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.

2 LOAN IMPAIRMENT CHARGES

Loan impairment charges

EURm	6/2018
ECL on new assets	0.0
ECL on assets derecognised	-0.1
Impact of net remeasurement of ECL (incl. changes in models)	0.0
Interest income, effective interest method	0.0
Total	-0.1

Reconciliation of total allowance account

EURm	6/2018			
	Stage 1	Stage 2	Stage 3	Total
Collective and individual impairment charges under IAS 39, 31 December 2017				0.4
Transition effect (ECL at 1 January 2018)	0.6	0.1	0.6	0.9
Transferred to Stage 1 during the period	0.1	-0.1	0.0	0.0
Transferred to Stage 2 during the period	0.0	0.1	-0.1	0.0
Transferred to Stage 3 during the period	-0.1	-0.1	0.2	0.0
ECL on new assets	0.0	0.0	0.0	0.0
ECL on assets derecognised	0.0	0.0	0.0	-0.1
Impact of net remeasurement of ECL (incl. changes in models)	0.0	0.0	0.0	0.0
Other changes	-0.4	0.6	-0.6	-0.4
Balance at end of period	0.2	0.6	0.0	0.8

Impairment charges

EURm

From loans and receivables	Individual	Collective	Total
October 31, 2017	0.2	-	0.2
+ New and increased impairment charges	0.2	-	0.2
- Reversals of impairment charges	0.0	-	0.0
- Write-offs debited to allowance account	-	-	-
- Foreign currency translation and other items	-	-	-
December 31, 2017	0.4	-	0.4

3 THE BALANCE SHEET CLASSIFICATION

	Amortised cost		Fair value through profit or loss			
EURm **ASSETS**	Held to collect financial assets	Liabilities	Managed at fair value	Interest rate hedge	Non-financial assets and liabilities	Total
Cash and balances with central banks	113.4					113.4
Loans and receivables to credit institutions	1.4					1.4
Trading portfolio assets						
Derivatives				134.5		134.5
Investment securities, bonds			45.7			45.7
Loans and receivables to customers	5,501.8			18.0		5,519.9
Tax assets					0.2	0.2
Other assets					4.0	4.0
Total 30.6.2018	**5,616.6**	**-**	**45.7**	**152.6**	**4.1**	**5,819.0**

EURm **LIABILITIES**	Held to collect financial assets	Liabilities	Managed at fair value	Interest rate hedge	Non-financial assets and liabilities	Total
Due to credit institutions and central banks		1,417.0				1,417.0
Trading porfolio liabilities				17.8		17.8
Debt securities in issue						
-> Bonds		3,994.2		121.7		4,115.9
Tax liabilities					0.9	0.9
Other liabilities					16.9	16.9
Total 30.6.2018	**-**	**5,411.2**	**-**	**139.6**	**17.8**	**5,568.5**

EURm **ASSETS**	Loans and receivables	Held to maturity	Financial assets at fair value through profit or loss		Derivatives used for hedging	Non-financial assets	Total
			Held for trading	Designated 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	Financial liabilities at fair value through profit or loss		Derivatives used for hedging	Non-financial liabilities	Total
		Held for trading	Designated 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.

4 MATURITY ANALYSIS OF THE BALANCE SHEET

EURm

Assets	Total	< 1 year	> 1 year
Cash and balances with central banks	113.4	113.4	-
Loans and receivables to credit institutions	1.4	1.4	-
Trading portfolio assets	134.5	-	134.5
Loans and receivables to customers	5,519.9	443.9	5,076.0
Other investment securities, bonds	45.7	10.1	35.6
Tax assets	0.2	0.2	-
Other assets	4.0	4.0	-
Total 30.6.2018	**5,819.1**	**573.0**	**5,246.1**

Liabilities	Total	< 1 year	> 1 year
Due to credit institutions and central banks	1,417.0	1,417.0	-
Derivatives and other financial liabilities held for trading	17.8	-	17.8
Debt securities in issue	4,115.9	-	4,115.9
Tax liabilities	0.9	0.9	-
Other liabilities	16.9	16.9	-
Total 30.6.2018	**5,568.5**	**1,434.8**	**4,133.7**

EURm

Assets	Total	< 1 year	> 1 year
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 and public entities	5,259.0	423.5	4,835.4
Other assets	2.7	2.7	-
Total 31.12.2017	**5,565.9**	**572.3**	**4,993.5**

Liabilities	Total	< 1 year	> 1 year
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 31.12.2017	**5,322.3**	**1,169.7**	**4,152.6**

Maturity analysis of past due financial assets

EURm	6/2018	12/2017
Assets past due 30-90 days	4.4	6.2
Unlikely to pay	7.2	52.8
Nonperforming assets past due at least 90 days but not more than 180 days	0.4	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	132.2	145.9

5 FAIR VALUE INFORMATION

Financial instruments are carried on the balance sheet at fair value or at amortised cost. Note 11 in Annual Report 2017 includes description for classification of financial assets and liabilities by valuation type and detailed measurement bases of financial assets and liabilities.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

There is more specific information regarding company's financial instruments measured at fair value in Annual Report 2017, note 11.

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

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

During the reporting period ending 30 June 2018, there were no transfers between Level (Quoted prices) and Level 2 (Observable input) fair value measurements, and no transfers into and out of Level 3 (Non-observable input) fair value measurement.

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

	6/2018			
EURm	Quoted prices	Observable input	Non-observable input	**Total**
Financial assets				
Investment securities, bonds	25.5	20.2	-	45.7
Derivative financial instruments	-	134.5	-	134.5
Total	**25.5**	**154.7**	**-**	**180.2**
Financial liabilities				
Derivative financial instruments	-	17.8	-	17.8
Total	**-**	**17.8**	**-**	**17.8**

	12/2017			
EURm	Quoted prices	Observable input	Non-observable input	**Total**
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**

Note 11 in the Annual Report 2017 provides information on the financial instruments at amortised cost and the carrying amounts and the fair values of financial instruments recognised at amortised cost. There is not a significant difference between the carrying amount and the fair value of the company's financial instruments at amortised cost.

6 DERIVATIVE FINANCIAL INSTRUMENTS

EURm	6/2018			12/2017		
	Fair value		**Notional**	**Fair value**		**Notional**
Derivatives held for hedging	**Assets**	**Liabilities**	**amount**	**Assets**	**Liabilities**	**amount**
Fair value hedges	**134.5**	**17.8**	**8,510.4**	**158.1**	**20.4**	**8,244.4**
Interest rate						
OTC derivatives	134.5	17.8	8,510.4	158.1	20.4	8,244.4
Total derivatives held for hedging	**134.5**	**17.8**	**8,510.4**	**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
	-	8,207.3	303.1	-	7,890.3	354.1

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

EURm **Derivatives with positive fair value**	**6/2018**	**12/2017**
Derivatives with positive fair value before netting	134.5	158.1
Netting (under accounting rules)	-	-
Carrying amount	134.5	158.1
Netting (under capital adequacy rules)	17.8	20.4
Net current exposure	116.7	137.7
Collateral	116.7	137.7
Net amount	0.0	0.0

7 LOANS AND RECEIVABLES

EURm	**6/2018**	**12/2017**
Loans and receivables to customers		
Private customers	5,520.7	5,259.4
Impairment charges	-0.8	-0.4
Total	**5,519.9**	**5,259.0**
Loans and receivables to credit institutions		
Other loans	1.4	11.1
Total	**1.4**	**11.1**
Total loans and receivables	**5,521.2**	**5,270.1**

8 AMOUNTS OWED TO CREDIT INSTITUTIONS

EURm	6/2018	12/2017
Deposits from credit insitutions	1,417.0	1,138.1
Total	**1,417.0**	**1,138.1**

9 DEBT SECURITIES IN ISSUE

EURm	6/2018	12/2017
Finnish covered bonds	4,115.9	4,132.2

10 CONTINGENT LIABILITIES AND COMMITMENTS

Danske Mortgage Bank Plc does not have significant off-balance sheet items or significant non-cancellable operating leases.

Company's off-balance sheet items consists undrawn loans, overdraft facilities and other commitments to lend that totalled EUR 3.9 thousand at 30.6.2018 (EUR 23.8 thousand at 31.12.2017).

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

Company's non-cancellable operating leases consist of premises. Danske Mortgage Bank Plc's minimum lease payments under non-cancellable operating leases that are to be paid within one year totalled to EUR 2.0 thousand at 30.6.2018 (EUR 2.0 thousand at 31.12.2017).

11 RELATED PARTY TRANSACTIONS WITH GROUP COMPANIES AND OTHER RELATED PARTIES

EURm

	Parties with significant influence		Other entities of the same group		Key management personnel		Other	
	6/2018	12/2017	6/2018	12/2017	6/2018	12/2017	6/2018	12/2017
Loans and receivables	1.4	11.1	-	-	-	-	-	-
Derivatives	134.5	158.1	-	-	-	-	-	-
Deposits	1,417.0	138.1	-	1,000.0	-	-	-	-
Derivatives	17.8	20.4	-	-	-	-	-	-
Interest income	24.5	7.2	-	-	-	-	-	-
Interest expenses	-1.3	-	-	-0.6	-	-	-	-
Purchases from group companies	4.8	0.6	-	1.4	-	-	-	-
Sales to group companies	0.1	-	-	-	-	-	-	-

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 have been corrected.

Credit exposure

Credit exposure from lending activities

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

On January the 1st 2018, Danske Mortgage Bank Plc implemented IFRS 9. The comparative information has not been restated, and the comparative information on credit risk is based on the information provided under IAS 39.

Credit exposure, lending activities

EURm

	6/2018	12/2017
Balance sheet items		
Demand deposits with central banks	113.4	135.0
Loans	5,519.9	5,259.0
Off-balance-sheet items		
Loan commitments longer than 1 year	0.0	0.0
Total	5,633.3	5,394.0

Classification of customers

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

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

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

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

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

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

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

Credit exposure continued

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

EURm 30 June 2018	PD level		Gross exposure			Expected Credit Loss			Net exposure			Net exposure, ex collateral		
	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	0.01	0.00	0.5	-	-	0.0	-	-	0.5	-	-	0.0	-	-
2	0.03	0.01	800.8	1.6	0.0	0.0	0.0	0.0	800.8	1.6	0.0	119.7	0.0	0.0
3	0.06	0.03	1,457.1	6.1	0.0	0.0	0.0	0.0	1,457.1	6.1	0.0	22.4	0.1	0.0
4	0.14	0.06	1,599.6	13.7	-	0.0	0.0	0.0	1,599.5	13.7	0.0	31.7	0.4	0.0
5	0.31	0.14	1,049.4	25.1	-	0.0	0.0	0.0	1,049.4	25.1	0.0	28.3	0.5	0.0
6	0.63	0.31	301.1	39.7	-	0.0	0.0	-	301.1	39.6	-	8.1	1.1	-
7	1.90	0.63	119.9	65.4	-	0.0	0.1	-	119.9	65.3	-	3.6	1.7	-
8	7.98	1.90	12.7	36.8	0.3	0.0	0.2	-	12.7	36.7	0.3	0.4	0.8	0.0
9	25.70	7.98	6.2	61.8	0.0	0.0	0.4	-	6.2	61.4	0.0	0.3	0.9	-
10	99.99	25.70	13.6	17.5	3.0	-	-	0.0	13.6	17.5	3.0	0.2	0.8	0.0
11 (default)	100.00	100.00	0.1	1.3	0.6	-	-	0.0	0.1	1.3	0.6	0.0	0.0	0.0
Total			5,361.1	269.1	3.9	0.2	0.7	0.0	5,361.0	268.5	3.9	214.6	6.2	0.0

Credit exposure relating to lending activities by classification, EURm

Rating category	PD scale (%) 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