Interim Report January-June 2020

Danske Mortgage Bank Plc

Danske Bank

DANSKE MORTGAGE BANK PLC'S INTERIM REPORT FOR JANUARY-JUNE 2020

Danske Mortgage Bank Plc's financial performance remained solid in January–June 2020. Loan portfolio matures still at a constant pace as expected. Loan portfolio has been managed by buying and selling loans to Danske Bank A/S, Finland Branch. During the first half year of 2020 Danske Mortgage Bank issued a covered bond with nominal value EUR 1.0 billion which is listed in Euronext Dublin. To cover the issued bond EUR 0.5 billion mortgage loans were purchased. Additional net loan purchases EUR 1.3 billion were financed with assets received from matured loans and with both short-term and long-term financing from the parent company.

Demand for mortgage loans remained at a moderate level at half-year period. Approximately 17 per cent of Danske Mortgage Bank's customers have applied for forbearance due to the coronavirus pandemic, due to its ramifications, or for other reasons. The average duration of forbearance has been six months and therefore it does not change significantly the expected repayment period for the loan portfolio. The balance of cover pool eligible mortgages at Danske Bank Group's Finnish businesses has remained at a good level.

The Total operating income of Danske Mortgage Bank increased being EUR 25.0 million for January-June 2020 (EUR 19.7 million for January-June 2019). The weakened economic outlook due to the outbreak of the coronavirus pandemic resulted in a slight increase in final write-offs and impairment charges, but the quality of loan portfolio has remained still good. Non-performing loans that are delayed for over 90 days amounted to EUR 0.4 million (EUR 0.4 million at the end of December 2019) that is 0.01 % of loans. These amounts are accounted for by the fact that the Bank sells non-performing loans. The final write-offs from the sale of loans were EUR 0.6 million euros which is at scaled annually 0.02 per cent in relation to average loan portfolio,

The annualized return on equity amounted to 8.3 % at the end of June 2020 (6.5 % in January - December 2019). As recommended by FIN-FSA Danske Mortgage Bank's Annual General Meeting decided that no dividend will be paid for financial year 2019, nor any other distribution of profits to shareholders before 1 October 2020. This increased company's equity by EUR 18.5 million and at the same time decreased return on equity. Based on the recommendations of the ECB and the ESRB, the FIN-FSA extended the validity of the profit distribution recommendation on 28 July 2020 that credit institutions under its direct supervision do not pay nor commit to pay dividends or other profit distributions for financial years 2019 and 2020 until 1 January 2021.

Danske Mortgage Bank Plc in brief

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

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

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

Operating environment

Before the corona epidemic began, the expectation for 2020 was slow but steady economic growth. In 2019, the Finnish GDP grew only 1.1 per cent and the forecast for 2020 was similar. However, following the corona pandemic, the Finnish economy entered a recession in H1 2020. GDP contracted 1.9 per cent already in Q1

2020 (q/q) and the decline steepened considerably in spring due to measures taken to stop the virus from spreading. All the main subcomponents of GDP contracted steeply in H1 2020. Nevertheless, the consequences of the epidemic have so far been less severe in Finland than in many countries. In the beginning of summer, we have seen noticeable recovery, when the corona restrictions have been lifted and, at least temporarily, the dormant epidemic has made economic activity possible. Also Finnish export industries have so far coped well with the first wave of corona. Business and consumer confidence indicators plummeted in spring but have recovered during summer. Public finances will deteriorate noticeably in 2020 due to a contraction in tax revenues and social security contributions and a rise in unemployment expenditure.

The Finnish labour marker started the year 2020 from a good position. In February, the trend of employment rate reached record-breaking 73.4 per cent. However, the corona epidemic turned employment levels to a steep decline in spring. Initial adjustment in the labour market has come mainly through temporary layoffs in labour intensive service industries. The number of layoffs rose to over 170,000 but has come down significantly as of the end of May once the corona lockdown was gradually lifted. Actual unemployment has risen only moderately so far but the rise of unemployment remains a significant risk in H2 2020.

Construction permits have declined for over two years but the volume of housing construction remains high. The flow of new finished apartments has slowed down a little but it is still noticeably above the average level in the 2000s. The Finnish housing market slowed down temporarily in spring due to the corona epidemic. Number of transactions fell by roughly one third in April and May but the situation returned quickly to normal in summer. So far, the epidemic has not influenced housing prices. Housing prices have remained nearly flat on average in H1 2020, but local differences are significant. Household home purchase intentions remained even surprisingly high in summer 2020. The Finnish housing market looks relatively stable but a longer lasting economic crisis would also hit the housing market and create downward pressure to prices.

Monetary policy has been accommodative for a long time and interest rates are going to stay low in 2020 and beyond. The European Central Bank began a new pandemic emergency purchase programme (PEPP) worth EUR 1,350 billion to combat the corona crisis. Low interest rates make debt burden easier for households and corporates. In addition, many households have utilized interest only periods. Housing loan stock has grown at the modest rate of approximately 2.5 per cent. For employed households, the purchasing power continues to rise supported by earnings growth and low inflation. Unusually low consumption demand in spring has raised savings rate and created economic buffers in many households. In the future, we expect the Finnish economy to recover gradually but the corona pandemic continues to create a considerable risk for the development of the operating environment and stable credit markets.

Financial review [1]

The Bank's profit before taxes for January–June 2020 was EUR 16.1 million (12.1 million). The result increased to EUR 12.9 million (9.7 million). Annualized return on equity amounted to 8.3 per cent for the first half of 2020 (7.0 per cent).

Total operating income for the first half of 2020 increased by 26.9 per cent compared to the same period a year earlier totalling EUR 25.0 million (19.7 million). The net interest income developed as expected totalling to EUR 23.1 million (18.4 million), and increased by 25.3 per cent compared to the same period last year. The positive development was due to the decrease in financing costs and due to the increased loan portfolio. The Net fee income increased due to the increased loan portfolio to EUR 1.1 million (1.0 million). Net trading income increased and amounted to EUR 0.8 million (0.3 million).

Cost to income ratio was 32.5 per cent (33.8 per cent). Total operating income increased compared to comparison period, which was mainly driven by the increase in net interest income. Operating expenses from

[1] The comparison figures in parentheses refer to the first six months of 2019.

January-June increased compared to the same period last year and totalled to EUR 8.1 million (6.7 million). The increase in costs is explained by the higher Resolution Fund payment for 2020 and increase in the Danske Bank Group's internal recharges.

Impairment charges and final write-offs totalled to EUR 0.8 million (1.0 million) of which final write-offs totalled to EUR 0.6 million (EUR 0.1 million). The weakened economic outlook due to the outbreak of the coronavirus pandemic resulted in a slight increase in final write-offs and impairment charges. Impairment charges are expected to remain at the moderate level in the coming half year, due to the changes already done to forward-looking estimates, assuming no further deterioration in macroeconomic assumptions. Higher net impairments in January - June 2019 were due to model change on calculation of loss given default. Non-performing loans were sold regularly to Danske Bank A/S, Finland Branch and final-write offs realizes from loan sales.

Balance sheet and funding [2]

The Bank's balance sheet total was EUR 6,617.5 million (5,286.5 million) and loans and receivables from customers increased to EUR 6,228.2 million (4,994.5 million). The growth in Balance sheet was due to the covered bond issued in January 2020, which is listed in Euronext Dublin with nominal value EUR 1,000 million and loan purchases from Danske Bank A/S, Finland Branch.

The financial and liquidity situation remained good, and short-term funding from Danske Bank A/S performed well during the period. The LCR liquidity buffer was EUR 140.2 million (185.0 million) and remained at a good level.

With a liquidity coverage ratio (LCR) of 402 per cent end of June 2020 (172 per cent), the Bank 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 [2]

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

Total capital consists of tier 1 capital that is common equity tier 1 capital after deductions. On 30 June 2020, the total capital amounted to EUR 296.8 million (280.9 million), and the total capital ratio was 28.5 (35.8) per cent. The common equity tier 1 capital ratio was 28.5 (35.8) per cent. Total capital has increased by EUR 18.5 million due to the decision to refrain from dividend distributions until 1 October 2020 as recommended by the FIN-FSA due to uncertainty created by the coronavirus pandemic. Profit after taxes for January-June 2020 is not included in Tier 1 distributable capital.

On 30 June 2020, Risk exposure amount (REA) was EUR 1,041.1 million (783.8 million).

Leverage ratio

The Bank´s leverage ratio was 4.5 per cent on 30 June 2020 (5.4 at the end of December 2019). The leverage ratio is calculated based on the second quarter end figures whereby the tier 1 capital was EUR 296.8 million (280.9 million) and leverage ratio exposure EUR 6,575.1 million (5,225.7 million). Change in leverage ratio is mainly due to the increase in Loans and receivables from customers.

Leverage ratio table is presented after the solvency table as per 30 June 2020.

---

[2] The comparison figures in parentheses refer to December 2019 figures.

Capital buffers

In June 2018 FIN-FSA decided to impose on credit institutions a structural additional capital requirement that is a systemic risk buffer. The additional capital requirement based on the systemic risk buffer entered into effect on 1 July 2019. For Danske Mortgage Bank Plc it was at a level of 1.0 per cent. In April 2020 FIN-FSA decided to lower the Finnish credit institutions' capital requirements. The decision entered into force immediately. The reduction is implemented by removing the systemic risk buffer and by adjusting credit institution-specific requirements so that the structural buffer requirements of all credit institutions will fall by 1 percentage point.

In June 2020 the FIN-FSA decided not to increase the countercyclical capital buffer requirement (variable capital add-on) applicable to banks. The requirement will remain at zero until further notice.

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

SOLVENCY

Own funds	30.6.2020	31.12.2019	30.6.2019
EURm			
Common Equity Tier 1 capital before deductions	**316.3**	**303.5**	**294.7**
Share capital	70.0	70.0	70.0
Reserves for invested unrestricted equity	215.0	215.0	215.0
Retained earnings	18.5	-	-
Total comprehensive income for the period	12.9	18.5	9.7
Deductions from CET1 capital	**-19.6**	**-22.5**	**-14.4**
Proposed/paid dividends /part of profit not included in CET1	-12.9	-18.5	-9.7
Value adjustments due to the requirements for prudent valuation	-0.1	-0.1	-0.2
IRB shortfall of credit risk adjustments to expected losses	-6.6	-4.0	-4.6
Common Equity Tier 1 (CET1)	**296.8**	**280.9**	**280.3**
Additional Tier 1 capital (AT1)	**-**	**-**	**-**
Tier 1 capital (T1 = CET1 + AT1)	**296.8**	**280.9**	**280.3**
Tier 2 capital (T2)	-	-	-
Total capital (TC = T1 + T2)	**296.8**	**280.9**	**280.3**
Total risk exposure amount (REA)	**1 041.1**	**783.8**	**882.9**
Capital requirement (8% of risk exposure amount)	**83.3**	**62.7**	**70.6**
Credit and counterparty risk	78.5	57.9	65.7
Operational risk	4.8	4.8	5.0
Common equity tier 1 capital ratio (%)	**28.5 %**	**35.8 %**	**31.7 %**
Tier 1 capital ratio (%)	**28.5 %**	**35.8 %**	**31.7 %**
Total capital ratio (%)	**28.5 %**	**35.8 %**	**31.7 %**

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	**30.6.2020**	**31.12.2019**	**30.6.2019**
Total assets	6 617.5	5 286.5	5 909.5
Derivatives accounting asset value	-80.4	-89.5	-118.8
Derivatives exposure to counterparty risk ex. collateral	44.5	32.6	40.2
Undrawn committed and uncommitted facilities, guarantees and loan offers	0.0	-	0.0
Adjustment to CET1 due to prudential filters	-6.6	-4.0	-4.6
Total exposure for leverage ratio calculation	6 575.1	5 225.7	5 826.3
Reported tier 1 capital (transitional rules)	296.8	280.9	280.3
Tier 1 capital (fully phased-in rules)	296.8	280.9	280.3
Leverage ratio (transitional rules)	4.5 %	5.4 %	4.8 %
Leverage ratio (fully phased-in rules)	4.5 %	5.4 %	4.8 %

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

Minimum requirements:	30.6.2020	31.12.2019	30.6.2019
Common Equity Tier (CET) 1 capital ratio	4.50 %	4.50 %	4.50 %
Tier 1 capital ratio	6.00 %	6.00 %	6.00 %
Total capital ratio	8.00 %	8.00 %	8.00 %
Capital buffers:			
Capital conservation buffer [1]	2.50 %	2.50 %	2.50 %
Institution-specific countercyclical capital buffer	0.00 %	0.00 %	0.00 %
Countercyclical buffer [2]	-	-	-
Systemic risk buffer [3]	-	1.00 %	-
Minimum requirement including capital buffers:			
Common Equity Tier (CET) 1 capital ratio	7.00 %	8.00 %	7.00 %

[1] Valid from 1.1.2015 onwards.

[2] On 29th June 2020, FIN-FSA decided not to set any countercyclical buffer.

[3] Valid from 1.7.2019 onwards until FIN-FSA decided on 6 April 2020 to remove Systemic risk buffer requirement.

Credit ratings

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

Employees and organisation

The Bank had 6 employees at the end of the reporting period (31 December 2019: 7). The average amount of personnel in January- June was 5 (financial period 2019: 6).

Danske Mortgage Bank Plc's Board of Directors and auditors

As members of the Bank's Board of Directors remained Glenn Söderholm (Chairman), Robert Wagner, Lisbet Kragelund, Riikka Laine-Tolonen, Tomi Dahlberg and Maisa Hyrkkänen.

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

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

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

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

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

Significant accounting policies

This interim report covers Danske Mortgage Bank Plc. The interim report has been drawn up according to the same accounting principles as in the annual financial statements for 2019. Accounting policies are explained in the Notes to the Interim report, and are presented in detail in the Notes to the 2019 financial statements.

Risk management

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

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

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

The Bank's risk position has been low. The Covid-19 pandemic has however increased the amount of interest only periods and forbearance registrations which could have an impact on the credit quality of the portfolio going forward. 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 0.4 million (EUR 0.4 million at the end of December 2019).

More detailed information of risks and risk management can be found in the 2019 annual report. More information regarding credit exposures can be found in this interim report on page 17.

Events after the reporting period

No material events after the reporting period.

Outlook for 2020

The economic outlook for global and Finnish economy were weakened and uncertain end of June 2020 due to pandemic situation. Society's and central banks' broad actions have for their part supported strongly financial market, and this will continue also in the future. Uncertainty in the financial market may suddenly increase if the pandemic situation worsens, and which may increase the cost of refinancing.

However, it is expected that the net interest income will be at the better level than in 2019. Net interest income is directly affected by the volume of loan portfolio which has increased compared to last year. On refinancing the adverse development in financial market may lower the net interest income.

The non-performing loans and impairments are expected to increase due to the economic development. However, we expect them to remain at a low level. The quality of loan portfolio is high based on the fact that loans are covered by mortgage collaterals, based on customer selection by risk profile and due to regular sale of non-performing loans.

Bank's solvency is expected to remain strong.

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

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

Helsinki, 14 August 2020

Danske Mortgage Bank Plc
Board of Directors

****
Further information:

Pekka Toivonen, CEO
Tel. 010 546 7718

The figures in this interim report have not been audited.

Danske Mortgage Bank Plc's financial statement for January–December 2020 will be released on 9 February 2021. Releases and other company information can be found on the Bank's website at danskebank.com/investor-relations/debt/danske-mortgage-bank.

Danske Bank

STATEMENT OF COMPREHENSIVE INCOME

MEUR	Note	1-6/2020	1-6/2019	1-12/2019
Interest income calculated using the effective interest method	1	21.7	22.8	42.3
Other interest income	1	23.3	26.1	49.4
Interest expense	1	-22.0	-30.5	-56.1
Net interest income	1	23.1	18.4	35.6
Fee income		1.1	1.0	2.1
Fee expenses		0.0	0.0	0.0
Net trading income		0.8	0.3	0.5
Other income		0.1	-	0.1
Total operating income		**25.0**	**19.7**	**38.2**
Staff costs		-0.3	-0.3	-0.7
Other operating expenses		-7.8	-6.3	-13.1
Total operating expenses		**-8.1**	**-6.7**	**-13.8**
Loan impairment charges	2	-0.8	-1.0	-1.4
Profit before taxes		**16.1**	**12.1**	**23.1**
Taxes		-3.2	-2.4	-4.6
Net profit after tax		**12.9**	**9.7**	**18.5**
Total comprehensive income for the financial year		**12.9**	**9.7**	**18.5**

BALANCE SHEET

MEUR	Note	6/2020	6/2019	12/2019
Assets				
Cash and balances with central banks		117.1	139.1	159.4
Loans and receivables to credit institutions	2	148.7	25.5	-
Trading portfolio assets	5, 6	80.4	118.8	89.5
Loans and receivables to customers	2	6 228.2	5 582.0	4 994.5
Tax assets		0.6	1.0	1.1
Other investment securities		40.7	40.4	40.3
Other assets		1.8	2.7	1.8
Total assets		**6 617.5**	**5 909.5**	**5 286.5**
Liabilities				
Due to credit institutions and central banks	7	1 460.6	727.9	1 129.6
Trading portfolio liabilities	5, 6	16.4	20.3	13.9
Debt securities in issue	8	4 819.1	4 848.8	3 818.3
Tax liabilities		0.4	-	-
Other liabilities		4.6	17.8	21.3
Total liabilities		**6 301.1**	**5 614.9**	**4 983.0**
Equity				
Share capital		70.0	70.0	70.0
Reserves		215.0	215.0	215.0
Retained earnings		31.3	9.7	18.5
Total equity		**316.3**	**294.7**	**303.5**
Total equity and liabilities		**6 617.5**	**5 909.5**	**5 286.5**

STATEMENT OF CHANGES IN EQUITY

EURm	Share capital	Reserves for invested unrestricted equity	Retained earnings	Total
Equity at 1 January 2019	**70.0**	**170.0**	**21.6**	**261.6**
Shareholders contribution		45.0		45.0
Total comprehensive income			9.7	9.7
Dividend distribution			-21.6	-21.6
Equity at 30 June 2019	**70.0**	**215.0**	**9.7**	**294.7**
Equity, 1 January 2019	70.0	170.0	21.6	261.6
Shareholders contribution		45.0		45.0
Total comprehensive income			18.5	18.5
Dividend distribution			-21.6	-21.6
Equit at 31 December 2019	**70.0**	**215.0**	**18.5**	**303.5**
Equity at 1 January 2020	**70.0**	**215.0**	**18.5**	**303.5**
Total comprehensive income			12.9	12.9
Equity 30 June 2020	**70.0**	**215.0**	**31.3**	**316.4**

CASH FLOW STATEMENT

EURm	1-6/2020	1-6/2019	1-12/2019
Cash flow from operations			
Profit before tax	16.1	12.1	23.1
Loan impairment charges	0.8	1.0	1.4
Tax paid	-2.3	-4.9	-7.1
Other non-cash operating items	-17.0	-9.5	-4.0
Total	**-2.4**	**-1.3**	**13.3**
Changes in operating capital			
Due to credit institutions	331.1	19.6	421.2
Trading portfolio	11.6	11.4	34.4
Other financial instruments	-0.5	5.0	5.2
Loans and receivables	-1 234.5	-81.7	505.4
Other assets/liabilities	998.4	0.1	-1 043.7
Cash flow from operations	**103.8**	**-47.0**	**-64.3**
Cash flow from financing activities			
Dividends	-	-21.6	-21.6
Capital injection from parent company	-	45.0	45.0
Cash flow from financing activities	**-**	**23.4**	**23.4**
Cash and cash equivalents, beginning of period	146.2	187.1	187.1
Change in cash and cash equivalents [1]	103.8	-23.6	-40.9
Cash and cash equivalents, end of period	**249.9**	**163.5**	**146.2**
Cash in hand and demand deposits with central banks [1]	101.2	138.0	146.2
Amounts due from credit institutions and central banks within 3 months	148.7	25.5	0.0
Total	**249.9**	**163.5**	**146.2**

[1] The minimum reserve in Bank of Finland is not included.

Reconciliation of liabilities arising from financing activities

On 30th June 2020 there were no liabilities arising from financing activities.

SEGMENT INFORMATION

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

DANSKE MORTGAGE BANK PLC'S FINANCIAL HIGHLIGHTS

		1-6/2020	1-6/2019	1-12/2019
Net interest income	EURm	23.1	18.4	35.6
Total operating income	EURm	25.0	19.7	38.2
Total operating expenses	EURm	8.1	6.7	13.8
Impairment charges on loans and receivables [1]	EURm	0.8	1.0	1.4
Profit before taxes	EURm	16.1	12.1	23.1
Cost to income ratio	%	32.5	33.8	36.0
Total amount of balance sheet at the end of the period	EURm	6 617.5	5 909.5	5 286.5
Equity at the end of the period	EURm	316.3	294.7	303.5
Return on equity [2]	%	8.3	7.0	6.5
Solvency ratios	%	28.5	31.7	35.8
Number of staff (FTE) at the end of the period		6	6	7
Average number of staff		5	5	6
Return on assets [2]	%	0.4	0.3	0.3
Equity/assets ratio	%	4.8	5.0	5.7

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

[2] Annualized

Definition of Alternative Performance Measures:

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

The annual report contains a number of key performance indicators (so-called alternative performance measures - APMs), which provide further information about Danske Mortgage Bank Plc. There are no adjusting items, which means that net profit is the same in the financial highlights and in the IFRS income statement. The differences between the financial highlights and the IFRS financial statements relate only to additional figures being presented in Board of Directors' disclosure which are not required by the IFRS -standards.

Def initions of additional performance measures presented in Financial Highlights:

Cost to income ratio, % :

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

Return on equity, % :

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

Return on assets, % :

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

Equity/assets ratio, % :

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

NOTES TO THE INTERIM REPORT

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

Danske Mortgage Bank Plc's Interim Report January - June 2020 has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by EU. The report is condensed and should be read in conjunction with the Annual Report 2019. Danske Mortgage Bank Plc has not changed its significant accounting policies from those applied in the Annual Report 2019. Annual Report 2019 provides a full description of the significant accounting policies. Amendments in IFRS-standards implemented on 1 January 2020 had no impact on the financial statements.

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

Standards and interpretations not yet in force
The Annual report 2019 provides a full description of new IFRSs and amendments to IFRSs that have not yet come into force. As mentioned in the Annual report 2019, there are no new standards and amendments, that are likely to affect the future financial reporting.

Accounting estimates and assessments
The Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the financial statements. Management's judgement is also used with the adaption of accounting policies. The estimates and assumptions that are deemed critical to the financial statements are described in Notes to the Annual Report 2019.

Accounting treatment of the impacts from the COVID-19 pandemic
The effect of the COVID-19 pandemic began to affect the Bank's credit portfolio in the first quarter of 2020. However, we remain to see further credit deterioration as the effect is currently limited and mitigated by the continued government support packages. Based on the measures taken by governments across the world and in the Bank's market area to contain the virus, economies are seeing lower activity in the short-term, although especially in the Nordic economies, the activity in many sectors is back to a normal activity level already in the second quarter of 2020 after the reopening of societies. However, the implications of the COVID-19 pandemic are expected to have an impact on the credit quality of the Bank's credit exposure in the future periods. The forward-looking elements of the IFRS 9 impairment model implies that impairments for expected upcoming credit deteriorations are covered through the estimated worsening in macroeconomic scenarios used.

For most of the Bank's credit portfolio, the negative impact on the individual specific customers from the COVID-19 pandemic is expected to materialise over the coming quarters. Customer assessments were made on an ongoing basis, and impairments were revisited in light of the changed outlook. While customer activity in the first half of 2020 was higher than usual, most customers are still assessing the consequences, and the financial consequences for the customers still remain to be seen when, for instance, government support packages will come to an end. Therefore, the impact on rating categories and PDs and the assessment of the transfer of exposures from stage 1 to stage 2 and 3 does not yet capture the full impact of the COVID-19 pandemic.

The Bank's forbearance practices have been updated to pay particular attention to customers affected by the COVID-19 pandemic. This includes additional guidance to ensure that COVID-19 concessions are considered forbearance only if they relate to customers that are not deemed creditworthy combined with the customer's long-term financial position being further weakened by the outbreak. For the majority of the credit portfolio, short-term concessions to otherwise creditworthy customers are not considered forbearance. In practice, this means that short-term concessions to customers in rating categories 1 to 5 during the first half of 2020 are not considered a forbearance measure when taking the ongoing customer assessments into account. For customers in rating categories 6 and 7, an individual assessment of the customer's financial strength is made, whereas concessions to lower-rated customers are considered forbearance.

A large part of the impact on the expected credit losses resulting from the COVID-19 pandemic relates to changes to forward-looking information. The macroeconomic scenarios applied in 2020 have been changed from those applied at the end of 2019. The Bank's base case scenario is based on the Nordic Outlook compiled by Danske Bank's economists that reflects a significant decline in economic activity in 2020 followed by a recovery in 2021. The downside scenario has been updated to a longer-lasting COVID-19 scenario that includes a steeper decline than during the global financial crisis with double-digit decrease in GDP. The base case scenario is considered the most likely scenario with a likelihood of 70% while the downside scenario is attached a likelihood of 20%.

Financial calendar
The interim report has not been audited. The financial statements for 2019 are available on Danske Mortgage Bank Plc's web site https://danskebank.com/investor-relations/debt/danske-mortgage-bank.

The Bank publishes one interim report during the financial year 2020. The annual report for January-December 2020 will be released on 9 February 2021.

OTHER NOTES

1 NET INTEREST INCOME

EURm	1-6/2020	1-6/2019	1-12/2019
Interest income calculated using effective interest method			
Loans and receivables to credit institutions	-0.5	-0.1	-2.0
Loans and receivables to customers	22.0	22.7	43.8
Other interest income	0.2	0.2	0.4
Total	21.7	22.8	42.3
Interest income			
Debt securities	0.1	0.1	0.2
Derivatives, net	23.2	25.9	49.2
Total	23.3	26.1	49.4
Interest expenses			
Amounts owed to credit institutions	1.4	0.6	2.4
Debt securities in issue	-23.4	-31.1	-58.5
Other interest expenses	0.0	0.0	0.0
Total	-22.0	-30.5	-56.1
Net interest income	**23.1**	**18.4**	**35.6**

Negative interest income and negative interest expenses amounted to EUR 0.5 million (1-6/2019: EUR 0.1 million) and EUR 1.5 million (1-6/2019: EUR 0.7 million), respectively. Negative interest income is offset against interest income and negative interest expenses against interest expenses.

2 LOANS AND OTHER RECEIVABLES AND IMPAIRMENT

Loans and other receivables and impairment

EURm	6/2020	12/2019
Loans and receivables to customers		
Private customers	6 230.8	4996.4
Impairment charges	-2.6	-1.9
Total	6 228.2	4994.5
Cash and balances at central banks and loans and receivables from credit institutions		
Balances with central banks*	117.1	159.4
Loans and receivables from credit institutions		
Other loans	148.7	-
Allowances	0.0	0.0
Total	265.8	159.4
Loans and receivables total	**6 494.0**	**5153.9**

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

Loan impairment charges

1000 EUR	1-6/2020	1-6/2019	1-12/2019
ECL on new assets	37.9	-8.9	-119.4
ECL on assets derecognised	605.6	55.1	136.9
Impact of net remeasurement of ECL (incl. changes in models)	-776.8	-911.7	-1 126.3
Final write-off charges	-638.8	-115.0	-310.9
Interest income, effective interest method	-	2.0	-
Total	-772.1	-978.5	-1 419.7

Reconciliation of total allowance account on loans

1000 EUR	6/2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the period, 1.1.2020	186.8	1 689.8	6.7	1 883.3
Transferred to Stage 1 during the period	189.0	-189.0	0.0	-
Transferred to Stage 2 during the period	-46.8	56.0	-9.2	-
Transferred to Stage 3 during the period	-0.6	-47.8	48.4	-
ECL on new assets	5.1	300.6	0.9	306.6
ECL on assets derecognised	-13.5	521.3	92.3	600.1
Impact of net remeasurement of ECL (incl. changes in models)	6.8	760.0	10.0	776.8
Write-offs debited to the allowance account	-3.2	-605.5	-30.0	-638.8
Other changes	209.7	-456.1	-115.0	-361.3
Balance at end of period, 30.6.2020	533.3	2 029.3	4.2	2 566.8

	12/2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the period, 1.1.2019	156.6	635.9	3.0	795.5
Transferred to Stage 1 during the period	176.2	-173.8	-2.4	-
Transferred to Stage 2 during the period	-11.8	19.8	-8.0	-
Transferred to Stage 3 during the period	-0.6	-23.2	23.9	-
ECL on new assets	-	118.7	4.8	123.5
ECL on assets derecognised	-26.0	85.8	114.2	174.0
Impact of net remeasurement of ECL (incl. changes in models)	-118.2	1 239.3	8.4	1 129.5
Write-offs debited to the allowance account	-2.0	-230.6	-78.4	-310.9
Other changes	12.6	17.8	-58.8	-28.3
Balance at end of period, 31.12.2019	186.8	1 689.8	6.7	1 883.3

Classification of customers

The main objectives of risk classification are to rank the Danske Mortgage Bank'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 Danske Mortgage Bank 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. Danske Mortgage Bank's classification scale consists of 11 main rating categories with fixed PD bands. During a downturn, a customer's PIT PD may increase, and the customer may migrate to a lower rating category. The effect from a downturn is thus larger when PIT PD is used than if the classification was based on through-the-cycle (TTC) PD, which Danske Mortgage Bank 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 individual 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

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 Danske Mortgage Bank, 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 portfolio broken down by rating category and stages in IFRS 9

EURm

6/2020	PD level		Gross exposure			Expected Credit Loss			Net exposure			Net exposure, ex collateral		
	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	0.00	0.01	-	-	-	-	-	-	-	-	-	-	-	-
2	0.01	0.03	351.6	0.2	-	0.0	0.0	-	351.6	0.2	-	118.2	0.0	-
3	0.03	0.06	1 204.7	2.3	-	0.0	0.0	-	1 204.6	2.3	-	11.7	0.0	-
4	0.06	0.14	1 768.2	9.6	-	0.0	0.0	-	1 768.2	9.6	-	27.8	0.1	-
5	0.14	0.31	1 499.8	79.1	-	0.1	0.0	-	1 499.7	79.1	-	29.0	1.4	-
6	0.31	0.63	577.4	192.7	-	0.1	0.1	-	577.3	192.5	-	14.6	4.2	-
7	0.63	1.90	238.2	93.6	-	0.2	0.2	-	238.0	93.4	-	7.5	2.3	-
8	1.90	7.98	42.6	107.0	-	0.1	0.6	-	42.5	106.5	-	1.8	2.1	-
9	7.98	25.70	20.0	156.1	-	0.0	1.1	-	20.0	155.1	-	0.5	3.4	-
10	25.70	99.99	0.8	3.2	-	0.0	0.0	-	0.8	3.1	-	0.1	0.0	-
11 (default)	100.00	100.00	0.2	0.2	0.5	0.0	0.0	0.0	0.2	0.2	0.5	0.0	0.0	0.0
Total			5 703.4	644.0	0.5	0.5	2.0	0.0	5 702.9	642.0	0.5	211.3	13.5	0.0

12/2019	PD level		Gross exposure			Expected Credit Loss			Net exposure			Net exposure, ex collateral		
	Upper	Lower	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	0.00	0.01	0.6	-	-	0.0	-	-	0.6	-	-	0.0	-	-
2	0.01	0.03	729.4	0.2	-	0.0	0.0	-	729.4	0.2	-	162.7	-	-
3	0.03	0.06	1 366.5	2.7	-	0.0	0.0	-	1 366.5	2.7	-	15.9	0.0	-
4	0.06	0.14	1 468.6	6.7	-	0.0	0.0	-	1 468.6	6.7	-	21.2	0.1	-
5	0.14	0.31	932.6	11.2	-	0.0	0.0	-	932.6	11.2	-	18.9	0.3	-
6	0.31	0.63	281.3	21.8	-	0.0	0.0	-	281.3	21.8	-	6.6	0.5	-
7	0.63	1.90	106.9	40.4	-	0.1	0.1	-	106.9	40.3	-	2.7	0.8	-
8	1.90	7.98	18.8	32.2	0.1	0.0	0.1	-	18.7	32.1	0.1	0.4	0.7	-
9	7.98	25.70	4.5	97.2	0.0	0.0	1.5	-	4.5	95.7	0.0	0.1	1.9	-
10	25.70	99.99	19.3	12.5	0.4	-	0.0	0.0	19.3	12.5	0.4	0.3	0.4	-
11 (default)	100.00	100.00	0.2	0.8	0.9	-	-	0.0	0.2	0.8	0.9	-	0.0	0.0
Total			4 928.7	225.7	1.4	0.2	1.7	0.0	4 928.5	224.0	1.3	228.7	4.8	0.0

3 THE BALANCE SHEET CLASSIFICATION

EURm ASSETS	Amortised cost Held to collect financial assets	Amortised cost Liabilities	Fair value through profit or loss Managed at fair value	Fair value through profit or loss Hedge	Non-financial assets and liabilities	Total
Cash and balances with central banks	117.1					117.1
Loans and receivables to credit institutions	148.7					148.7
Trading portfolio assets						
Derivatives				80.4		80.4
Investment securities, bonds			40.7			40.7
Loans and receivables to customers	6 211.3			16.9		6 228.2
Tax assets					0.6	0.6
Other assets					1.8	1.8
Total 30.6.2020	**6 477.0**	**-**	**40.7**	**97.3**	**2.4**	**6 617.5**

LIABILITIES						
Due to credit institutions and central banks		1 460.6				1 460.6
Trading porfolio liabilities				16.4		16.4
Debt securities in issue						
-> Bonds		4 741.0		78.1		4 819.1
Tax liabilities					0.4	0.4
Other liabilities					4.6	4.6
Total 30.6.2020	**-**	**6 201.7**	**-**	**94.5**	**5.0**	**6 301.1**

EURm ASSETS	Amortised cost Held to collect financial assets	Amortised cost Liabilities	Fair value through profit or loss Managed at fair value	Fair value through profit or loss Hedge	Non-financial assets and liabilities	Total
Cash and balances with central banks	159.4					159.4
Loans and receivables to credit institutions						-
Trading portfolio assets						
Derivatives				89.5		89.5
Investment securities, bonds			40.3			40.3
Loans and receivables to customers	4 980.6			13.9		4 994.5
Tax assets					1.1	1.1
Other assets					1.8	1.8
Total 31.12.2019	**5 139.9**	**-**	**40.3**	**103.4**	**2.9**	**5 286.5**

LIABILITIES						
Due to credit institutions and central banks		1 129.6				1 129.6
Trading porfolio liabilities				13.9		13.9
Debt securities in issue						
-> Bonds		3 746.5		71.8		3 818.3
Other liabilities					21.3	21.3
Total 31.12.2019	**-**	**4 876.1**	**-**	**85.7**	**21.3**	**4 983.0**

4 MATURITY ANALYSIS OF THE BALANCE SHEET

EURm

Assets	Total	< 1 year	> 1 year
Cash and balances with central banks	117.1	117.1	-
Loans and receivables to credit institutions	148.7	148.7	-
Trading portfolio assets	80.4	-	80.4
Other investment securities	40.6	-	40.6
Loans and receivables to customers	6 228.3	474.3	5 754.0
Tax assets	0.6	0.6	-
Other assets	1.8	1.8	-
Total 30.6.2020	**6 617.4**	**742.5**	**5 875.0**

Liabilities	Total	< 1 year	> 1 year
Due to credit institutions and central banks	1 460.6	168.6	1 292.0
Derivatives and other financial liabilities held for trading	16.4	-	16.4
Debt securities in issue	4 819.1	1 034.7	3 784.4
Tax liabilities	0.4	0.4	-
Other liabilities	4.6	4.6	-
Total 30.6.2020	**6 301.1**	**1 208.3**	**5 092.8**

Assets	Total	< 1 year	> 1 year
Cash and balances with central banks	159.4	159.4	-
Loans and receivables to credit institutions	-	-	-
Trading portfolio assets	89.5	-	89.5
Other investment securities	40.3	30.1	10.2
Loans and receivables to customers	4 994.5	420.2	4 574.3
Tax assets	1.1	1.1	-
Other assets	1.8	1.8	-
Total 31.12.2019	**5 286.5**	**612.5**	**4 674.0**

Liabilities	Total	< 1 year	> 1 year
Due to credit institutions and central banks	1 129.6	887.6	242.0
Derivatives and other financial liabilities held for trading	13.9	-	13.9
Debt securities in issue	3 818.3	1 003.5	2 814.8
Other liabilities	21.3	21.3	-
Total 31.12.2019	**4 983.0**	**1 912.4**	**3 070.7**

Maturity analysis of past due financial assets, net

EURm	6/2020	12/2019
Assets past due 30-90 days	3.7	5.0
Unlikely to pay	7.1	7.0
Nonperforming assets past due at least 90 days but no more than 180 days	0.4	0.4
Nonperforming assets past due at least 180 days - 1 year	-	-
Nonperforming assets more than 1 year	-	-
Receivables with forbearance measures, gross carrying amount	155.1	104.4

Danske Bank

5 FAIR VALUE INFORMATION FOR FINANCIAL INSTRUMENTS

Financial instruments are carried on the balance sheet at fair value or at amortised cost. Note 10 in Annual Report 2019 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 2019, note 10.

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

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

During the reporting period ending 30 June 2020, there were no transfers between Level 1 (Quoted prices) and Level 2 (Observable input) fair value measurements, and no transfers into and out of Level 3 (Non-observable input) fair value measurement.

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

	6/2020			
EURm	Quoted prices	Observable input	Non-observable input	**Total**
Financial assets				
Investment securities, bonds	30.6	10.2	-	40.7
Derivative financial instruments	-	80.4	-	80.4
Total	**30.6**	**90.6**	**-**	**121.1**
Financial liabilities				
Derivative financial instruments	-	16.4	-	16.4
Total	**-**	**16.4**	**-**	**16.4**

	12/2019			
EURm	Quoted prices	Observable input	Non-observable input	**Total**
Financial assets				
Investment securities, bonds	20.2	20.0	-	**40.3**
Derivative financial instruments	-	89.5	-	**89.5**
Total	**20.2**	**109.5**	**-**	**129.8**
Financial liabilities				
Derivative financial instruments	-	13.9	-	**13.9**
Total	**-**	**13.9**	**-**	**13.9**

6 DERIVATIVE FINANCIAL INSTRUMENTS

EURm	6/2020		
	Fair value		Notional
Derivatives held for hedging	Assets	Liabilities	amount
Fair value hedges	**80.4**	**16.4**	**9 974.9**
Interest rate			
OTC derivatives	80.4	16.4	9 974.9
Total derivatives held for hedging	**80.4**	**16.4**	**9 974.9**

Nominal value of the underlying instrument

Remaining maturity	Less than 1 year	1-5 years	Over 5 years
	2 000.0	6 888.9	1 086.1

	12/2019		
	Fair value		Notional
Derivatives held for hedging	Assets	Liabilities	amount
Fair value hedges	**89.5**	**13.9**	**7 742.9**
Interest rate			
OTC derivatives	89.5	13.9	7 742.9
Total derivatives held for hedging	**89.5**	**13.9**	**7 742.9**

Nominal value of the underlying instrument

Remaining maturity	Less than 1 year	1-5 years	Over 5 years
	1 000.0	6 526.5	216.4

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

EURm **Derivatives with positive fair value**	**6/2020**	**12/2019**
Derivatives with positive fair value before netting	80.4	89.5
Netting (under accounting rules)	-	-
Carrying amount	80.4	89.5
Netting (under capital adequacy rules)	16.4	13.9
Net current exposure	64.0	75.6
Collateral	78.6	78.7
Net amount	-14.7	-3.1

7 AMOUNTS OWED TO CREDIT INSTITUTIONS

EURm	6/2020	6/2019	12/2019
Deposits from credit insitutions	1 460.6	727.9	1 129.6
Total	**1 460.6**	**727.9**	**1 129.6**

Danske Bank

8 DEBT SECURITIES IN ISSUE

EURm	6/2020	6/2019	12/2019
Finnish covered bonds	4 819.1	4 848.8	3 818.3

Nominal value
EURm

	1 January 2020	Issued	Redeemed	31 June 2020
Covered bonds	3750.0	1000.0	-	4750.0

	1 January 2019	Issued	Redeemed	31 December 2019
Covered bonds	4750.0	-	1000.0	3750.0

9 CONTINGENT LIABILITIES AND COMMITMENTS

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

Company's off-balance sheet items consists undrawn loans that totalled EUR 3.6 thousand at 30.6.2020 (EUR 0.0 thousand at 31.12.2019). Allowances on off-balance sheet items totalled to EUR 0.3 thousand at 30.6.2020 (EUR 0.0 thousand on 31.12.2019).

10 RELATED PARTY TRANSACTIONS WITH GROUP COMPANIES AND OTHER RELATED PARTIES

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

Related party transactions have not changed materially since 31.12.2019.