Annual Report 2017

Danske Mortgage Bank Plc

Danske Bank

DANSKE MORTGAGE BANK PLC

CONTENTS

Danske Mortgage Bank Plc is a Finnish bank which is part of the Danske Bank Group. Danske Bank Group is one of the largest financial enterprises in the Nordic region. This Financial Statement and Board of Directors' report covers Danske Mortgage Bank Plc.

DANSKE MORTGAGE BANK PLC BOARD OF DIRECTORS' REPORT 2017

Danske Mortgage Bank Plc in brief

In July 2017 the extraordinary general meeting of Danske Bank Plc approved the partial demerger in accordance with the demerger plan, according to which Danske Bank Plc shall demerge the mortgage credit banking operations. The demerger plan was first communicated on March 23, 2017. 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 Mortgage Bank Plc is domiciled in Helsinki and its business identity code is 2825892-7.

Danske Bank Group has merged its activities in Finland – Danske Bank Plc and Danske Bank A/S, Helsinki Branch – into a single branch, Danske Bank A/S, Finland Branch. Mortgage banking business is carried out by Danske Mortgage Bank Plc and starting from the 1st of January, 2018 the banking business in Finland is carried out by the local branch.

Danske Mortgage Bank Plc is operating as an issuer of covered bonds. Bonds issued by Danske Mortgage Bank Plc are covered by a pool of loans consisting of Finnish household mortgages. Danske Mortgage Bank Plc does not act as the originator of housing loans as it purchases loans from Danske Bank Plc and starting from January 1, 2018 from Danske Bank A/S, Finland Branch. Loans included in the mortgage bank's balance sheet are mostly Finnish households' mortgage loans with residential real estate or share in housing company as collateral.

In this Annual Report the figures are presented from the start of the business, meaning that this report covers November and December of 2017 and no comparison figures are presented. Throughout this report the term "Danske Mortgage Bank", "Mortgage Bank" and "Company" refers to Danske Mortgage Bank Plc. Danske Mortgage Bank Plc is a wholly-owned subsidiary of Danske Bank A/S, the parent company of Danske Bank Group. The Danske Bank Group is referred to as "Group".

Operating environment

Finland's GDP growth strengthened in 2017 to 3 per cent. However, the GDP still fell short of the previous business cycle peak, which means that the economy has still not fully recovered from the recession. The economic growth structure has become more versatile as Finnish exports and companies' investments have increased alongside private consumption and construction boosting economic growth. The positive development of Finnish export industry resulted in new orders for the industrial sector. Economic growth increased private sector employment and decreased the number of bankruptcies, which helped to keep banks' credit losses at a low level. The deficit of public sector decreased as the tax revenues increased and the public sector debt in relation to GDP fell slightly.

At the end of the year, consumers' confidence in the economy was clearly higher than on average. The decline in unemployment rate late fall was one of the best economic news in 2017.

The housing market looks relatively stable as a whole although the prices have risen in growth centres, whereas in the regions with decreasing population prices have declined slightly. The mortgage portfolio grew by 2.1 per cent in October 2017. The housing company loans have kept on increasing and at the same time increasing households' indebtedness. Despite the increase, 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. There was a slight increase in the payment defaults.

The European Central Bank pursued loose monetary policy and Euribor rates remained negative. The average interests for housing loans decreased slightly.

Financial review

Danske Mortgage Bank Plc's profit before taxes was EUR 4.5 million. The result was EUR 3.6 million. Annualized return on equity amounted to 8.9 per cent end of December 2017.

Total operating income for November and December 2017 amounted to EUR 6.8 million and the net interest income was EUR 6.1 million. Mortgage Bank's net fee income totalled EUR 0.4 million. Net trading income was EUR 0.3 million.

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

Individually assessed impairment charges and final write-offs totalled EUR 0.2 million. Non-performing loans will be sold to Danske Bank A/S, Finland Branch.

Balance sheet and funding

Danske Mortgage Bank Plc's balance sheet total for 2017 was EUR 5,565.9 million. Loans and receivables from customers was EUR 5,259.0 million.

The financial and liquidity situation has been good. All short-term funding was received from the Group. Mortgage Bank's liquidity buffer was EUR 135.0 million at the end of December 2017 and it consisted of deposits in central bank.

With a liquidity coverage ratio (LCR) of 274 per cent end of December 2017 Danske Mortgage Bank Plc is in compliance with the regulatory minimum requirement of 80% at the end of reporting period. According to the Capital Requirements Regulation (EU) No 575/2013 banks must have a LCR of 100 percent on 1.1.2018.

Via the demerger of Danske Bank Plc the amount of equity of EUR 240,0 million was transferred to Danske Mortgage Bank Plc, of which EUR 70,0 million is share capital and EUR 170,0 million of reserves for invested unrestricted equity. Danske Mortgage Bank Plc's result was EUR 3.6 million for the financial year of November and December, 2017. At the end of December 2017 the amount of equity of the Mortgage Bank totalled EUR 243.6 million.

Capital and solvency

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

In December 2017 Danske Mortgage Bank Plc received the approval to use the IRB approach for calculation of capital requirements for credit risk for retail exposures from Finnish and Danish FSA's, Finanssivalvonta and Finanstilsynet. This approval is effective from 31 December 2017.

In other respects Danske Mortgage Bank Plc applies standard method (capital requirement for credit and operational risk).

Danske Mortgage Bank Plc's capital management and practices are based on an internal capital and liquidity adequacy assessment process (ICLAAP). In this process, Danske Mortgage Bank Plc identifies its risks and determines its solvency need.

Danske Mortgage Bank´s total capital consists of tier 1 capital that is common equity tier 1 capital after deductions. On 31 December 2017, the total capital amounted to EUR 234.4 million, and the total capital ratio was 40.5 per cent. The common equity tier 1 capital ratio was 40.5 per cent.

Danske Mortgage Bank´s risk exposure amount (REA) was EUR 579.1 million.

Danske Mortgage Bank´s profit after taxes for year 2017 is not included in Tier 1 distributable capital.

Leverage ratio

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

CRR/CRD IV requires credit institutions to calculate, report and monitor their leverage ratios. The leverage ratio (LR) is defined as tier 1 capital as a percentage of the total exposure.

In order to count in the leverage ratio, the tier 1 capital must be eligible under CRR. The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items not deducted from tier 1 capital. Specific adjustments apply to derivatives.

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

Mortgage Bank´s leverage ratio was 4.3 per cent on 31 December 2017. The LR is calculated based on the fourth quarter end figures whereby the tier 1 capital was EUR 234.4 million and leverage ratio exposure EUR 5,443.5 million.

Leverage ratio table is presented after the solvency table as per 31 December 2017.

Capital buffers

In December 2017 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 FIN-FSA decided 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. The European Commission did not object this decision and the minimum risk weight level entered into force on 1 January 2018.

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

SOLVENCY

Own funds	31.12.2017
1000 EUR	
Common Equity Tier 1 capital before deductions	**243,568.6**
Share capital	70,000.0
Reserves for invested unrestricted equity	170,000.0
Total comprehensive income for the period	3,568.6
Deductions from CET1 capital	**-9,126.6**
Expected/proposed dividends	-3,568.6
Value adjustments due to the requirements for prudent valuation	-181.9
IRB shortfall of credit risk adjustments to expected losses	-5,376.1
Common Equity Tier 1 (CET1)	**234,442.0**
Additional Tier 1 capital (AT1)	**-**
Tier 1 capital (T1 = CET1 + AT1)	**234,442.0**
Tier 2 capital (T2)	-
Total capital (TC = T1 + T2)	**234,442.0**
Total risk exposure amount (REA)	**579,056.2**
Capital requirement (8% of risk exposure amount)	**46,324.5**
Credit and counterparty risk	**41,274.2**
Operational risk	**5,050.3**
Common equity tier 1 capital ratio (%)	**40.5 %**
Tier 1 capital ratio (%)	**40.5 %**
Total capital ratio (%)	**40.5 %**

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

The risk exposure amount calculated under the Basel I rules amounted to EUR 2,493,117.9 thousand at 31 December 2017. The capital need under the transitional rules (Basel I) was EUR 159,559.5 thousand at 31 December 2017.

LEVERAGE RATIO

1000 EUR	**2017**
Total assets	5,565,867.4
Derivatives (accounting asset value)	-158,101.1
Derivatives (exposure to counterparty risk ex. collateral)	41,318.0
Undrawn committed and uncommitted facilities, guarantees and loan offers	11.9
Adjustment to CET1 due to prudential filters	-5,558.0
Total exposure for leverage ratio calculation	5,443,538.2
Reported tier 1 capital (transitional rules)	234,442.0
Tier 1 capital (fully phased-in rules)	234,442.0
Leverage ratio (transitional rules)	4.3 %
Leverage ratio (fully phased-in rules)	4.3 %

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

Minimum requirements:	31.12.2017
Common Equity Tier (CET) 1 capital ratio	4.50 %
Tier 1 capital ratio	6.00 %
Total capital ratio	8.00 %
Capital buffers:	
Capital conservation buffer [1]	2.50 %
Institution-specific countercyclical capital buffer	0.00 %
Countercyclical buffer [2]	0.00 %
Minimum requirement including capital buffers:	
Common Equity Tier (CET) 1 capital ratio	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 22nd December 2017, FIN-FSA decided not to set any countercyclical buffer. Valid 12 months onwards from the decision.

Credit ratings

Pursuant to the incorporation of the former Danske Bank Plc's mortgage banking activities into Danske Mortgage Bank Plc, its issued covered bonds are rated 'Aaa' by Moody's Investor Services. The outlook is stable.

Employees and organization

Danske Mortgage Bank Plc had 4 employees at the end of the financial year.

Danske Mortgage Plc's Board of Directors, auditors and committees

There has been a change in the composition of Danske Mortgage Bank Plc's Board of Directors in December, 2017. Anders Norrena resigned from the Board on 31.12.2017. Subsequently, on 4th of January, 2018, Lisbet Kragelund has been elected to join Danske Mortgage Bank Plc's Board of Directors. At the end of the financial year the members of the Board of Danske Mortgage Bank were Jacob Aarup Andersen (chairman), Christoffer Møllenbach, Risto Tornivaara, Tomi Dahlberg and Maisa Hyrkkänen.

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

On July 31, 2017 the extraordinary general meeting of Danske Bank Plc elected Deloitte Ltd Audit Firm, as auditor of Danske Mortgage

Bank Plc, with Aleksi Martamo, APA, as the Key audit partner.

Related party loans and receivables can be found in note 22 and corporate governance on page 10.

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.

Via demerger Danske Bank Plc transferred its mortgage credit bank business to the new company, Danske Mortgage Bank Plc, which was demerged on October 31, 2017.

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

Risk management

The main objective of risk management is to ensure that the capital base is adequate in relation to the risks arising from the business activities. The Board of Directors of Danske Mortgage Bank Plc establishes the principles of risk management, risk limits and other general guidelines according to which risk management is organized at Danske Mortgage Bank Plc.

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

The main risks associated with Danske Mortgage Bank Plc's activities are credit risk, interest rate and liquidity risks of banking book, operational risks and various business risks. 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 1.4 million. Net impairment charges were EUR 0.2 million.

More detailed information of risks and risk management can be found in the Risk Management Disclosure on page 41.

Events after the reporting period

No material events after the reporting period.

Outlook for 2018

Short term interest rates are expected to remain very low also in 2018. The economic outlook for global economy and for Finland's economy were relatively good at the end of December 2017. Salary increases will enhance households' purchasing power and companies are investing to increase their production capacity.

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

Helsinki, 2 February 2018
Danske Mortgage Bank Plc
Board of Directors

Financial Highlights

1000 EUR	**2017**
Revenue	15,770
Net interest income	6,144
% of revenue	39.0
Profit before taxes	4,461
% of revenue	28.3
Total income [1]	6,808
Total operating expenses [2]	2,166
Cost to income ratio	31.8
Total assets	5,565,867
Equity	243,569
Return on assets, % [5]	0.4
Return on equity, % [5]	8.9
Equity/assets ratio, %	4.4
Solvency ratio, % [3]	40.5
Impairment on loans and receivables [4]	182
Off-balance sheet items	24
Average number of staff	4
FTE at end of period	4

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

Danske Mortgage Bank Plc was demerged at the 31st of October 2017 hence financial year in question is shorter than usual and its length is two months (November and December, 2017).

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

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

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

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

5) Annualized

Formulas used in calculating the financial highlights

Revenues: interest income, fee income, net trading income, other operating income and share of profit from associated undertakings

Cost to income ratio, %:

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

Return on equity, %

$$\frac{\text{profit before taxes - taxes}}{\text{equity (average) + non-controlling interests (average)}}$$

Return on assets, %

$$\frac{\text{profit before taxes - taxes}}{\text{average total assets}}$$

Equity/assets ratio, %

$$\frac{\text{equity + non-controlling interests}}{\text{total assets}}$$

CORPORATE GOVERNANCE

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

General meeting

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

Board of Directors

The Board of Directors shall consist of at least three and not more than seven ordinary members. The term of office of a member of the Board of Directors ends at the end of the first Annual General Meeting following the election.

At their first meeting following the Annual General Meeting, the members of the Board of Directors shall elect a Chairperson from amongst themselves and a Vice Chairperson for a term of office that ends at the end of the first Annual General Meeting following the election.

At the end of the financial year the members of the Board of Directors were Jacob Aarup Andersen (chairman), Christoffer Møllenbach, Risto Tornivaara, Tomi Dahlberg and Maisa Hyrkkänen.

Tomi Dahlberg and Maisa Hyrkkänen are independent of the Danske Bank Group. On 4th of January, 2018, Lisbet Kragelund has been elected to join Danske Mortgage Bank Plc's Board of Directors.

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

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

The Board of Directors of Danske Mortgage Bank Plc convened 5 times during 2017. The fee resulting from 2017 was EUR 5.3 thousand for the Danske Mortgage Bank Plc's Board members who are not within the Danske Bank Group.

Chief Executive Officer and Management team

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

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

In 2017 the CEO and Deputy CEO were paid a salary and fringe benefits of EUR 38.9 thousand.

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

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

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

Remuneration

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

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

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

Remuneration components

The various remuneration components are combined to ensure an appropriate and balanced remuneration package.

The remuneration components are:

- fixed remuneration (including fixed supplements)
- performance-based remuneration (variable salary)
- personnel fund
- pension schemes
- other benefits in kind
- severance payment

The fixed remuneration is determined on the basis of the role and position of the employee, including professional experience, responsibility and job complexity, performance and local market conditions.

The performance-based remuneration motivates and rewards good performers who significantly contribute to sustainable results, perform according to expectations set, strengthen long-term customer relations and generate income and shareholder value.

The Board of Directors has determined a maximum percentage of performance remuneration relative to the fixed remuneration in order to ensure an appropriate balance between fixed and variable pay. This level of variable remuneration will, in practice, only apply to a small minority of employees and will only be offered to enable the Company to match market terms.

Personnel Fund is part of performance-based remuneration. Personnel fund is a profit sharing system where every employee will receive his/her share from the Bank's profit. Danske Mortgage Bank Plc's personnel are members of the Danske Bank Plc Group's Personnel Fund except for personnel who fall within the sphere of the management remuneration system. The personnel fund system is governed by the law and rules of personnel fund. For 2017 no threshold income limit was set and thus no profit-sharing bonuses will be paid.

Pension schemes are mainly based on the Finnish pension legislation. Part of management has a pension insurance on individual or collective basis as part of their total remuneration.

Other benefits are awarded on the basis of individual employment contracts and local market practice.

Severance payments. The severance compensation to the CEO in addition to the salary paid for the period of notice equal to six (6) months' salary. Otherwise, the termination notice period compensation is determined on the basis of normal collective agreement.

Performance-based remuneration. Performance-based remuneration is awarded in a manner which promotes sound risk management, include ex post risk adjustments and discourage excessive risk-taking. If the performance-based remuneration exceeds the minimum threshold determined by the Board of Directors by granting performance-based pay as a split in shares (or other instruments as required by relevant legislation) and in cash, part of which will be deferred.

Non-disbursed performance-based components are subject to back testing (as a minimum for employees identified as material risk takers) and should be forfeited in full or in part if granted on the basis of unsustainable results, if the Company´s financial situation has deteriorated significantly, if there is a significant increase in the capital base, if the employee has been guilty of misconduct or serious error or if a significant failure in risk management has been found.

Further, for material risk takers a deferred bonus is conditional upon the employee not having been responsible for or having taken part in conduct resulting in significant losses for the Group (including business units), its shareholders and/or the Alternative Investment Funds managed by Alternative Investment Fund Managers or UCITS managed by management companies within the Group and that the employee has proven to be fit and proper.

Concerning all employees, disbursed as well as non-disbursed components are subject to claw back provisions if granted on the basis of data which has subsequently proven to be manifestly misstated or inaccurate. Clawback provisions apply during the entire period of deferral and retention.

Further, performance-based pay is awarded by ensuring:

- an appropriate balance between fixed and performance-based components
- that the fixed component represents a sufficiently high proportion of the total remuneration to make non-payment of the performance-based component possible
- employees or members of the Executive Board are required to undertake not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements, i.e. deferred conditional shares and the deferred conditional cash bonus
- that material risk takers cannot dispose of the share based instruments for an appropriate period of time after transfer of the instruments to the risk-taker

Performance-based pay is granted to reflect the Mortgage Bank´s financial results and the individual employee's performance. Further, both financial and non-financial factors shall be taken into consideration when determining the individual´s bonus, i.e. compliance with the Danske Bank Group´s core values, internal guidelines and procedures, including customers and investor related guidelines. A discretionary assessment is always made to ensure that other factors – including factors which are not directly measurable – are considered.

Performance-based remuneration (pools or pay-out) must be based on an assessment of the Company's results and a number of KPIs reflecting the Company's strategic key priorities. Dependant on the field of employment, the Company sets and uses an appropriate balance of absolute, relative, internal and external KPIs. E.g. the KPIs cover the following quantitative and qualitative criteria:

- return on equity
- cost/income ratio and other cost related measures
- customer satisfaction
- compliance with regulation and/or internal business procedures
- observance of the Group´s core values and delivery on the Essence of Danske Bank Group
- expected loss or similar risk measures

If applicable, an employee´s specific KPIs will be set in the individual participant´s incentive program/performance agreement.

As an overall starting point the Company ensures a balanced split between fixed salary and variable pay. However, in functions targeting capital markets, performance-based pay constitutes a significant proportion of the total remuneration package for selected employees to attract and retain the most talented people in these fields.

The Board of Directors affirm an up-to date list of so-called risk takers. Risk takers are defined as those who work in the company's managerial positions, in internal control tasks or who otherwise, on the basis of their work, have a material influence on the Group's risk position. Under the remuneration scheme principles, average 40% of the bonus for risk takers is paid only after three years have elapsed.

Auditors

Danske Mortgage Bank Plc has one auditor, which must be a firm of authorised public accountants approved by the Central Chamber of Commerce. The term of the auditor lasts until the next Annual General Meeting following the auditor's appointment.

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

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

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

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

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

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

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

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

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

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

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

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

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

More on the Danske Mortgage Bank Plc's risk management can be read on page 41 of the financial statements.

DANSKE MORTGAGE BANK PLC

IFRS FINANCIAL STATEMENT

Statement of Comprehensive Income

1000 EUR	Note	**11-12/2017**
Interest income	1	15,106.0
Interest expense	1	-8,961.6
Net interest income	1	6,144.4
Fee income	2	351.1
Fee expenses	2	0.0
Net trading income	3	312.6
Total operating income		**6,808.0**
Staff costs	4	-79.7
Other operating expenses	5	-2,085.8
Total operating expenses		**-2,165.6**
Loan impairment charges	7	-181.7
Profit before taxes		**4,460.7**
Taxes	8	**-892.1**
Net profit after tax		**3,568.6**
Total comprehensive income for the financial year		**3,568.6**

Balance sheet

1000 EUR	Note	**12/2017**
Assets		
Cash and balances with central banks	12	135,000.0
Loans and receivables to credit institutions	13	11,124.0
Trading portfolio assets	14	158,101.1
Loans and receivables to customers	15	5,258,968.6
Other assets	17	2,673.8
Total assets		**5,565,867.4**
Liabilities		
Due to credit institutions and central banks	18	1,138,065.0
Trading portfolio liabilities	14	20,396.4
Debt securities in issue	19	4,132,160.6
Tax liabilities	16	5,939.6
Other liabilities	20	25,737.3
Total liabilities		**5,322,298.8**
Equity		
Share capital	23	70,000.0
Reserves	23	170,000.0
Retained earnings	23	3,568.6
Total equity		**243,568.6**
Total equity and liabilities		**5,565,867.4**

Statement of changes in Equity

1000 EUR	Share capital	Reserves for invested unrestricted equity	Retained earnings	Total
Equity at 31 October 2017	**70,000.0**	**170,000.0**	**-**	**240,000.0**
Total comprehensive income			3,568.6	3,568.6
Equity at 31 December 2017	**70,000.0**	**170,000.0**	**3,568.6**	**243,568.6**

Cash Flow Statement

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

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

1000 EUR	2017
Cash flow from operations	
Profit before tax	4,460.7
Loan impairment charges	181.7
Tax paid	-771.0
Other non-cash operating items	7,253.7
Total	**11,125.2**
Changes in operating capital	
Cash in hand and demand deposits with central banks	-223,795.0
Trading portfolio	4,574.6
Loans and receivables	182,271.4
Other assets/liabilities	-14,575.1
Cash flow from operations	**-40,398.9**
Cash and cash equivalents, beginning of year	186,522.9
Change in cash and cash equivalents	-40,398.9
Cash and cash equivalents, end of year	**146,124.0**
Cash in hand and demand deposits with central banks	135,000.0
Amounts due from credit institutions and central banks within 3 months	11,124.0
Total	**146,124.0**

Reconciliation of liabilities arising from financing activities

At 31 December 2017 there were no liabilities arising from financing activities.

DANSKE MORTGAGE BANK PLC

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

Summary of Significant Accounting Policies and Estimates

General

This financial statement covers the first financial year for Danske Mortgage Bank Plc. Income statement includes all the events from the implementation of the demerger, in practice November and December 2017.

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

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

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

Significant accounting policies have been incorporated into the notes to which they relate. Danske Mortgage Bank Plc follows the same accounting policies as Danske Bank Plc Group.

Standards and interpretations not yet in force

The IASB has issued number of new IFRSs and amendments to IFRSs that have not yet come into force. Similarly, the IFRIC has issued a new interpretation that has not yet come into force. Danske Mortgage Bank Plc has not early adopted any of those changes to IFRS. The sections below explain the changes to IFRS that are likely to affect the Company's future financial reporting. For the other changes to IFRS not described below, no significant impact is expected.

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments that will replace IAS 39. The standard provides principles for classification and measurement of financial instruments, provisioning for expected credit losses and the new general hedge accounting model. The general hedge accounting model will later be supplemented by a new macro hedge accounting model, which the IASB is working on.

IFRS 9 will be effective from 1 January 2018, at which date the Danske Mortgage Bank Plc will implement the standard. It is expected that for Danske Mortgage Bank Plc the implementation of IFRS 9 will result in an increase in the allowance account of around EUR 0.9 million. The impact will be recognised as a reduction in shareholders' equity at 1 January 2018.

<u>Changes and impact on the Company's financial statements from IFRS 9</u>

In accordance with the transition requirements of IFRS 9, comparatives are not restated as retrospective application of the impairment requirements is not possible without the use of hindsight. Further, the Danske Mortgage Bank Plc has elected to use the option in IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

Company has assessed the impact of IFRS 9 on its financial statements. The implementation of IFRS 9 will not result in reclassifications in Danske Mortgage Bank Plc.

When IFRS 9 is implemented, the allowance account will increase as provisions for expected credit losses are to be recognised for all financial assets recognised at amortised cost since provisions will be made for at least 12 months' expected credit losses and the population of financial assets for which provisions are made for life time-expected credit losses will increase. Currently, provisions are made only for incurred losses. It is expected that the allowance account will increase by around EUR 0.9 million.

Classification and measurement under IFRS 9 – general

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

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

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

Financial assets are measured at FVOCI if they are held within a business model with the objective of both collecting contractual cash flows and selling (held to collect and sell) and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the assets being recognised at fair value in the balance sheet and at AMC in the income statement. Hence, gains and losses, except for expected loss provisioning and foreign exchanges gains and losses, are recognised in other comprehensive income until the financial asset is derecognised. When the financial asset is derecognised the cumulative gains and losses previously recognised in other comprehensive income is reclassified to the income statement.

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

The principles applicable to financial liabilities are largely unchanged from IAS 39. Under IFRS9, financial liabilities are generally still measured at amortised cost with bifurcation of embedded derivatives not closely related to the host contract. Derivatives are measured at fair value.

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

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

The measurement basis for financial instruments as at 1 January 2018 after the implementation of IFRS 9 but based on the carrying amount under IAS 39 (i.e. excluding remeasurement on the implementation) is summarised in the table below:

(1000 EUR)	Amortised cost		Fair value through profit or loss	Total
	Hold to collect financial assets	Liabilities	Interest rate hedge	
Assets				
Cash in hand and demand deposits with central banks	135,000.0			135,000.0
Due from credit institutions and central banks	11,124.0			11,124.0
Derivatives			158,101.1	158,101.1
Loans	5,238,499.3		20,469.3	5,258,968.6
Total financial assets	5,384,623.3	0.0	178,570.4	5,563,193.7
Liabilities				
Due to credit institutions and central banks		1,138,065.0		1,138,065.0
Trading portfolio liabilities			20,396.4	20,396.4
Other issued bonds		3,992,599.9	139,560.6	4,132,160.6
Loan commitments and guaranties		23.8		23.8
Total financial liabilities	0.0	5,130,688.7	159,957.0	5,290,645.8

Provisioning for expected credit losses

Provisioning for expected credit losses applies to financial assets recognised at amortised cost or at fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. For financial assets recognised at amortised cost, the provisions for expected credit losses recognised in the income statement and set off against the asset in the balance sheet. For financial assets recognised at fair value through other comprehensive income the provisions are recognised in the income statement and set off against other comprehensive income, as such assets are recognised at fair value on the balance sheet. However, provisions on loan commitments and financial guarantee contracts are recognised as a liability.

The provision for expected credit losses depends on whether the credit risk has increased significantly since initial recognition. Provisioning follows a three stage model:

- Stage 1: If the credit risk has not increased significantly, the provision equals the expected credit losses resulting from default events that are possible within the next 12 months.
- Stage 2: If the credit risk has increased significantly, the financial assets are transferred to 'stage 2' and a provision equal to the lifetime-expected credit losses is recognised.
- Stage 3: If a financial asset is in default or otherwise credit impaired, it is transferred to 'stage 3', and interest income is recognised on the net carrying amount.

The assessment of whether credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the instrument rather than by considering the increase in expected credit losses. A financial asset is transferred from stage 1 to stage 2 when a doubling of the probability of default is observed.

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

The major change from the IAS39 regulations is the calculation of expected credit losses (either as 12 months expected credit losses or lifetime expected credit losses depending on whether facilities are in stage 1, 2 or 3) and the inclusion of forward-looking elements.

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

The forward-looking elements of the calculation reflect the current unbiased expectations of the bank's senior management. The process consists of the creation of macroeconomic scenarios (base case, upside and downside) by the Group's independent macroeconomic research unit, the review and sign-off of the scenarios (throughout the organisation) and a process for adjusting scenarios given new information during the quarter. The Management's approval of scenarios can include adjustments to scenarios themselves. The approved scenarios are used to calculate the impairment levels. Technically, the forward looking information enters directly into PD's through a PD push setup and the LGD element of the expected credit loss calculation.

The definition of default is aligned with CRR. Hence, exposures which are considered as defaulted for regulatory purposes will always be considered stage 3 under IFRS 9. This applies both for days-past-due considerations, where thresholds are aligned with those applied for regulatory purposes, as well as for unlikely-to-pay factors leading to a regulatory default.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 replaces IAS 18, Revenue, and other existing IFRSs on revenue recognition. Under IFRS 15, revenue is recognised when the performance obligations inherent in the contract with a customer are satisfied. The new standard also includes additional disclosure requirements.

IFRS 15 will be effective from 1 January 2018, at which date the Danske Mortgage Bank Plc will implement the standard. No significant changes are expected.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases. IFRS 16 that replaces IAS 17, Leases, will only imply insignificant changes to the accounting for lessors. For lessees, the accounting will change significantly, as all leases (except short-term leases and small asset leases) will be recognised in the balance sheet as a right-of-use asset. Initially, the lease liability and the right-of-use asset are measured at the present value of future lease payments (defined as economically unavoidable payments). The right-of-use asset is subsequently depreciated in a way similar to depreciation of other assets, such as tangible assets, i.e. typically on a straight-line basis over the lease term.

IFRS 16 will be effective from 1 January 2019. The Danske Mortgage Bank Plc is currently assessing the impact from IFRS 16 on the financial statements. No significant changes are expected.

Critical judgements and estimation uncertainty

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

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

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

Fair value measurement of financial instruments

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

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

Measurement of loans and receivables

The Danske Mortgage Bank Plc makes impairment charges to account for any impairment of loans and receivables that occurs after initial recognition. Impairment charges consist of individual and collective charges and rely on a number of estimates, including identification of loans or portfolios of loans with objective evidence of impairment, expected future cash flows and the value of collateral. The Company determines the need for impairment charges on the basis of customers' expected ability to repay their debts. Their ability depends on a number of factors, including the customers' earnings capacity and trends in general economic growth and unemployment. Expectations of deteriorating repayment ability reduce credit quality and lead to downgrading of customers.

The extent of losses incurred under non-performing loan agreements depends, among other factors, on the value of collateral provided. Non-performing loan agreements are sold back to Danske Bank Plc and to Danske Bank A/S, Finland Branch starting from January 1, 2018.

Translation of transactions in foreign currency

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

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

SEGMENT INFORMATION

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

OTHER NOTES

1 NET INTEREST INCOME

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

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

Interest on loans and advances subject to individual impairment is recognised on the basis of the impaired value.

1000 EUR	**11-12/2017**
Interest income	
Loans and receivables to credit institutions	-169.3
Loans and receivables to customers and public entities	7,814.6
Derivatives, net	7,335.3
Other interest income	125.4
Total	15,106.0
Interest expenses	
Amounts owed to credit institutions	651.9
Debt securities in issue	-9,613.6
Total	-8,961.6
Net interest income	**6,144.4**
Of which entities of the same group	
Interest income	**-169.3**
Interest expenses	**-603.4**

Interest income includes EUR 333.9 thousand income accrued on impaired financial assets. Interest income includes EUR 169.3 thousand negative interest and interest expenses includes EUR 651.9 thousand positive interest.

2 FEE INCOME AND EXPENSES

Fee income and expenses are broken down into fees generated by activities and fees generated by portfolios. Fees generated by activities comprises fees for the execution of one-off transactions. Fees generated by portfolios comprises recurring fees form the product portfolio.

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

Income from and expenses for services provided over a period of time, such as guarantee commissions are accrued over the period.

1000 EUR	**11-12/2017**
Fee income	
Financing (loans, advances and guarantees)	351.0
Fees generated by activities	351.0
Services (payment services and cards)	0.1
Fees generated by portfolios	0.1
Total	**351.1**
Fee expenses	
Services (payment services and cards)	0.0
Fees generated by portfolios	0.0
Total	**0.0**
Net fee income	**351.1**

3 NET TRADING INCOME

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

1000 EUR	**11-12/2017**
Trading assets/liabilities	
Other	-249.3
Total	**-249.3**
Gains/losses from hedge accounting	
Fair value hedging	
Change in fair value of hedging derivative instruments, net	-11,323.3
Change in fair value of hedged items, net	11,885.2
Total	**562.0**
Net trading income, total	**312.6**

4 STAFF COSTS

Salaries and other remuneration that the mortgage bank expects to pay for work carried out during the year are expensed under Staff costs and administrative expenses. This item includes salaries, holiday allowances, pension costs and other remuneration. The note has been presented on a cash basis (excluding Staff costs and Management's and Board of Director's Remuneration tables). More about remuneration can be read from Annual Report's Corporate Governance section under the heading Remuneration.

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

1000 EUR	**11-12/2017**
Staff costs	
Wages and salaries	-66.5
Pension costs - defined contribution plans	-12.5
Other social security costs	-0.3
Other	-0.4
Staff costs, total	**-79.7**

Employees were not paid variable remunerations during 2017.

Danske Bank Group is required to identify all employees whose professional activities could have a material impact on the risk profile of the Bank in accordance with current legislation. In Danske Mortgage Bank Plc, there is one top management Risk Taker whose fixed salary was EUR 27.7 thousand.

Compensation paid by the Mortgage Bank for termination of employment contracts is determined in accordance with legislation in force. During the accounting period Danske Mortgage Bank Plc has not paid any signing bonuses for new employees. During 2017 Danske Mortgage Bank Plc has not granted severance packages.

STAFF NUMBERS	**11-12/2017**
	Average number
Full-time staff	4

KEY MANAGEMENT PERSONNEL

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

PENSION BENEFITS

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

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

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

MANAGEMENT'S AND BOARD OF DIRECTORS' REMUNERATION (EUR 1,000)

	11-12/2017
Remuneration for Manging Director, Deputy Managing Director	38.9
Remuneration for the members of Board of Directors	5.3

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

LOANS AND RECEIVABLES

1000 EUR

At October 31, 2017	-
Additions	-
Repayments	-
At December 31,2017	-

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

The interest on loans to the key management personnel is as required in the staff loans. Also other terms of the loans equal to the terms of the staff loans confirmed in the Danske Bank Group. The loans are secured. The terms of the loans to the entities controlled or significantly influenced by the above mentioned persons equal to those granted to other corporate customers.

5 OTHER OPERATING EXPENSES

1000 EUR	11-12/2017
Other operating expenses	
IT costs	-618.0
Other staff costs	-0.5
Postage and telephone expenses	-0.1
Rental expenses	-2.7
Other *)	-1,464.5
Other operating expenses, total	**-2,085.8**

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

6 AUDIT FEES

	2017
1000 EUR	
Audit fees	
Audit	-68.2
Audit-related services	-
Tax	-
Other services	-
Audit fees, total	**-68.2**

7 LOAN IMPAIRMENT CHARGES

Loan impairment charges includes losses on and impairment charges for loans and receivables.

1000 EUR	Individual impairment charges	Collective impairment charges	Recoveries	Total
From loans and receivables to customers				
-impairment charges	-202.8			-202.8
-reversals	21.0			21.0
Total 11-12/2017	**-181.7**	**-**	**-**	**-181.7**

8 TAXES

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

1000 EUR	11-12/2017
Taxes on taxable income for the year	-892.1
Taxes for the financial year total	**-892.1**
Effective tax rate	20.00 %

Reconciliation between income taxes in income statement and taxes calculated at Finnish tax rate 20%

Profit before taxes	4,460.7
Taxes calculated at Finnish tax rate	-892.1
Taxes in Income statement	**-892.1**

9 CLASSIFICATION OF FINANCIAL INSTRUMENTS AND NON-FINANCIAL ASSETS

1000 EUR			Financial assets at fair value through profit or loss				
ASSETS	Loans and receivables	Held to maturity	Held for trading	Designated at fair value through profit or loss	Derivatives used for hedging	Non-financial assets	Total
Cash and balances with central banks	135,000.0						135,000.0
Loans and receivables to credit institutions	11,124.0						11,124.0
Trading portfolio assets							
Derivatives					158,101.1		158,101.1
Loans and receivables to customers	5,258,968.6						5,258,968.6
Other assets						2,673.8	2,673.8
Total 31.12.2017	**5,405,092.6**	**-**	**-**	**-**	**158,101.1**	**2,673.8**	**5,565,867.4**

1000 EUR		Financial liabilities at fair value through profit or loss				
LIABILITIES	Amortised cost	Held for trading	Designated at fair value through profit or loss	Derivatives used for hedging	Non-financial liabilities	Total
Due to credit institutions and central banks	1,138,065.0					1,138,065.0
Trading porfolio liabilities				20,396.4		20,396.4
Debt securities in issue						
-> Bonds	4,132,160.6					4,132,160.6
Tax liabilities					5,939.6	5,939.6
Other liabilities					25,737.3	25,737.3
Total 31.12.2017	**5,270,225.6**	**-**	**-**	**20,396.4**	**31,676.9**	**5,322,298.8**

10 BALANCE SHEET ITEMS BROKEN DOWN BY EXPECTED DUE DATE

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

2017
1000 EUR

Assets	Total	< 1 year	> 1 year
Cash and balances with central banks	135,000.0	135,000.0	-
Loans and receivables to credit institutions	11,124.0	11,124.0	-
Trading portfolio assets	158,101.1	-	158,101.1
Loans and receivables to customers	5,258,968.6	423,525.1	4,835,443.4
Other assets	2,673.8	2,673.8	-
Total	**5,565,867.4**	**572,322.9**	**4,993,544.5**

Liabilities	Total	< 1 year	> 1 year
Due to credit institutions and central banks	1,138,065.0	1,138,065.0	-
Derivatives and other financial liabilities held for trading	20,396.4	-	20,396.4
Debt securities in issue	4,132,160.6	-	4,132,160.6
Tax liabilities	5,939.6	5,939.6	-
Other liabilities	25,737.3	25,737.3	-
Total	**5,322,298.8**	**1,169,741.9**	**4,152,556.9**

Maturity analysis of past due financial assets, net

1000 EUR	**2017**
Assets past due 30-90 days	6,245.1
Unlikely to pay	52,845.4
Nonperforming assets past due at least 90 days but no more than 180 days	1,435.2
Nonperforming assets past due at least 180 days - 1 year	-
Nonperforming assets more than 1 year	-
Receivables with forbearance measures, gross carrying amount	145,898.0

Maturity analysis for derivatives is included in note 14.

11 FAIR VALUE INFORMATION

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

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

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

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

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

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

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

During the reporting period ending 31 December 2017, there were no transfers between Level 1 (Quoted prices) and Level 2 (Observable input) fair value measurements, and no transfers into and out of Level 3 (Non-observable input) fair value measurements.

		2017		
1000 EUR	Quoted prices	Observable input	Non-observable input	**Total**
Financial assets				
Derivative financial instruments	-	158,101.1	-	**158,101.1**
Total	-	158,101.1	-	**158,101.1**
Financial liabilities				
Derivative financial instruments	-	20,396.4	-	**20,396.4**
Total	-	20,396.4	-	**20,396.4**

FINANCIAL INSTRUMENTS AT AMORTISED COST

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

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

1000 EUR	2017 Fair value	2017 Carrying amount
Financial assets		
Cash and balances at central banks	135,000.0	135,000.0
Loans and receivables	5,258,968.6	5,258,968.6
Other financial assets	11,124.0	11,124.0
Total	**5,405,092.6**	**5,405,092.6**
Financial liabilities		
Amounts owed to credit institutions	1,139,095.9	1,138,065.0
Debt securities in issue	4,177,591.4	4,132,160.6
Total	**5,316,687.3**	**5,270,225.6**

12 CASH AND BALANCES AT CENTRAL BANKS

1000 EUR	2017
Balances with central banks	135,000.0
Total	**135,000.0**

13 LOANS AND RECEIVABLES FROM CREDIT INSTITUTIONS

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

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

1000 EUR	2017
Loans and receivables from credit institutions	
Other loans	11,124.0
Total	**11,124.0**

14 FINANCIAL INSTRUMENTS

Classification and recognition of financial instruments in balance sheet
Financial instruments account for more than 95% of total assets and liabilities. Purchases and sales of financial instruments are measured at fair value at the settlement date.

Classification
At initial recognition, a financial asset is assigned to one of the following categories:

- trading portfolio measured at fair value through profit and loss
- loans and receivables measured at amortised cost
- held to maturity financial assets

At initial recognition, a financial liability is assigned to one of the following three categories:

- trading portfolio measured at fair value through profit and loss
- financial liabilities designated at fair value through profit or loss
- other financial liabilities measured at amortised cost

Recognition
The purchase and sale of financial assets and liabilities at fair value through profit or loss are recognised in the balance sheet on the settlement date, or the date on which the Company agrees to buy or sell the asset or liability in question. Loans granted are recognised as financial assets on the date on which the customer draws the loan and other receivables on the transaction date.

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

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

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

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

	2017	
1000 EUR	**Assets**	**Liabilities**
Derivative financial instruments	158,101.1	20,396.4
Financial instruments, total	**158,101.1**	**20,396.4**

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

	2017		
1000 EUR			
	Fair value		Notional
Derivatives held for hedging	**Assets**	**Liabilities**	**amount**
Fair value hedges	**158,101.1**	**20,396.4**	**8,244,367.5**
Interest rate	**158,101.1**	**20,396.4**	**8,244,367.5**
OTC derivatives	158,101.1	20,396.4	8,244,367.5
Total derivatives held for hedging	**158,101.1**	**20,396.4**	**8,244,367.5**
Contracts with Group companies	**158,101.1**	**20,396.4**	**8,244,367.5**

Nominal value of the underlying instrument			
Remaining maturity	Less than 1 year	1-5 years	Over 5 years
	-	7,890,263.2	354,104.4
with Group companies:	-	7,890,263.2	354,104.4

Explanation of hedge accounting

Hedge of interest rate risk

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

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

With effective hedging, the hedged interest rate risk on hedged assets and liabilities is measured at fair value and recognised as a value adjustment of the hedged items. Value adjustments are carried in the income statement under Net trading income. Any ineffective portion of a hedge that lies within the range for effective hedging is therefore also included under Net trading income.

At the end of 2017, the carrying amounts of effectively hedged financial assets and liabilities were EUR 5,259,384.6 thousand and EUR 3,139,560.6 thousand, respectively. The table below shows the value adjustments of these assets and liabilities and the hedging derivatives. The value adjustments have been recognised in the income statement as Net trading income.

1000 EUR

Effect of interest rate hedging on profit	**2017**
Effect of fixed-rate assets hedging on profit	
Hedged loans	-2,830.7
Hedging derivatives	2,830.7
Total	0.0
Effect of fixed-rate liability hedging on profit	
Hedged issues	14,716.0
Hedging derivatives	-14,154.0
Total	562.0

Offsetting

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

1000 EUR **Derivatives**	**Positive fair value** **12/2017**
Derivatives with positive fair value before netting	158,101.1
Netting (under accounting rules)	-
Carrying amount	158,101.1
Netting (under capital adequacy rules)	20,396.4
Net current exposure	137,704.7
Collateral	137,704.7
Net amount	0.0

15 LOANS AND RECEIVABLES FROM CUSTOMERS

Danske Mortgage Bank Plc buys the loans from Danske Bank Plc and starting from January 1, 2018 from Danske Bank A/S, Finland Branch. Loans and receivables consists of loans and receivables disbursed directly to borrowers and loans and receivables acquired after disbursement. Loans and receivables includes conventional bank loans, except for transactions with credit institutions and central banks.

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

1000 EUR	2017
Loans and receivables from customers and public entities	
Private customers	5,259,384.6
Imparment charges	-416.0
Total	**5,258,968.6**

Impairment

If objective evidence of impairment of a loan, a receivable or an amount due exists, and the effect of the impairment event or events on the expected cash flow from the loan is reliably measurable, the Company determines the impairment charge individually. Significant loans, receivables and amounts due are tested individually for impairment on ongoing basis, at least once every 12 months.

Objective evidence of impairment of loans and receivables exists if at least one of the following events has occurred:

- The borrower is experiencing significant financial difficulties.
- The borrower's actions, such as default or delinquency in interest or principal payments, lead to a breach of contract.
- The Company, for a reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the Company would not otherwise grant.
- It becomes probable that the borrower will enter bankruptcy or other financial restructuring.

The impairment charge equals the difference between the carrying amount of the loan and the present value of the most likely future cash flows from the loan and is assessed by credit officers. The present value of fixed-rate loans and receivables is calculated at the original effective interest rate, whereas the present value of loans and receivables with a variable rate of interest is calculated at the current effective interest rate.

The customer's debt is written down to the amount that the borrower is expected to be able to repay after a financial restructuring. If financial restructuring is not possible, the write-down equals the estimated recoverable amount in the event of bankruptcy. If the borrower's ability to repay depends significantly on the assets that have been provided as collateral (asset financing), the customer's debt is written down to the fair value of the collateral.

Loans and receivables without objective evidence of impairment are included in an assessment of collective impairment at portfolio level. Collective impairment is calculated for portfolios of loans and receivables with similar credit characteristics when impairment of expected future cash flows from a portfolio has occurred. The collective impairment charge reflects downgrading of customer ratings over time (migration). The loans and receivables are divided into portfolios on the basis of current ratings. Calculation of charges also factors in loan portfolios for customers with upgraded ratings.

The cash flows are specified by means of parameters used for solvency calculations and historical loss data adjusted for use in the financial statements, for example. The adjustment reflects the loss identification period shown by the Company's empirical data. This period is the period from the first evidence of impairment to the determination of a loss at customer level.

Collective impairment is calculated as the difference between the carrying amount of the loans and receivables of the portfolio and the present value of expected future cash flows.

The collective impairment charge based on migration is adjusted if the Company is aware of market conditions at the balance sheet date that are not fully reflected in the Company's models. In times of favourable economic conditions, adjustments will reduce the impairment charge, while it may increase in an economic downturn. Examples of such market conditions are levels of unemployment and housing prices.

Impairment charges for loans and receivables are booked in an allowance account and set off against loans and receivables. Impairment charges for loans and receivables are recorded under Loan impairment charges in the income statement. If subsequent event show that impairment is not permanent, charges are reversed.

Loans and receivables that are considered uncollectible are written off. Write-offs are debited to the allowance account. Loans and receivables are written off once the usual collection procedure has been completed and the loss on the individual loan or receivable can be calculated. If the full loss is not expected to be realised until after a number of years, for example in the event of administration of complex estates, a partial write-off is recognised, reflecting the Company's claim less collateral, estimated dividend and other cash flows.

In accordance with the effective interest method, interest is recognised on the basis of the value of the loans and receivables less impairment charges. Consequently, part of the allowance account balance is set aside for future interest income until the time of write-off.

Impairment charges

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

16 TAX ASSETS AND TAX LIABILITIES

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

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

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

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

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

1000 EUR	**2017**
Income tax liabilities	121.1
Deferred tax liabilities	5,818.4
Total tax liabilities	**5,939.6**
Deferred tax liabilities	
Due to provisions and impairments on receivables	5,818.4
Total	**5,818.4**
Net deferred tax asset (+)/liability (-)	**-5,818.4**
Changes in deferred taxes	
Deferred tax assets/liabilities, October 31, 2017.	-5,818.4
Net deferred tax assets (+)/liabilities (-), total 31.12.	**-5,818.4**
Income tax assets, asset (+)/liability (-), net	**-121.1**
Total tax assets (+)/liabilities (-), net	**-5,939.6**

17 OTHER ASSETS

Other assets includes interest and commission due and other receivables.

1000 EUR	2017
Other assets	
Accrued interest	-2,673.7
Other	0.0
Total	**-2,673.8**

18 AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts due to credit institutions are measured at amortised cost.

1000 EUR	2017
Amounts owed to credit institutions and central banks	
Deposits from credit insitutions	1,138,065.0
Total	**1,138,065.0**

19 DEBT SECURITIES IN ISSUE AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH P/L

Other issued bonds comprise bonds issued by the Company.

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

1000 EUR	2017
Debt securities in issue	
Finnish covered bonds	4,132,160.6

20 OTHER LIABILITIES AND PROVISIONS

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

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

1000 EUR	**2017**
Other liabilities	
Accruals and deferred income	
Deferred interest	25,636.5
Other accruals	89.3
Other	11.5
Total other liabilities	**25,737.3**

Impairment charges on loans and receivables are presented in notes 7 and 15.

21 CONTINGENT LIABILITIES AND COMMITMENTS

At initial recognition, irrevocable loan commitments are recognised at the amount of premiums received. Provisions for irrevocable loan commitments are recognised under Other liabilities if it is probable that drawings will be made under a loan commitment. The liability is measured at the present value of expected payments. Irrevocable loan commitments are discounted in accordance with the interest terms.

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

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

Asset encumbrance

1000 EUR

Assets

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets December 31, 2017	**5,419,119.4**	**-**	**146,748.1**	**-**
Equity instruments	-	-	-	-
Debt securities	-	-	-	-
Other assets	5,419,119.4		146,748.1	

Collateral received

Danske Mortgage Bank didn't have any received collaterals at 31 December 2017.

Encumbered assets/collateral received and associated liabilities

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities 2017	4,315,698.2	5,419,119.4

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

Rental commitments

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

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

22 RELATED PARTY TRANSACTIONS WITH GROUP COMPANIES AND OTHER RELATED PARTIES

1000 EUR	2017			
	Parties with significant influence	Other entities of the same group	Key management personnel	Other
Loans and receivables	11,124.0	-	-	-
Securities	158.1	-	-	-
Deposits	138,065.0	1,000,000.0	-	-
Derivatives	20.4	-	-	-
Interest income	-169.3	-	-	-
Interest expenses	-	-603.4	-	-
Purchases from group companies	617.8	1,437.0	-	-

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.

23 EQUITY AND RESERVES

Equity	**Number of shares**	**Share capital 1000 EUR**
At 31 October 2017	106,000	70,000.0
At 31 December 2017	106,000	70,000.0
Total amount of shares at 31 December 2017	106,000	70,000.0

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

Reserves and retained earnings

1000 EUR

Reserves at 31 December 2017	
Reserve for invested unrestricted equity	170,000.0
Total	**170,000.0**

Movements in reserves:

Retained earnings	
At 31 October 2017	**-**
Profit for the financial year	3,568.6
At 31 December 2017	**3,568.6**

RISK MANAGEMENT DISCLOSURE

GENERAL

The Risk Management Disclosure is presented in euro (EUR), in million euros, unless otherwise stated.

RISK MANAGEMENT GENERAL PRINCIPLES AND GOVERNANCE

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

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

The Committee's main tasks are:

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

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

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

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

The third line of defence is represented by Internal Audit.

Danske Mortgage Bank Plc's Risk Management, which is an independent unit, monitors Danske Mortgage Bank Plc's risk position according to the principles and limits set by the Board of Danske Mortgage Bank Plc. Chief Risk Officer (CRO) is responsible for adequate and sound oversight of Danske Mortgage Bank Plc's risk management, providing an overview of Danske Mortgage Bank Plc's risks and creating an overall risk picture.

Finance is responsible for solvency reporting (including the ICAAP process).

Principles and practices of risk management in Danske Mortgage Bank Plc are carried out consistently with risk policies of Danske Bank A/S Group and supported by the corresponding Danske Bank A/S Group functions. Additional information on Danske Bank A/S Group level risks and risk approaches can be found in Danske Bank A/S Group's annual report and Risk Management report for 2017.

MINIMUM REGULATORY CAPITAL

Banking is a highly regulated business. There are formal rules for minimum capital and capital structure in capital adequacy regulation. Also banks largest exposures are limited based on the own funds of the bank.

Credit Institutions Act gives multiple options for methods institutions may use in capital adequacy calculation. In December 2017 Danske Mortgage Bank Plc got approval from its supervisors to use the IRB methodology for Retail exposures starting from 31 December 2017. Hence, Danske Mortgage Bank Plc uses Internal Ratings Based approach to its retail portfolio and standard method to other portfolios for credit risks. Standard method is used for operational risks.

Capital adequacy is reported quarterly to Finnish Financial Supervisory Authority (FIN-FSA). Danske Mortgage Bank Plc fulfilled the regulatory minimum capital requirements in 2017. Minimum capital requirements set by capital adequacy regulation are presented in the Risk Table 1 below. Total capital requirement was EUR 46 million.

	Capital requirement	**Risk exposure amount**
Q4-2017	**Q4-2017**	**Q4-2017**
Credit and counterparty credit risk:		
Standardised approach:		
Institutions	2.6	32.3
Corporates	0.0	0.4
Secured by mortgages on immovable property	0.0	0.2
Standardised approach, total	2.6	33.0
IRB approach:		
Retail	38.6	483.0
Other non-credit obligation	0.0	0.0
IRB approach, total	38.6	483.0
Credit and counterparty credit risk, total	**41.3**	**515.9**
Operational risk - standardised, total	**5.1**	**63.1**
Total risk exposure amount		**579.1**
Total minimum capital requirement	**46.3**	

Risk Table 1. Pillar 1 regulatory capital requirements by portfolio, EURm

CAPITAL MANAGEMENT PROCESS

The basis of the Danske Mortgage Bank Plc's capital management practices is the regulatory framework in the Capital Requirements Directive (CRD) with the ICAAP (Internal Capital Adequacy Assessment Process) in Pillar 2.

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

The Danske Mortgage Bank Plc ICLAAP (Internal Capital and Liquidity Adequacy Assessment Process) 2017 report will be prepared and approved during Q1 2018 as requested by regulators.

MAIN RISK TYPES

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

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

CREDIT RISK

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

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

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

CUSTOMER CLASSIFICATION

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

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

CREDIT RISKS OF CUSTOMERS

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

CREDIT EXPOSURE

The figures in Risk Tables 2 to 4 show the Danske Mortgage Bank Plc's credit exposure. Danske Mortgage Bank Plc's lending-related credit exposure activities amounted to EUR 5.4 billion at end of 2017. Exposures to Danske Bank A/S Group are excluded from the tables. They were EUR 11.1 million and the end of 2017.

	2017
Public Institutions	135.0
Personal Customers	5,259.0
Total	**5,394.0**

Risk Table 2. Credit exposure relating to lending activities by segments, EURm

Danske Mortgage Bank Plc's credit exposure by credit classification is presented in Risk Table 3. The rating distribution is good. At the end of 2017, the share of customers classified into the seven best rating classes was 97 per cent of the total exposure. Exposures are concentrated to Capital area and to largest cities.

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

Risk Table 3. Credit exposure relating to lending activities by classification, EURm

Impairment charges amounted to EUR 0.2 million at the end of 2017. Over 90 days past due net non-performing assets were EUR 1.4 million.

CREDIT RISK MITIGATION AND COLLATERAL MANAGEMENT

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

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

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

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

	2017
Real property	5,303.9
Bank accounts	7.2
Custody accounts/securities	0.9
Guarantees	34.4
Other assets	0.0
Total	**5,346.4**

Risk Table 4. Types of collateral, EURm

INTERNAL CREDIT EXPOSURE RELATING TO DERIVATIVES

At the end of 2017 Danske Mortgage Bank Plc's credit exposure relating to derivatives with positive fair value amounted to EUR 158.1 million. Exposure consisted entirely of internal exposures.

NON-PERFORMING ASSETS AND FORBEARANCE

Danske Mortgage Bank Plc applied the same principles as Danske Bank Plc Group has applied until the end of 2017 and defined non-performing assets as facilities for which individual impairment charges have been booked. For exposures to non-retail customers with non-performing assets, the entire amount of the customer's exposure is considered to be non-performing. For retail exposures, only impaired facilities are included in non-performing assets.

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

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

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

MARKET RISK

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

GOVERNANCE AND LIMIT STRUCTURE

Danske Mortgage Bank Plc's Board of Directors approves the market risk policy and overall limits for market risk. The Board also decides on the general principles for managing and monitoring market risks based on the market risk policy and delegated market risk limits provided by the Danske Bank A/S Group. Chief Executive Officer (CEO) is responsible for the risks. Danske Mortgage Bank Plc's Treasury actively manages market risks within the set of allocated limits.

Trades related to position management are executed in the Treasury and Trading function of the Danske Bank A/S Group.

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

MARKET RISK POSITION

Danske Mortgage Bank Plc's banking book interest rate risk arises primarily from issued covered bonds, mortgages and derivatives hedging both of these items. The goal is to hedge the balance sheet in a way that interest rate risk changes do not have essential impact to the Banks profitability. During 2017 The Bank had only EUR denominated business activities. As part of the limit monitoring the banking book interest rate position is stress tested by a 1 percentage point parallel increase and decrease of yield curves.

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

At the year-end of 2017, net present value based interest rate risk of Danske Mortgage Bank Plc in the scenario of parallel downward shift of one percent across the yield curve is EUR -1.9 million.

LIQUIDITY RISK

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

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

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

Danske Mortgage Bank Plc's Treasury is responsible for the practical and day-to-day liquidity management and execution of the Policy. Risk Management is responsible for day-to-day monitoring, controlling and reporting the liquidity risk limits.

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

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

2017

Liabilities	Total	< 3 months	3-12 months	1-5 years	> 5 years
Due to credit institutions and central banks	1,138.1	138.1	1,000.0	-	-
Debt securities in issue	4,132.2	-	-	4,132.2	-
Financial liabilities total	5,270.2	138.1	1,000.0	4,132.2	-

	Total	< 3 months	3-12 months	1-5 years	> 5 years
Undrawn loans, overdraft facilities and other	0.0	-	0.0	-	-

Risk Table 5. Maturity profile of financial liabilities 31 December 2017 based on contractual maturities, EURm

OPERATIONAL RISK

Operational risk are the risks of losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risks.

In Danske Mortgage Bank Plc reputation risk is assessed and managed as a type of severity of impact in line with the operational risk management approach and can be seen as a consequence of operational risk events or a failure to comply with laws, rules, related self-regulatory organisation standards and code of conduct applicable to the Bank.

Operational risks are divided into the following categories:

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

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

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

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

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

DANSKE MORTGAGE BANK PLC'S BOARD OF DIRECTORS' PROPOSAL TO THE ANNUAL GENERAL MEETING FOR THE DISTRIBUTION OF PROFIT AND SIGNING OF ANNUAL REPORT 2017

The company's distributable assets in the financial statements total EUR 173,568,594.22 of which profit for the financial year totals EUR 3,568,594.22.

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

1. a dividend of EUR 3,568,594.22 be paid and

2. EUR 170,000,000.00 will be left in shareholders' equity.

Helsinki, 2nd February 2018

Jacob Aarup-Andersen

(Chairman)

Christoffer Møllenbach   Risto Tornivaara   Lisbet Kragelund

Tomi Dahlberg   Maisa Hyrkkänen

Pekka Toivonen

(CEO)

THE AUDITOR'S NOTE

A report on the audit performed has been issued today.
Helsinki, 2nd February 2018

Deloitte Ltd
Audit Firm

Aleksi Martamo
Authorized Public Accountant

ACCOUNTING MATERIAL

Danske Mortgage Bank Plc

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

General ledger accounting

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

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

General ledger accounting reports are stored electronically:

- Daily journals
- General ledger
- Income statements and balance sheets
- Charts of accounts
- Voucher for notes to the financial statements