# ANNUAL REPORT 2010

BlueStep FINANS

# Annual Report

Bluestep Finans AB
(556717-5129)

2010-01-01 – 2010-12-31

The Board of Directors and the Managing Director of Bluestep Finans AB hereby present the annual accounts for the financial year 2010-01-01--2010-12-31.

# Administration report

**Organisation and operations**
Bluestep Finans AB, ("the company") is a credit market company under the supervision of the Swedish Financial Supervisory Authority, having its principal office at Sveavägen 163, 104 35 Stockholm.

The company is Sweden's largest non-conforming residential mortgage lender. The company's core business is to engage in lending activities, which are funded by deposits from retail customers, equity and wholesale bank funding within its wholly owned subsidiary Bluestep Finans Funding No 1 AB. In August 2010 the business commenced lending in Norway again targeting non-conforming residential mortgage customers through a newly established branch based in Oslo.

The company's operations include the design of lending and deposit products, marketing of deposit products, loan processing and approval of all loans/bond investments and treasury functions. In Sweden, the parent company Bluestep Bostadslån AB assisted the company with loan origination and administration of new lending, as well as IT operations and other support services. The day to day administration of the loan portfolios in Sweden and Norway and the management of deposit accounts in Sweden are outsourced to third parties. For the Norwegian operations, both marketing/originations of loans along with management of the deposit taking activities are handled within the company.

**Ownership**
The company is a wholly owned subsidiary of Bluestep Bostadslån AB, organizational number 556668-9575 with registered offices in Stockholm, Sweden. Bluestep Bostadslån AB, Bluestep Finans AB, Bluestep Finans AB, filial Oslo and Bluestep Finans Funding No 1 AB are subsidiaries of Bluestep Capital Holdings Limited.

**Events during the year**

*Lending*
The mortgage lending portfolio grew from SEK 1 194.4m in the end of 2009 to SEK 2 670.0m by the end of 2010. The increase was partly attributed to an acquisition in Bluestep Finans Funding No 1 AB of SEK 510.3m of Swedish residential mortgages originated by Bluestep Bostadslån AB. Lending in Norway commenced in August 2010 and amounted to SEK 26.3m as at year end. The company expects significantly higher lending volumes in Norway during 2011.

A conservative lending policy has ensured that the loan portfolios continue to display strong performance and the weighted average loan to values and margins on new business remained in line with expectations. The early stage arrears, the level of loans in default and losses have remained in line with expectations.

In connection with a portfolio acquisition made in March 2009, the company recorded an additional provision for bad debts, which was a reduction in the purchase price. As the loans have performed materially better than anticipated since the acquisition, the remainder of these provision corresponding to SEK 8.1m was written back to the income statement in December 2010.

*Deposits*
The deposits business focuses on providing customers with competitive interest rates on both short and long-term savings through a number of deposit products with different features and maturities. During the year the balance grew to SEK 3 374.9m (SEK 2 748.4m). A deposit product was launched in Norway in December 2010 and amounted to SEK 14.1m at year end.

All deposit products are covered by the government deposit guarantee scheme, which has been increased to 100 000 EUR in Sweden effective from 1st December 2011 and remains at 2.000.000 NOK in Norway.

*Equity*
During the past year, the company has received capital contributions from the parent company through conditional shareholders' contributions, totaling SEK 135.0m. The funds have been used to support the acquisition of the loan portfolio of SEK 510.3m in Bluestep Finans Funding No 1 AB and to support the growth planned for Sweden and Norway.

*Credit facility*
Bluestep Finans Funding No 1 AB is primarily funded through a bank funding line and this agreement was increased and extended in January 2011, providing a committed source of funding until December 2014.

*Liquidity*
As of December 31, 2010, the excess liquidity placed with credit institutions amounted to SEK 1 077.0m (SEK 1 433.4m).

*Staff*
During the year, the average number of employees increased to 19 (5). The increase was primarily attributable to the establishment of Bluestep Finans, filial Oslo but also by an increased number of employees in the Swedish operation.

The composition of the Board changed during the year, where Carl-Anders Sundvik was elected to the Board.

*Operating income and profit*
The Group's net interest income increased to SEK 88.7m (14.9 MSEK), and the operating income amounted to SEK 68.3m (SEK -0.4m). Net profit for the year was SEK 5.6m (SEK -22.6m).

Excluding unrealized fair value adjustments, net interest income amounted to SEK 93.2m (SEK 3.4m) and net profit of the year to SEK 30.4m (SEK -18.8m). Unrealized fair value adjustments consist of bonds and derivatives.

| Key figures for the Group | 2010 | 2009 | 2008 |
|---|---|---|---|
| Profit/loss of the year | 5 574 264 | -22 618 446 | -8 198 120 |
| Lending to the public | 2 670 044 002 | 1 194 437 240 | 3 022 595 |
| Deposits from the public | 3 374 886 692 | 2 748 384 826 | 375 958 013 |
| Average number of employees | 19 | 5 | 3 |

| Capital adequacy for the Parent company | 2010 | 2009 | 2008 |
|---|---|---|---|
| Capital base | 275 048 907 | 150 593 292 | 52 653 550 |
| Capital requirement | 115 716 742 | 77 141 958 | 6 965 640 |
| Risk weighted assets | 1 247 205 625 | 815 797 606 | 87 070 493 |
| Capital adequacy ratio | 2,38 | 1,95 | 7,56 |
| Capital adequacy % | 22.1% | 18.5% | 60.5% |

This is the company's third fiscal year, which is why only three years are stated above.

**Subsidiaries**

Bluestep Finans Funding No. 1 AB ("BFF1AB") was established as a wholly owned subsidiary of the company in late 2009 and is, according to Chapter 1 Section 5 and Chapter 7 Section 1 paragraph 2 point 2 of the Banking Act, regarded as a Financial Institution and is registered with the Swedish Financial Supervisory Authority in accordance with the Obligation to Notify Certain Financial Operations Act . BFAB and BFF1AB together with BBAB, in accordance with Chapter 9 Section 1 point 1 of the Capital Adequacy and Large Exposures Act , form a financial group.

**Branches**

The company commenced operations in Norway in July 2010 through a branch, Bluestep Finans AB, filial Oslo. The branch had eleven employees as at year end. The company aims to be a leading lender in the specialist residential mortgage market in Norway and will fund the business principally via retail deposits raised in Norway.

**Risks and uncertainties**

Through its business activities, the company is exposed to various risks such as credit, market, liquidity, operational, business and strategic risks. Policies and procedures to ensure effective risk management are in place to identify, control and monitor key risk areas. A detailed description of these risks can be found in Note 2.

**Remuneration policy**

In response to the Finansinspektionen's Regulations and General Guidelines governing remuneration policies in credit institutions (FFFS 2011:1) the Board has in March 2011 agreed upon a new remuneration policy. Through this remuneration policy, a number of staff in the company has been classified as "remuneration code staff". Regarding bonuses based on the result of 2010, 40-60% of the 2010 bonuses will be deferred for a period of three to five years and will only be released if certain performance targets are met. Required information according to FFFS 2011:3 will be published on the company's website.

**Events post end of fiscal year**

In January 2011, a second acquisition was made by Bluestep Finans Funding No 1 AB comprising Swedish residential mortgages originated by Bluestep Bostadslån AB, of a value equivalent to SEK 1145.1m. The acquisition was financed through a combination of bank debt funding and equity. On 12th January 2011, the company received a capital contribution from the parent company by way of a conditional shareholders' contribution of SEK 50.0m to support the acquisition.

On 1st April 2011, the Bluestep Bostadslån AB Group was restructured, which resulted in all staff and operations that resided in Bluestep Bostadslån AB moving to Bluestep Finans AB. Bluestep Bostadslån AB will be a holding company going forward.

**Proposed appropriation of the company's profit (Parent company)**

| | |
|---|---|
| The board proposes that: | |
| Retained earnings | 112 706 979 |
| Shareholder contributions | 135 000 000 |
| Result of the year | -1 756 139 |
| | **245 950 840** |
| be appropriated as follows: | |
| balance carried forward | **245 950 840** |

With regards to the company's profit and position in other respects, please see the following income statement, balance sheet, cash flow statement with associated notes. All amounts are expressed in Swedish krona unless otherwise stated.

# Income statement - The Group

| | Note | 2010-01-01<br>2010-12-31 | 2009-01-01<br>2009-12-31 |
|---|---|---|---|
| **OPERATING INCOME** | | | |
| Interest income | | 185 359 401 | 69 693 470 |
| Interest expense | | -96 658 079 | -54 792 150 |
| **Net interest income** | **3** | **88 701 322** | **14 901 320** |
| Commission income | 4 | 120 000 | 585 000 |
| Commission expense | 5 | -11 695 828 | -12 489 058 |
| Net result of financial transactions | 6 | -10 216 921 | -3 942 361 |
| Other operating income | 7 | 1 417 312 | 504 439 |
| **TOTAL OPERATING INCOME** | | **68 325 885** | **-440 660** |
| **OPERATING EXPENSE** | | | |
| General administration expenses | 8,9,10 | -46 997 515 | -23 687 099 |
| Depreciation on intangible fixed assets | 13,14 | -1 739 679 | -714 188 |
| **Total expenses** | | **-48 737 194** | **-24 401 287** |
| **Result pre credit losses** | | **19 588 691** | **-24 841 947** |
| Credit losses, net | 11 | -11 398 556 | 2 223 501 |
| **OPERATING PROFIT/LOSS** | | **8 190 135** | **-22 618 446** |
| Tax | 12 | -2 615 871 | - |
| **NET PROFIT/LOSS FOR THE YEAR** | | **5 574 264** | **-22 618 446** |
| **STATEMENT OF COMPREHENSIVE INCOME** | | | |
| **Net income** | | **5 574 264** | **-22 618 446** |
| **Other comprehensive income/expenses** | | **-** | **-** |
| **Comprehensive profit/loss** | | **5 574 264** | **-22 618 446** |

## Balance sheet - The Group

| | Note | 2010-12-31 | 2009-12-31 |
|---|---|---|---|
| **ASSETS** | | | |
| Lending to credit institutions | 15 | 1 076 948 509 | 1 433 378 467 |
| Lending to the public | 16 | 2 670 044 002 | 1 194 437 240 |
| Bonds and other interest-bearing securities | 17 | 238 384 829 | 267 433 456 |
| Intagible assets | 13 | 7 834 133 | 3 172 687 |
| Tangible assets | 14 | 861 971 | - |
| Other assets | 19 | 41 881 426 | 31 636 137 |
| Prepaid expenses and accrued income | | 479 528 | 120 718 |
| **TOTAL ASSETS** | | **4 036 434 398** | **2 930 178 705** |
| | | | |
| **LIABILITIES** | | | |
| Liabilities to credit institutions | 20 | 319 500 000 | - |
| Deposits from the public | 21 | 3 374 886 692 | 2 748 384 826 |
| Accrued expenses and prepaid income | 22 | 31 944 277 | 18 578 387 |
| Other liabilities | 23 | 27 220 391 | 9 449 513 |
| Subordinated liabilities | 24 | 26 932 200 | 31 059 000 |
| **TOTAL LIABILITIES** | | **3 780 176 542** | **2 807 471 726** |
| | | | |
| **EQUITY** | | | |
| Shareholders' equity | | 255 950 838 | 122 706 979 |
| | | | |
| **TOTAL EQUITY** | | **255 950 838** | **122 706 979** |
| **TOTAL EQUITY AND LIABILITIES** | | **4 036 434 398** | **2 930 178 705** |

## Changes in equity - The Group

| | Shareholders' equity | | | |
|---|---|---|---|---|
| | Share capital | Shareholder contribution | Retained earnings | Total equity |
| **Opening balance 2009-01-01** | **10 000 000** | **53 889 260** | **-8 563 835** | **55 325 425** |
| Transactions with shareholders: | | | | |
| Shareholder contributions* | | 90 000 000 | | 90 000 000 |
| Comprehensive profit/loss | | | -22 618 446 | -22 618 446 |
| **Ending balance 2009-12-31** | **10 000 000** | **143 889 260** | **-31 182 281** | **122 706 979** |
| | | | | |
| **Opening balance 2010-01-01** | **10 000 000** | **143 889 260** | **-31 182 281** | **122 706 979** |
| Transactions with shareholders: | | | | |
| Shareholder contributions* | | 135 000 000 | | 135 000 000 |
| Group contribution | | -9 946 276 | | -9 946 276 |
| Tax on group contribution | | 2 615 871 | | 2 615 871 |
| Comprehensive profit/loss | | | 5 574 264 | 5 574 264 |
| **Ending balance 2010-12-31** | **10 000 000** | **271 558 855** | **-25 608 017** | **255 950 838** |

* Conditional shareholder contributions. Repayment of the conditional shareholder contributions is subject to a decision made by the annual shareholders' meeting of the Company.

# Cash flow statement - The Group

| | Note | 2010-01-01<br>2010-12-31 | 2009-01-01<br>2009-12-31 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Pre tax income | | 8 190 135 | -22 618 446 |
| **Adjustments for items not included in cash flow** | | | |
| Depreciations | 13,14 | 1 739 679 | 714 188 |
| Credit losses | 11 | 11 398 556 | -2 223 501 |
| **Total – Items not included in cash flow** | | **13 138 235** | **-1 509 313** |
| | | | |
| **CASH FLOW FROM CURRENT OPERATIONS BEFORE CHANGES TO OPERATING CAPITAL** | | **21 328 370** | **-24 127 759** |
| | | | |
| **Cash flow from changes to operating capital** | | | |
| Increase (-)/decrease (+) of lending to the public | | -1 487 005 318 | -1 189 191 144 |
| Increase (-)/decrease (+) of change in receivables | | -10 604 099 | -31 360 285 |
| Increase (+)/decrease (-) of deposits from the public | | 626 501 866 | 2 372 426 813 |
| Increase (+)/decrease (-) of change in short term liabilities | | 31 136 768 | 25 364 220 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | **-818 642 413** | **1 153 111 845** |
| | | | |
| **INVESTING ACTIVITIES** | | | |
| Acquisistion of subsidary company | | - | -100 000 |
| Investments in intangible assets | 13 | -6 200 511 | -1 215 000 |
| Acquisistion of fixed assets | 14 | -1 062 585 | - |
| Acquisition of financial assets | 17 | 29 048 627 | -267 433 456 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | **21 785 531** | **-268 748 456** |
| | | | |
| **FINANCING ACTIVITES** | | | |
| Liabilities to credit institutions | | 319 500 000 | - |
| Shareholders' contribution | | 135 000 000 | 90 000 000 |
| Subordinated debts | 22 | -4 126 800 | 31 059 000 |
| Group contribution | | -9 946 276 | - |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | **440 426 924** | **121 059 000** |
| | | | |
| **NET CASH FLOW FOR THIS PERIOD** | | **-356 429 958** | **1 005 422 389** |
| Liquid funds at beginning of period | | 1 433 378 467 | 427 956 078 |
| **LIQUID FUNDS END OF PERIOD** | | **1 076 948 509** | **1 433 378 467** |

# Income statment - Parent company

| | Note | 2010-01-01<br>2010-12-31 | 2009-01-01<br>2009-12-31 |
|---|---|---|---|
| **OPERATING INCOME** | | | |
| Interest income | | 159 541 626 | 69 693 470 |
| Interest expense | | -89 107 017 | -54 792 150 |
| **Net interest income** | **3** | **70 434 609** | **14 901 320** |
| Commission income | 4 | 120 000 | 585 000 |
| Commission expense | 5 | -11 695 828 | -12 489 058 |
| Net result of financial transactions | 6 | -4 351 296 | -3 942 361 |
| Other operating income | 7 | 969 543 | 504 439 |
| **TOTAL OPERATING INCOME** | | **55 477 028** | **-440 660** |
| **OPERATING EXPENSE** | | | |
| General administration expenses | 8,9,10 | -45 436 083 | -23 687 099 |
| Depreciation on intangible fixed assets | 13 | -1 739 679 | -714 188 |
| **Total expenses** | | **-47 175 762** | **-24 401 287** |
| **Result pre credit losses** | | **8 301 266** | **-24 841 947** |
| Credit losses, net | 11 | -10 057 405 | 2 223 501 |
| **OPERATING PROFIT/LOSS** | | **-1 756 139** | **-22 618 446** |
| Tax | 12 | 0 | 0 |
| **NET PROFIT/LOSS FOR THE YEAR** | | **-1 756 139** | **-22 618 446** |
| **STATEMENT OF COMPREHENSIVE INCOME** | | | |
| **Net income** | | **-1 756 139** | **-22 618 446** |
| **Other comprehensive income/expenses** | | **-** | **-** |
| **COMPREHENSIVE PROFIT/LOSS** | | **-1 756 139** | **-22 618 446** |

# Balance sheet - Parent company

| | Note | 2010-12-31 | 2009-12-31 |
|---|---|---|---|
| **ASSETS** | | | |
| Lending to credit institutions | 15 | 1 068 355 535 | 1 433 378 467 |
| Lending to the public | 16 | 2 242 030 923 | 1 194 437 240 |
| Bonds and other interest-bearing securities | 17 | 238 384 829 | 267 433 456 |
| Shares and participations in associated companies | 18 | 3 100 000 | 100 000 |
| Intangible assets | 13 | 7 834 133 | 3 172 687 |
| Tangible assets | 14 | 861 971 | - |
| Other assets | 19 | 141 488 331 | 31 636 137 |
| Prepaid expenses and accrued income | | 479 528 | 120 718 |
| **TOTAL ASSETS** | | **3 702 535 250** | **2 930 278 705** |
| | | | |
| **LIABILITIES** | | | |
| Deposits from the public | 21 | 3 374 886 692 | 2 748 384 826 |
| Accrued expenses and prepaid income | 22 | 29 857 713 | 18 578 387 |
| Other liabilities | 23 | 14 907 805 | 9 549 513 |
| Debenture loan | 24 | 26 932 200 | 31 059 000 |
| **TOTAL LIABILITIES** | | **3 446 584 410** | **2 807 571 726** |
| | | | |
| **EQUITY** | | | |
| Share capital | | 10 000 000 | 10 000 000 |
| Profit and loss account reserve brought forward | | 247 706 979 | 135 325 425 |
| Loss for this year | | -1 756 139 | -22 618 446 |
| | | | |
| **TOTAL EQUITY** | | **255 950 840** | **122 706 979** |
| **TOTAL EQUITY AND LIABILITIES** | | **3 702 535 250** | **2 930 278 705** |

# Changes in equity - Parent company

| | Share capital | Restricted equity | Shareholder contributions | Retained earnings | Non-restricted equity | Total equity |
|---|---|---|---|---|---|---|
| **Opening balance 2009-01-01** | **10 000 000** | **10 000 000** | **53 889 260** | **-8 563 835** | **45 325 425** | **55 325 425** |
| Transactions with shareholders: | | | | | | |
| Shareholder contributions* | - | - | 90 000 000 | - | 90 000 000 | 90 000 000 |
| Comprehensive profit/loss | - | - | - | -22 618 446 | -22 618 446 | -22 618 446 |
| **Ending balance 2009-12-31** | **10 000 000** | **10 000 000** | **143 889 260** | **-31 182 281** | **112 706 979** | **122 706 979** |
| | | | | | | |
| **Opening balance 2010-01-01** | **10 000 000** | **10 000 000** | **143 889 260** | **-31 182 281** | **112 706 979** | **122 706 979** |
| Transactions with shareholders: | | | | | | |
| Shareholder contributions* | - | - | 135 000 000 | - | 135 000 000 | 135 000 000 |
| Comprehensive profit/loss | - | - | - | -1 756 139 | -1 756 139 | -1 756 139 |
| **Ending balance 2010-12-31** | **10 000 000** | **10 000 000** | **278 889 260** | **-32 938 420** | **245 950 840** | **255 950 840** |

* Conditional shareholder contributions. Repayment of the conditional shareholder contributions is subject to a decision made by the annual shareholders' meeting of the Company.

# Cash flow statement - Parent company

| | Note | 2010-01-01<br>2010-12-31 | 2009-01-01<br>2009-12-31 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Pre tax income | | -1 756 139 | -22 618 446 |
| **Adjustments for items not included in cash flow** | | | |
| Depreciations | 13,14 | 1 739 679 | 714 188 |
| Credit losses | 11 | 10 057 405 | -2 223 501 |
| **Total – Items not included in cash flow** | | **11 797 084** | **-1 509 313** |
| | | | |
| **Cash flow from current operations before changes to operating capital** | | **21 328 370** | **-24 127 759** |
| | | | |
| **Cash flow from changes to operating capital** | | | |
| Increase (-)/decrease (+) of lending to the public | | -1 057 651 088 | -1 189 191 144 |
| Increase (-)/decrease (+) of change in receivables | | -110 211 004 | -31 360 285 |
| Increase (+)/decrease (-) of deposits from the public | | 626 501 866 | 2 372 426 813 |
| Increase (+)/decrease (-) of change in short term liabilities | | 16 637 618 | 25 364 220 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | **-514 681 663** | **1 153 111 845** |
| | | | |
| **INVESTING ACTIVITIES** | | | |
| Acquisistion of subsidary company | | - | -100 000 |
| Investments in intangible assets | 13 | -6 200 511 | -1 215 000 |
| Acquisistion of fixed assets | 14 | -1 062 585 | - |
| Acquisistion of financial assets | 17 | 29 048 627 | -267 433 456 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | **21 785 531** | **-268 748 456** |
| | | | |
| **FINANCING ACTIVITES** | | | |
| Received/paid shareholder contributions | | 132 000 000 | 90 000 000 |
| Subordinated liabilites | 22 | -4 126 800 | 31 059 000 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | **127 873 200** | **121 059 000** |
| | | | |
| **NET CASH FLOW FOR THIS PERIOD** | | **-365 022 932** | **1 005 422 389** |
| Liquid funds at beginning of period | | 1 433 378 467 | 427 956 078 |
| **LIQUID FUNDS END OF PERIOD** | | **1 068 355 535** | **1 433 378 467** |

# Disclosures

## Notes to the financial statements

### Note 1 Accounting principles

**Compliance with standards and regulations**

The financial reports and the consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and interpretations of them. The consolidated financial statements also apply recommendation RFR 1 Complementary accounting rules for groups, issued by the Swedish Financial Reporting Board, the pronouncements of the Swedish Financial Reporting Board, certain complementary rules in the Annual Accounts Act for Credit Institutions and Securities Companies and the regulations and general advice of the Swedish Financial Supervisory Authority, FFFS 2008:25.

The parent company's financial statements are prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) and FSA regulations and general advice on the Annual Report of banks and securities companies (FFFS 2008:25) in accordance with amended regulations in FFFS 2009:11 and the Council of Financial Reporting Recommendation RFR 2 Accounting for legal entities. The Company applies the so-called "limited IFRS" which means that the company has adopted the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU Commission for application in the EU under the restrictions imposed by RFR 2 and FFFS 2008:25. This means that IFRS is applied to the extent possible within the framework of the Annual Accounts Act and considering the relationship between accounting and taxation.

The below mentioned accounting principles have been consequently applied on all periods presented in the financial report, unless other is stated.

The amendments in IAS 1 and RFR 2 regarding application of IAS 1 have resulted in revised formats for the parent company. The company's revenue and expense which were previously recognized in equity, and which did not involve transactions with owners, are now presented in a report of comprehensive income after the parent company's income statement. In the statement of changes in equity, comprehensive income is presented separately from transactions with owners.

As of January 1, 2010, full IFRS is applied in the consolidated financial statements in accordance with the revised accounting regulations from the Swedish Financial Agency and the Council for financial report with retrospective effect from January 1, 2009. The change has no material effect on the financial statements.

**Changes in accounting principles**

Amended accounting principles which are applied by the Company as of 1 January 2010 are described below. Other amendments of IFRS have not had a significant effect on the company's accounting.

- Amendment to IFRS 1 First-time Adoption of IFRS regarding further exemptions
- Amendment to IFRS 2 Share-based payment
- Amendment to IFRS 3 Business Combinations
- Amendment to IAS 27 Consolidated and Separate Financial Statements
- Amendment to IAS 39 Financial Instruments
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 18 Transfers of Assets from Customers

Other new and revised standards and interpretations are not expected to have any effect on the company's financial statements.

**New and amended standards and interpretations that are not yet in force**

A number of new or amended standards will be effective from the next financial year and has not been applied in the preparation of these financial statements. News or modifications that will be applicable from the fiscal year of 2011 and beyond are not planned to be applied in advance. The following describes the expected effects on the financial statements that the application of the following new or amended standards are expected to have on the company's financial statements. In addition to those, no other news are deemed to have any effect on the company's financial statements.

IFRS 9 Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement from 2013 at the latest. IASB ("International Accounting Standards Board) has published the first of three parts which together will constitute IFRS 9. This first part deals with the classification and valuation of financial assets. The categories of financial assets in IAS 39 are replaced by two categories, where the valuation is made at fair value or amortized cost. Amortized cost is used for instruments held in a business whose goal is to receive the contractual cash flows, which shall constitute payment of principal and interest on the principal amount at specified dates. Other financial assets are stated at fair value and the possibility to apply 'fair value option' as in IAS 39 is retained. Changes in fair value be recognized in the income statement, excluding changes in value of equity instruments which are not held for trading and for which the initial choice is made to account for changes in value of other comprehensive income. Changes in value of derivatives in hedge accounting are not affected by this part of the IFRS, 9, and are reported in accordance with IAS 39. The IASB has also decided to change the procedure to account for the change in fair value due to changes in own credit standing in the case when the fair value option be applied to corporate debt.

In addition to IFRS 9 to the following standards and interpretations are yet to come (first fiscal year for application are stated in brackets):

- Amendment to IAS 24 Related Party Disclosures (January 1, 2011)
- Amendment to IAS 32 Financial Instruments Presentation (February 1, 2010)
- Amendment to IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (January 1, 2011)
- Amendment to IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments (July 1, 2010)

The amendments and interpretive statements are not expected to have any effect on the company's financial statements.

**Significant judgments and estimates**

Presentation of Financial Statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, costs and revenues.

Management makes certain judgments and estimates to determine the value of certain financial assets and liabilities.

Receivables are examined if a loss event has occurred. When the loss event has occurred, an estimation of future cash flow loan and its most probable size is made.

When financial instruments are measured at fair value and there is an absence of quoted prices in active markets, different valuation models are used instead. Management assesses the valuation and the price parameters that are most relevant to the individual instrument. All valuation models applied by the company are widely accepted in the market.

**Foreign currency**
The company's functional currency is Swedish Krona. Transactions in foreign currencies are translated into the functional currency at the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the balance sheet date. Exchange differences arising on translation are recognised in the income statement as net income from financial transactions. Non-monetary assets and liabilities accounted for at fair value are translated into the functional currency at the exchange rate on the date of valuation.

**Accounting for revenue**
Revenues are recognised when the income can be calculated accurately and it is probable that the economic benefits will flow to the company.

**Net interest income**
Interest income and expenses (including interest income on impaired assets) are accounted for using the effective interest method. The effective interest is the interest of which the present value of all estimated future payments during the rate fixation period equals the accounted value of the receivable or liability. The calculation of the effective interest includes all fees paid or received, including transaction costs. At early redemption of a loan the customer may pay an interest-rate compensation which is intended to cover the cost incurred for the company The compensation is accounted for under the interest income.

**Commission income and commission expenses**
Commission income and commission expenses are accounted for in the income statement on an on-going basis in accordance with its terms.

**Net income from financial transactions**
Net income from financial transactions includes the realised and unrealised changes in value arising on account of financial transactions and foreign currency gains and losses on financial assets and financial liabilities

**Financial instruments**
A significant part of the company's balance sheet items refers to financial instruments. Among the assets financial instruments includes balance sheet items, as for example, liabilities to credit institutions, loans to credit institutions and to the public, bonds and other interest-bearing securities and derivatives. Among the liabilities are, as for example, deposits and borrowing from the public, subordinated liabilities and accounts payable. Financial instruments are recognised and measured in accordance with IAS 32 and 39. A financial instrument is any contract that gives rise to a financial asset in a company and a financial liability or equity instrument in another.

Financial instruments are recognised on the balance sheet on the transaction date when an acquisition agreement has been entered into, with the exception of loan receivables and liabilities to credit institutions, which are recognised on the settlement date. Accounts receivable are recognised in the balance sheet when an invoice is issued. Liabilities are recognised when the counterparty has performed and a contractual obligation to pay exists, even if no invoice has yet been received. Accounts payable are recognised when an invoice is received. A financial asset is derecognised when the contractual rights of the agreement are realised, expired or the company loses control over them. A financial liability is derecognised when the contractual obligation is discharged or otherwise extinguished.

Financial assets and liabilities are offset and reported on a net basis in the balance sheet only when there is a legal right to offset and when the intention is to settle with a net amount or to simultaneously realise the asset and settle the liability.

Financial instruments are initially recognised at cost, which is the instrument's fair value plus transaction costs, for all financial instruments except those belonging to the category of financial assets and liabilities carried at fair value through profit or loss. Subsequent measurement depends on how the financial instruments are classified according to the categories specified in IAS 39, as follows:

- Financial assets and liabilities at fair value through profit or loss
- Loans and receivables
- Financial assets available for sale
- Financial assets held-to-maturity
- Other financial liabilities

The company has not classified any financial assets as "Financial assets held-to-maturity" or "Financial assets available for sale".

**Financial assets and liabilities at fair value through the income statement**
The category of "Financial assets and liabilities at fair value through profit or loss" is divided in two sub-categories, financial instruments held for trading and financial instruments that management at initial recognition, have chosen to classify in this category. All of the company's assets in this category refer to derivative financial instruments which automatically are classified as held for trading. Assets in this category are initially recognised at fair value, while transaction costs are recognised in the income statement. Changes in fair value and realised gains or losses of these assets is recognised directly in profit or loss, under the heading "Net income from financial transactions", while accrued interest and received interest is recorded as interest income or expense.

Fair value is the amount at which an asset could be exchanged or a liability settled, between knowledgeable, willing parties who are independent of each other and who have an interest in the transaction. Fair value of financial instruments, which is traded in an active market, such as financial assets and financial liabilities and derivatives listed on stock/securities exchange, are based on quoted prices. For financial instruments not traded in an active market, fair value is determined based on generally accepted valuation techniques. The valuation techniques are based as far as possible on market data. In the event that credit spreads are not available for the held financial instrument, a similar instrument with the same credit rating and maturity is used.

*Derivatives*
Derivatives are used to eliminate or reduce the interest rate and currency risks in the company's assets and liabilities. The company does not apply hedge accounting under IAS 39. Derivatives are carried at fair value through profit or loss. Derivatives with positive market value are classified as "Other assets" in the balance sheet and derivatives with negative market values as "Other liabilities".

**Loans and receivables**
Loans and receivables are financial assets that are not derivatives, have fixed or determinable payments and that are not quoted in an active market. These assets are valued at amortized cost. Amortized

cost is calculated using the effective interest method, which means that any premiums or discounts and directly attributable costs or benefits are accrued over the expected term using the estimated effective rate. The effective interest rate is the rate that gives the instrument's cost as a result of discounted future cash flows.

Loans and receivables are carried at the amounts expected to be received, i.e. after deduction of bad debts. The company's lending and accounts receivable consists of loans to credit institutions and to the public, bonds and other interest-bearing securities and other financial assets as accounts receivable, in the balance sheet.

*Loans to credit institutions*
Lending to credit institutions consist of cash deposits with banks.

*Lending to the public*
Lending to the public consists of loans to individuals secured on residential property. Impairment losses and reversals of impairment losses are expensed as loan losses; net interest income is recognized using the effective interest method.

*Bonds and other interest-bearing securities*
The company has invested part of the surplus funds in Residential Mortgage Backed Securities ("RMBS"). These assets have determinable payments. Gains or losses and changes in value due to changes in exchange rates are recognized as net income from financial transactions. Interest income is recognized using the effective interest method. Impairment losses and reversals of impairment losses are expensed as impairment of financial assets.

*Accounts receivable*
The expected duration of accounts receivables is short, and therefore the carrying amount is at the nominal amount without discounting. Doubtful receivables are assessed individually and impairment losses are recognized as operating expenses.

*Impairment of financial assets carried at amortised cost*
On the balance sheet date an assessment of whether there is objective evidence of impairment of an individual claim or group of claims. This occurs as a result of events occurring after the asset was recorded for the first time and has affected the estimated future cash flows of the relevant claim or group of claims. Events that may affect the need for impairment are for example suspension of payments, compositions and demand for payment.

The impairment is calculated as the difference between the loans booked value and the loans estimated present value. Cash flows attributable to the borrower or issuer, and the possible utilization of collateral is considered when assessing impairment. Any costs associated with the realization of collateral are included in cash flow projections. Calculation of probable loan losses, or impairment of other financial assets are gross and in cases where there is a guarantee equivalent it is reported as a claim on the counterparty. If the present value of future cash flows exceeds the asset's carrying value, no impairment loss is recorded and the claim is deemed not to be doubtful. Impairment is recognized in the income statement as "Loan losses, net" or "Impairment of financial assets," according to the type of loan receivable.

An impairment loss is reversed if there is evidence that the impairment no longer exists and there has been a change in the assumptions underlying the calculation of the impairment.

**Other financial liabilities**
Financial liabilities which are not derivatives and classified as "Liabilities at fair value through profit or loss" are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method (see loans and receivables).

**Shareholders' contribution and group contribution**
The company records shareholders' contributions and group contributions in accordance with the Swedish Financial Reporting Board (UFR 7).

Shareholders' contribution are credited directly to equity in the recipient and capitalized as shares in subsidiary in the donor, to the extent that impairment is not required.

Group contributions are recorded in relation to substance. This means that Group contributions paid and received in order to minimise the Group's total tax charge, are recognised directly in retained earnings after deductions for the current tax effect.

Group contributions corresponding to dividends are recorded as a dividend. This means that group contributions received and the current tax effect are recorded in the income statement. Paid group contributions and the current tax effect are recognised directly in retained earnings.

Group contributions corresponding to shareholders' contributions are recognised by the receiver, with regard to the current tax effect, directly in retained earnings. The donor records the contribution and the current tax effect as an investment in shares in Group companies, to the extent that impairment is not required.

**Intangible assets**
Intangible assets are reported as an asset on the balance sheet if it is probable that future economic benefits will flow to the company and the cost of the asset can be measured reliably. Intangible assets are carried at cost less accumulated depreciation.

The carrying value of an intangible asset is derecognised upon disposal, scrapping or when no future economic benefits expected from the use or disposal of the asset.

Gains or losses arising on the disposal of an asset is the difference between the sale price and the asset's carrying value, net of direct selling costs. Profit/loss is recorded as other operating income/expense.

Depreciation is made on a straight-line basis over the asset's estimated useful life. The amortisation period for intangible assets is 5 years.

**Tangible assets**
Tangible assets are reported at cost less depreciation according to plan. Depreciation is made on a straight-line basis over the asset's estimated useful life. The amortisation period for intangible assets is 5 years.

**Leasing**
All lease agreements are operational. Lease payments are reported as other operating costs.

**Pensions**
All pension plans are defined benefit plans. Premiums are expensed in line with that pensions are earned. The company has no further obligations once the premiums are paid.

**Taxes**
The company's total tax comprises current and deferred tax. Current tax is the tax to be received or paid for the current year. This also includes adjustments to previous years of assessment.

**Cash flow statement and cash equivalents**
The cash flow statement has been prepared in accordance with IAS 7, using the indirect method in accounting for cash flows from operating activities. The indirect method means that the operating profit is adjusted for transactions that do not involve receipts and disbursements, such as depreciation and loan losses. Cash flows are categorised as from operating activities, investing activities and financing activities.

**Cash and cash equivalents**
Cash and cash equivalents consists of cash from credit institutions and short-term liquidity investments with a maturity from the date of acquisition of less than three months, which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at their nominal amounts.

## Note 2 Risk management

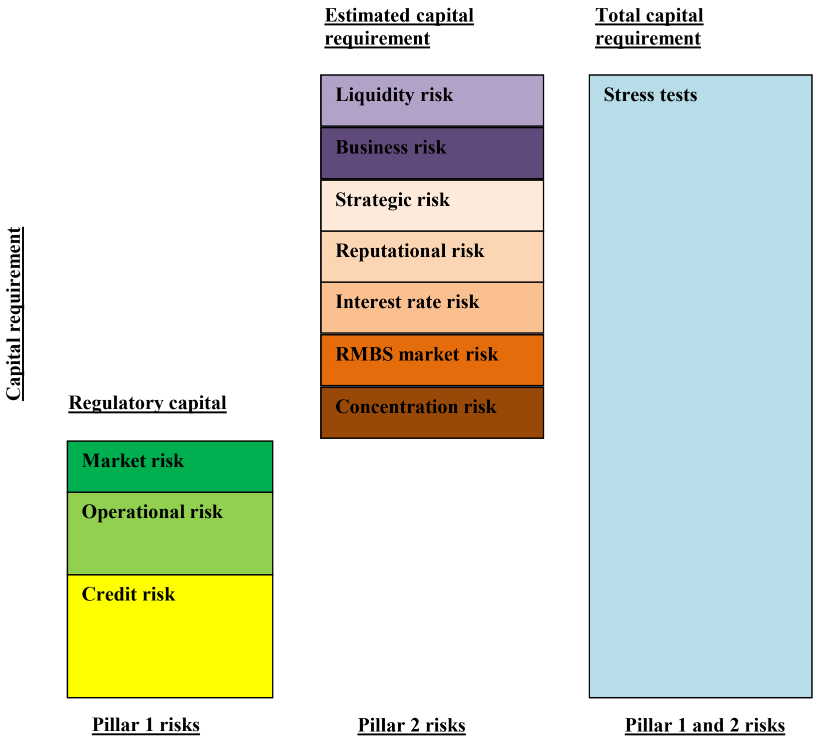
The rules and processes of the company have been designed to ensure a systematic and safe risk management culture. The board decides the level of risk in the business and also defines the responsibilities in the organisation through various risk, credit, and operating policies.

By this distribution and delegation of responsibilities a structured approach to decision making is created regarding risk issues. Main decision makers are the board, Managing Director, Risk manager, Credit manager and the Branch manager who are directly involved in the preparation and structure of risk management. The policies are stipulated by the board and are continuously reviewed and amended if needed. The risk manager is independent from the operations and reports directly to the MD and the board.

The compliance manager is responsible for on an aggregated level to follow up and report to the MD and the board all risks regarding market and legal/compliance. The responsibilities of ethical risks are divided between the risk manager and the compliance manager. The board is responsible for the on-going planning of internal audits. Internal audit assignments are outsourced to a third party auditor.

**Material risks in the Business**
The risks identified by the company in its business, besides market, credit and operational risks, are:

- Liquidity risk,
- Business risk,
- Strategic risk,
- Reputational risk,
- Interest rate risk related to non-trading activities,
- RMBS market risk, and
- Concentration risk




For further information on capital adequacy and pillars 1 and 2, see Note 28.

## Capital requirements according to Pillar 1

### Market risk

Market risk is defined as the risk of losses incurred on current or future cash flows due to changes in interest rates or currency rates. There are three different types of market risks: currency risk, interest rate risk and other price risks. The main market risk for the company is the currency risk. The vast majority of the net currency exposure is hedged with derivatives to ensure that the expected cash flows from EUR and GBP investments generate the expected level of SEK over the life of the assets.

The value of the EUR and GBP investments are solely based on the currency spot values whereas the currency options are driven by the delta values of the derivatives, which means that the balance sheet position is not fully hedged but the long term cash flows are.

*Sensitivity analysis with an instantaneous decrease in currency with 10%*
*The table below shows the Group's assets and liabilities in foreign currencies as at the balance sheet date.*

| | Total position 2010-12-31 | Value change - 10 % | Value change + 10 % |
|---|---|---|---|
| Assets/liabilities EUR | 99 511 978 | -9 951 198 | 9 951 198 |
| Assets/liabilities GBP | 139 289 033 | -13 928 903 | 13 928 903 |
| Assets/liabilities NOK | 43 879 389 | -4 387 939 | 4 387 939 |
| **Impact on earnings** | | **-28 268 040** | **28 268 040** |

A change in relevant exchange rates in relation to the Swedish krona of -10% would at the balance sheet date show an instantaneous net impact on earnings of SEK -28.3m. A change in relevant exchange rates in relation to the Swedish krona of +10% would at the balance sheet date show an instantaneous net impact on earnings of SEK 28.3m.

### Operational risk

Operational risk is the risk caused by faults or deficiencies in administrative routines, which lead to unexpected financial or trust related losses. These may be caused due to deficiency within internal control, systems or technological equipment, as well as internal and external irregularities.

Operational risks are best counteracted through well exercised internal control, and BFAB is continuously managing these risks through:
- Well defined routines and instructions for all transactions,
- The duality principle – material business transactions and any cash or payment transactions involve at least 2 people.
- Personnel with proper competence, training and work experience prevent the occurrence of unplanned risks.
- Reliable IT-systems for finance, credit, loan administration and deposit functions with built-in controls and reconciliations. Robust back up procedures and business continuity plans are in place.

The calculation is based on the Basic Indicator Approach whereby the capital requirement should be 15% on the average net operating income for the last 3 fiscal years. As the company only commenced operations in October 2008 the calculation is based on the income generated in 2009 and 2010.

### Credit risk

Credit risk is defined as the risk of loss due to the counterparty's inability to make interest payments and amortisation or otherwise fulfill the loan agreement. Lending to credit institutes represents cash deposits with other Financial Institutions.

The company's credit process is characterized by high standards with regards to ethics, quality and control. Although credit risk is the company's largest exposure, the losses are small in proportion to the outstanding loan volume.

Credits given to the general public are assessed by looking at the borrower's financial position, their ability to fulfill payment obligations and the security of the residential property pledged, The customers' credit history is an important factor in determining the product and price available to the customer. The company's credit instruction outlines the company's approach, organisation and the full credit process in detail.

The company's procedures for managing overdue payments and non-performing loans aims to minimize credit losses by early detection of payment difficulties and a rapid handling of any delinquent payments.

All RMBS investments are analysed and approved by the company's Investment Committee and all investments have at least two independent credit ratings from Standard & Poors, Moody's or Fitch.

| Maximum Credit Risk Exposure | Group 2010-12-31 | Group 2009-12-31 | Parent 2010-12-31 | Parent 2009-12-31 |
|---|---|---|---|---|
| Lending to credit institutions | 1 076 948 509 | 1 433 378 467 | 1 068 355 535 | 1 433 378 467 |
| Lending to the public | | | | |
| *- Loans secured by residential property* | 2 670 044 002 | 1 194 437 240 | 2 242 030 923 | 1 194 437 240 |
| Bonds and other interest-bearing securities | 238 384 829 | 267 433 456 | 238 384 829 | 267 433 456 |
| Derivatives | 35 043 546 | 27 911 178 | 35 043 546 | 27 911 178 |
| Accounts receivable | 6 817 369 | 3 671 253 | 106 424 271 | 3 671 253 |
| Tangible assets | 861 971 | 0 | 861 971 | 0 |
| Other assets | 500 039 | 174 424 | 3 600 042 | 274 424 |
| **Total** | **4 028 600 265** | **2 927 006 018** | **3 694 701 117** | **2 927 106 018** |

**Credit rating on financial assets which are not due or impaired**

| Credit rating on classes of financial assets (S&P) | Parent AAA | AA | | No rating | Totalt |
|---|---|---|---|---|---|
| Bonds and other interest-bearing securities (foreign issuers) | 132 459 097 | 105 925 732 | 0 | 0 | 238 384 829 |
| Lending to the public | 0 | 0 | 0 | 2 242 030 923 | 2 242 030 923 |
| Lending to credit institutions | 0 | 0 | 1 068 354 718 | 817 | 1 068 355 535 |
| Derivatives | 0 | 3 896 565 | 31 146 981 | 0 | 35 043 546 |
| Accounts receivable | 0 | 0 | 0 | 5 832 993 | 5 832 993 |
| Other assets | 0 | 0 | 0 | 105 053 291 | 105 053 291 |
| **Total** | **132 459 097** | **109 822 297** | **1 099 501 699** | **2 352 918 024** | **3 694 701 117** |

The company has no financial assets that would otherwise be reported as outstanding or impaired and the terms of which have been renegotiated as at the balance sheet date.

The calculation of capital required for credit risk is based on the Standardised Approach. In this approach the credit exposures are divided into 15 exposure classes and the categories that the company is exposed to are listed in the table below:

| Credit risk<br>Exposure class | Parent<br>Class | Exposure as at 2010-12-31 | Risk weighted amount | Average risk weight |
|---|---|---|---|---|
| Institutions | 6 | 1 068 354 719 | 213 670 944 | 20% |
| Companies | 7 | 100 525 708 | 100 525 708 | 100% |
| Secured on residential property LTV<75% | 9 | 2 132 048 097 | 746 216 834 | 35% |
| Secured on residential property LTV>75% | 9 | 65 090 365 | 48 817 774 | 75% |
| Past due items | 10 | 44 892 457 | 44 892 457 | 100% |
| Securitisation positions | 13 | 238 384 829 | 47 676 966 | 20% |
| Other items | 15 | 45 404 942 | 45 404 942 | 100% |
| **Total** | | **3 694 701 117** | **1 247 205 625** | **34%** |

## Capital requirements according to Pillar 2

Capital need for Pillar 2 risks are calculated from expected losses caused by various risk scenarios. The calculated values are added to the capital requirements calculated for Pillar 1.

### Liquidity risk

The company is exposed to liquidity risk in regard to funds it raises from the retail deposits. It is the company's policy to retain material amounts of excess funds as a liquidity reserve and the capital requirement in regard to liquidity risk is the cost of having the necessary reserves to cover the liquidity risk. BFAB raises funding/capital from its owner in the form of share capital and conditional shareholder contributions and retail deposits.

Repayment of the conditional shareholder contributions shall only be made out of distributable earnings of the company, pursuant to an adopted balance sheet, in accordance with the rules on distribution of dividends in the Swedish Companies Act, and subject to a decision to make such repayment by the annual shareholders' meeting of the company.

The company is exposed to liquidity risk in regard to funds it raises in the retail deposit market. For a number of reasons the company could be exposed to a substantial outflow of deposits. The product features are designed to reduce this risk and to encourage longer term savers.

It is the company's current policy to retain at all times a substantial amount of the retail deposits as a liquidity reserve.

The company's Liquidity Risk Management Policy is in accordance with SFSA regulations FFFS 2010:7 and details the following:

-Liquidity, Investment and Financing strategies,
-How the business handles liquidity risk,
-Risk tolerance,
-Identification and measurement routines,
-Reporting,
-Stress testing,
-Preparations for liquidity stresses,
-Responsibilities, and
-Counterparty risk and limits.

**Business risk**
The company has identified a number of business risks that may cause its financial projections not to be delivered. Each risk is analysed with a qualitative approach and the expected loss for each such risk is calculated.

**Strategic risk**
Strategic risks are analysed and evaluated by the business where each risk impact on the business is assessed. The expected loss caused by the risk is calculated and compared to the estimated profit for that time period.

**Reputational risk**
Reputational risks are quantified using a qualitative method where all material reputational risks are evaluated from the perspectives of the probability that the risk will occur and the impact to the business if the risk should occur.

**Interest rate risk from non-trading activities**
The interest rate risk in the loan book is evaluated and the risk that the company may suffer losses as interest rates move over time if its assets and liabilities are of different maturities and priced off different benchmark interest rates is calculated and compared to the estimated profit for that period.

*Assets*
The company acquires interest rate derivatives to ensure that a certain minimum level of cash flow is delivered in the future on the vast majority of the assets exposed to interest rate movements. The business may suffer losses or reduced profits in relation to change in interest over time if assets and liabilities differ in life expectancy and are based on different interest rates.

*Liabilities*
Fixed rate retail deposits are offset by assets with a matched duration or are short term (one year or less) in nature.

**RMBS market risk**
RMBS market risk is the risk for the value of the bonds to decrease at a time when the company wishes to sell them.

**Concentration risk**
The concentration risk is the risk for large exposures or concentration in the credit portfolio in certain regions or markets. Individual customer concentrations are insignificant but virtually all of the lending book is exposure to Swedish private individuals and secured by residential property in Sweden. The company actively monitors and limits the concentration risk within Sweden to ensure that it is not overly exposed to any region or to any particular Tenants Owners Right Association.

**Sensitivity analysis in case of market rate increase with 100bps**
The company has no financial instruments valued to fair value apart from the derivatives. From a valuation perspective, these are the only instruments which directly affect the income statement (price risk) if there is a change in the market interest rate. Additionally, the company is exposed to risk in the net interest income.

The calculation assumes that market rates increase/decrease by 100 bps and states the instantaneous change in the economic value of the company.

| | Change | Absolute risk | Risk, % of capital bas |
|---|---|---|---|
| Increased interest rates | +100bp | -6 547 015 | -2.38% |
| Decreased interest rates | -100bp | 18 074 483 | 6.57% |

### Note 3 Net interest income

| | Group | | Parent | |
|---|---|---|---|---|
| **Interest income** | **2010** | **2009** | **2010** | **2009** |
| Lending to credit institutions | 10 894 981 | 9 224 848 | 10 856 229 | 9 224 848 |
| Lending to the public | 174 371 828 | 57 046 189 | 144 352 428 | 57 046 189 |
| Interest-bearing securities | - | 3 422 433 | - | 3 422 433 |
| Other | 92 592 | - | 4 332 969 | - |
| | **185 359 401** | **69 693 470** | **159 541 626** | **69 693 470** |
| Of which: | | | | |
| Interest income from financial items not measured at fair value through profit or loss | 185 359 401 | 69 693 470 | 159 541 626 | 69 693 470 |
| | | | | |
| **Interest expense** | | | | |
| Liabilities to credit institutions | -214 | -139 | -214 | -139 |
| Deposits from the public | -89 286 441 | -53 457 521 | -81 516 596 | -53 457 521 |
| Other | -7 371 424 | -1 334 490 | -7 590 207 | -1 334 490 |
| | **-96 658 079** | **-54 792 150** | **-89 107 017** | **-54 792 150** |
| Of which: | | | | |
| Interest expense from financial items not measured at fair value through profit or loss | -96 658 079 | -54 792 150 | -89 107 017 | -54 792 150 |
| **Total net interest income** | **88 701 322** | **14 901 320** | **70 434 609** | **14 901 320** |

### Note 4 Commission income

| | Group | | Parent | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Other commission income | 120 000 | 585 000 | 120 000 | 585 000 |
| **Total** | **120 000** | **585 000** | **120 000** | **585 000** |

The commission income relates to administration services rendered to Bluestep Capital Holdings Limited.

### Note 5 Commission expense

| | Koncernen och moderbolaget | |
|---|---|---|
| | **2010** | **2009** |
| Other commission expense | -11 695 828 | -12 489 058 |
| **Total** | **-11 695 828** | **-12 489 058** |

The commission expense relates to the loan origination services performed by Bluestep Bostadslån AB, on behalf of Bluestep Finans AB.

### Note 6 Net result of financial transactions

| | Group | | Parent | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Realised changes in market value of derivatives | 14 649 320 | -107 820 | 26 478 227 | -107 820 |
| Unrealised changes in market value of derivatives | 1 794 095 | -7 943 060 | -4 169 187 | -7 943 060 |
| Exchange rate changes: loans and receivables | -30 787 136 | 3 924 019 | -30 787 136 | 3 924 019 |
| Exchange rate changes: other debts | 4 126 800 | 184 500 | 4 126 800 | 184 500 |
| **Total** | **-10 216 921** | **-3 942 361** | **-4 351 296** | **-3 942 361** |

The company's financial assets and liabilities measured at fair value consist only of derivative instruments.

Unrealised changes in market value relate to changes in the fair value of derivative instruments. Revaluation takes place on a monthly basis. Exchange rate changes relate to currency adjustments of assets (Lending to Credit Institutes and RMBS) and liabilities (subordinated debt to Bluestep Bostadslån AB) in foreign currency which are calculated using the period end 'spot rate'.

## Note 7 Other operating income

| | Group | | Parent | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Other operating income | 1 417 312 | 504 439 | 969 543 | 504 439 |
| **Total** | **1 417 312** | **504 439** | **969 543** | **504 439** |

## Note 8 General administration expenses

| | Group | | Parent | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **Personnel costs** | | | | |
| Salaries and emoluments | -13 252 973 | -5 394 079 | -13 252 973 | -5 394 079 |
| Variable performance benefit | -2 413 238 | -3 781 132 | -2 413 238 | -3 781 132 |
| Social security charges | -4 284 970 | -2 854 273 | -4 284 970 | -2 854 273 |
| Pension expenses | -432 404 | -149 689 | -432 404 | -149 689 |
| Other personnel costs | -1 333 561 | -47 628 | -1 333 561 | -47 628 |
| | **-21 717 146** | **-12 226 801** | **-21 717 146** | **-12 226 801** |
| Administration expenses deposits from the public | -4 752 821 | -4 009 349 | -4 752 821 | -4 009 349 |
| Administration expenses lending to the public | -5 118 553 | -1 820 500 | -4 591 496 | -1 820 500 |
| Consultancy costs | -6 720 033 | -3 137 841 | -6 578 209 | -3 137 841 |
| Other administration expenses | -8 688 962 | -2 492 608 | -7 796 411 | -2 492 608 |
| **Total** | **-46 997 515** | **-23 687 099** | **-45 436 083** | **-23 687 099** |

## Note 9 Auditors remuneration and expenses

| | Group | | Parent | |
|---|---|---|---|---|
| Deloitte AB | 2010 | 2009 | 2010 | 2009 |
| Audit assignment | 390 000 | 348 849 | 220 000 | 348 849 |
| Audit activities in addition to audit assignment | 236 946 | 111 264 | 236 946 | 111 264 |
| Tax advice | - | - | - | - |
| Other assignments | - | - | - | - |
| **Total** | **626 946** | **460 113** | **456 946** | **460 113** |

Audit assignments refer to audit the annual report and accounts and other tasks that are incumbent on the company's auditors to perform as well as counsulting or other assistance as a result of observations during the audit or implementation of other tasks. Everything else relates to audit activities in addition to the audit assignment, tax advice or other assignments.

## Note 10 Salaries and remuneration

*The board*

The Board's fees are determined by the company's annual general meeting. At the end of the year the Board consisted of six members. The Board has compensated one of the members for his Board work in 2009 with a total of 100 000 SEK. No other compensation has been paid to the remaining Board members. Compensation for the Board's work during 2010 will be agreed and paid in 2011 after determining the amount at the annual general meeting.

*Senior officials*

Compensation to the Managing Director and other individuals identified as Remuneration Code Staff is proposed by the company's Remuneration Committee and determined by the Board. Compensation to other senior officials is determined by the Managing Director, and in some cases in consultation with the Remuneration Committee and the Board. Compensation to the Managing Director and senior officials consists of a basic salary, variable pay in the form of bonus and pension contributions. The period of notice for the Managing Director is six months. There are no agreements on severance pay with the Managing Director or any other Senior Executives.

*Pension commitments*

The company has a pension plan implemented for all employees whereby 2.5 % of the employee's gross monthly wage is invested in to an eligible plan. Additionally, an optional plan has been implemented whereby if the employee contributes 2 % of their gross monthly wage, they receive an additional 1 % contribution from the company.

| | **Salary** | | **Bonus** | | **Pension** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| *(Amount)* | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** |
| Managing Director (David Torpey) | 4 153 318 | 3 474 640 | *1 053 473 | 1 820 838 | 145 366 | 99 514 | **5 352 157** | **5 394 992** |
| Chairman of the Board (Per Otto Hyland) | - | **100 000 | - | - | - | - | - | **100 000** |
| **Total** | **4 153 318** | **3 574 640** | **1 053 473** | **1 820 838** | **145 366** | **99 514** | **5 352 157** | **5 494 992** |

* Of which 60% deferred for 5 years according to the company's remuneration policy

** Board remuneration for work performed in 2009.

| **Salaries and remuneration - Other employees** | **2010** | **2009** |
|---|---|---|
| Salaries and remuneration | 10 459 420 | 3 779 733 |
| Social security contributions | 3 040 126 | 1 564 318 |
| Pension costs | 287 038 | 50 175 |
| **Total salaries, remuneration, social security contributions and pensions** | **13 786 584** | **5 394 226** |

| **Average number of employees** | **Group** | | **Parent** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Women | 7 | 1 | 7 | 1 |
| Men | 12 | 4 | 12 | 4 |
| **Total** | **19** | **5** | **19** | **5** |

Information on sick leave and gender balance among senior officials are not provided due to the fact that average number of employees has not exceeded ten people during each of the last two years.

Information above concerns both the Group and the company since no salaries and remuneration have been paid by the subsidiary, Bluestep Finans Funding No 1 AB.

## Note 11 Credit losses

| | **Group** | | **Parent** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Actual losses | -9 431 855 | -2 502 967 | -12 673 440 | -2 502 967 |
| Net change in provisions | -1 966 701 | 4 726 468 | 2 616 035 | 4 726 468 |
| **Total** | **-11 398 556** | **2 223 501** | **-10 057 405** | **2 223 501** |

## Note 12 Tax on net result

The current tax rate is the tax rate for income tax of the company. The tax rate for 2010 in Sweden is 26.3% (26.3%). The tax rate for 2010 in Norway is 28.0% (28.0%).

| | Group | | Parent | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **Net profit before tax** | 5 574 264 | -22 618 446 | -1 756 139 | -22 618 446 |
| Tax based on current tax rate | -1 946 531 | 5 948 651 | 669 339 | 5 948 651 |
| Tax effect of: | | | | |
| Non taxable income | 12 | - | 12 | - |
| Non deductible items | -38 686 | -3 398 | -38 686 | -3 398 |
| Utilization of previously cumulative losses | 2 764 813 | - | 2 764 813 | - |
| Increase in cumulative losses without activation of deferred tax | -3 395 478 | -5 945 253 | -3 395 478 | -5 945 253 |
| **Total tax cost** | **-2 615 871** | **0** | **0** | **0** |

Total tax cost refers to group contribution.

## Note 13 Intangible assets

| | Group and Parent | |
|---|---|---|
| | 2010-12-31 | 2009-12-31 |
| Acquisition value brought forward | 4 027 500 | 2 812 500 |
| Investments for the year | 6 200 511 | 1 215 000 |
| **Acquisition value carried forward** | **10 228 011** | **4 027 500** |
| | | |
| Depreciation brought forward | -854 813 | -140 625 |
| Depreciation for the year | -1 539 065 | -714 188 |
| **Depreciation carried forward** | **-2 393 878** | **-854 813** |
| **Residual value at the end of the accounting period** | **7 834 133** | **3 172 687** |

## Note 14 Tangible assets

| | Group and Parent | |
|---|---|---|
| | 2010-12-31 | 2009-12-31 |
| Investments for the year | 1 062 585 | - |
| **Acquisition value carried forward** | **1 062 585** | **0** |
| | | |
| Depreciation for the year | -200 614 | - |
| **Depreciation carried forward** | **-200 614** | **0** |
| **Residual value at the end of the accounting period** | **861 971** | **0** |

## Note 15 Lending to credit institutions

| | Group | | Parent | |
|---|---|---|---|---|
| | 2010-12-31 | 2009-12-31 | 2010-12-31 | 2009-12-31 |
| Swedish banks | 1 076 940 702 | 1 422 583 359 | 1 068 347 728 | 1 422 583 359 |
| Foreign banks | 7 807 | 10 795 108 | 7 807 | 10 795 108 |
| **Total** | **1 076 948 509** | **1 433 378 467** | **1 068 355 535** | **1 433 378 467** |

## Note 16 Lending to the public

| | Group | | Parent | |
|---|---|---|---|---|
| | 2010-12-31 | 2009-12-31 | 2010-12-31 | 2009-12-31 |
| Loan assets | 2 686 803 144 | 1 209 229 681 | 2 254 207 329 | 1 209 229 681 |
| Provisions for losses | -16 759 142 | -14 792 441 | -12 176 406 | -14 792 441 |
| **Total** | **2 670 044 002** | **1 194 437 240** | **2 242 030 923** | **1 194 437 240** |
| | | | | |
| **Provisions for losses** | | | | |
| Provisions for losses at beginning of year | -14 792 441 | - | -14 792 441 | - |
| Provisions raised related to acquired loan assets in March 2009 | - | -19 518 909 | - | -19 518 909 |
| Net movement in provisions during the year | -1 966 701 | 4 726 468 | 2 616 035 | 4 726 468 |
| **Provisions for losses at end of year** | **-16 759 142** | **-14 792 441** | **-12 176 406** | **-14 792 441** |

## Note 17 Shares in associated companies

| | Group and Parent | | | |
|---|---|---|---|---|
| | 2010-12-31 | | 2009-12-31 | |
| | Purchase value | Recognised value | Purchase value | Recognised value |
| Foreign issuers* | 268 508 359 | 238 384 829 | 268 508 359 | 267 433 456 |
| **Total** | **268 508 359** | **238 384 829** | **268 508 359** | **267 433 456** |

* Relates to listed RMBS in a non-active market. Carried value relates to amortised cost.

## Note 18 Shares in associated companies

| **Company name** | **Number of shares** | **Share %** | **Recognised value** |
|---|---|---|---|
| Bluestep Finans Funding No 1 AB | 100 000 | 100% | 3 100 000 |
| **Total** | | | **3 100 000** |

| **Company name** | **Corporate number** | **Domicile** | **Equity** | **Net profit** |
|---|---|---|---|---|
| Bluestep Finans Funding No 1 AB | 556791-6928 | Stockholm | 3 100 000 | 7 330 405 |

## Note 19 Other assets

| | Group | | Parent | |
|---|---|---|---|---|
| | 2010-12-31 | 2009-12-31 | 2010-12-31 | 2009-12-31 |
| Derivative instruments | 35 043 546 | 27 911 178 | 35 043 54 | 27 911 178 |
| Accounts receivable | 6 751 799 | 3 651 253 | 5 832 993 | 3 651 253 |
| Intercompany receivables | 65 570 | 20 000 | 100 591 278 | 20 000 |
| Other assets | 20 511 | 53 706 | 20 514 | 53 706 |
| **Total** | **41 881 426** | **31 636 137** | **141 488 331** | **31 636 137** |

The derivative instruments consist of hedging instruments covering the mortgage lending, currency and RMBS assets. A breakdown of the instruments is specified below:

| | Group and Parent | | | |
|---|---|---|---|---|
| | 2010-12-31 | | 2009-12-31 | |
| | Purchase value | Recognised value | Purchase value | Recognised value |
| Swedish financial institutes | 11 095 295 | 9 876 509 | 8 942 622 | 6 916 473 |
| Foreign financial institutes | 26 675 944 | 25 167 037 | 27 502 687 | 20 994 705 |
| **Total** | **37 771 239** | **35 043 546** | **36 445 309** | **27 911 178** |

## Note 20 Liabilities to credit institutions

| | Group | |
|---|---|---|
| | 2010-12-31 | 2009-12-31 |
| Foreign banks | 319 500 000 | - |
| **Total** | **319 500 000** | **0** |

Credit facility amounts to SEK 425 000 000 and expires at 31 December 2011.

## Note 21 Deposits from the public

| | Group and Parent | |
|---|---|---|
| | 2010-12-31 | 2009-12-31 |
| Deposit accounts | 3 374 886 692 | 2 748 384 826 |
| **Total** | **3 374 886 692** | **2 748 384 826** |

## Note 22 Accrued expenses and prepaid income

| | Group | | Parent | |
|---|---|---|---|---|
| | 2010-12-31 | 2009-12-31 | 2010-12-31 | 2009-12-31 |
| Accrued salaries and remunerations | 3 692 954 | 2 271 560 | 3 692 954 | 2 271 560 |
| Accrued social costs | 995 606 | 716 548 | 995 606 | 716 548 |
| Accrued interest | 25 145 883 | 15 543 973 | 25 145 883 | 15 543 973 |
| Other | 2 109 834 | 46 306 | 23 270 | 46 306 |
| **Total** | **31 944 277** | **18 578 387** | **29 857 713** | **18 578 387** |

## Note 23 Other liabilities

| | Group | | Parent | |
|---|---|---|---|---|
| | 2010-12-31 | 2009-12-31 | 2010-12-31 | 2009-12-31 |
| Trade creditors | 6 626 156 | 292 949 | 4 352 431 | 292 949 |
| Intercompany liabilities | 8 868 949 | 6 840 736 | 8 215 371 | 6 840 736 |
| Social costs | 677 911 | 515 504 | 677 911 | 515 504 |
| Other | 11 047 375 | 1 800 324 | 1 662 092 | 1 900 324 |
| **Total** | **27 220 391** | **9 449 513** | **14 907 805** | **9 549 513** |

The intercompany liability relates to loan origination fees and interest on the debenture loan to the parent company Bluestep Bostadslån AB.

## Note 24 Subordinated liabilities

| | Group and Parent | |
|---|---|---|
| | 2010-12-31 | 2009-12-31 |
| Debenture loan from the parent company Bluestep Bostadslån AB | 26 932 200 | 31 059 000 |
| **Total** | **26 932 200** | **31 059 000** |

The debt concerns a loan given by Bluestep Bostadslån AB. The loan is denominated in EUR (3 MEUR) and is adjusted for exchange rate differences. Interest is charged at 15% per annum fixed and is payable quarterly. The loan has no fixed maturity date.

## Note 25 Asset duration information - Non discounted contractual cash flows

| | | | Group | | | |
|---|---|---|---|---|---|---|
| **Asset duration 2010-12-31** | **Payable on demand** | **< 3 mth** | **3 mth-1 yr** | **1-5 yr** | **> 5 yr** | **Total** |
| **Assets** | | | | | | |
| Lending to credit institutions | 1 076 948 509 | - | - | - | - | 1 076 948 509 |
| Lending to the public | - | 54 879 926 | 83 186 944 | 105 477 387 | 2 426 499 745 | 2 670 044 002 |
| Interest bearing securities | | | | | 238 384 829 | 238 384 829 |
| Derivatives | - | 786 372 | 2 773 256 | 18 383 097 | 13 100 821 | 35 043 546 |
| Other financial assets | - | 6 837 727 | - | - | - | 6 837 727 |
| Other non financial assets | - | 1 341 652 | - | - | - | 1 341 652 |
| **Total** | **1 076 948 509** | **63 845 677** | **85 960 200** | **123 860 484** | **2 677 985 395** | **4 028 600 265** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Liabilities to credit institutions | | - | 319 500 000 | - | - | 319 500 000 |
| Deposits from the public | 2 420 091 000 | 730 875 423 | 117 300 366 | 25 293 986 | 81 325 917 | 3 374 886 692 |
| Other financial liabilities | 9 946 276 | 16 751 978 | 26 446 650 | 1 658 376 | - | 54 803 280 |
| Other non financial liabilities | - | 4 361 388 | - | - | - | 4 361 388 |
| Debenture loan | - | - | - | - | 26 932 200 | 26 932 200 |
| **Total** | **2 430 037 276** | **751 988 789** | **463 247 016** | **26 952 362** | **108 258 117** | **3 780 483 560** |

| **Asset duration 2009-12-31** | **Payable on demand** | **< 3 mth** | **3 mth - 1 yr** | **1-5 yr** | **> 5 yr** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Lending to credit institutions | 1 433 378 467 | - | - | - | - | 1 433 378 467 |
| Lending to the public | - | 9 329 431 | 73 261 981 | 38 089 040 | 1 073 756 788 | 1 194 437 240 |
| Interest bearing securities | - | - | - | - | 267 433 456 | 267 433 456 |
| Derivatives | - | 39 949 | 449 322 | 13 991 058 | 13 430 849 | 27 911 178 |
| Other financial assets | - | 3 686 412 | - | - | - | 3 686 412 |
| Other non financial assets | - | 159 265 | - | - | - | 159 265 |
| **Total** | **1 433 378 467** | **13 215 057** | **73 711 303** | **52 080 098** | **1 354 621 093** | **2 927 006 018** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Deposits from the public | 2 748 384 826 | - | - | - | - | 2 748 384 826 |
| Other financial liabilities | - | 10 789 693 | 16 106 155 | - | - | 26 895 848 |
| Other non financial liabilities | - | 1 132 052 | - | - | - | 1 132 052 |
| Debenture loan | - | - | - | - | 31 059 000 | 31 059 000 |
| **Total** | **2 748 384 826** | **11 921 745** | **16 106 155** | **0** | **31 059 000** | **2 807 471 726** |

**Parent**

| Asset duration 2010-12-31 | Payable on demand | < 3 mth | 3 mth-1 yr | 1-5 yr | > 5 yr | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Lending to credit institutions | 1 068 355 535 | - | - | - | - | 1 068 355 535 |
| Lending to the public | - | 54 181 810 | 80 506 250 | 84 747 824 | 2 022 595 036 | 2 242 030 920 |
| Interest bearing securities | - | - | - | - | 238 384 829 | 238 384 829 |
| Derivatives | - | 786 372 | 2 773 256 | 18 383 097 | 13 100 821 | 35 043 546 |
| Other financial assets | - | 5 918 921 | - | - | - | 5 918 921 |
| Other non financial assets | - | 101 867 366 | - | - | - | 101 867 366 |
| **Total** | **1 068 355 535** | **162 754 469** | **83 279 506** | **103 130 921** | **2 274 080 686** | **3 691 601 117** |
| **Liabilities** | | | | | | |
| Deposits from the public | 3 150 966 423 | - | 117 300 366 | 25 293 986 | 81 325 917 | 3 374 886 692 |
| Other financial liabilities | - | 16 456 156 | 26 034 538 | - | - | 42 490 694 |
| Other non financial liabilities | - | 2 274 824 | - | - | - | 2 274 824 |
| Debenture loan | - | - | - | - | 26 932 200 | 26 932 200 |
| **Total** | **3 150 966 423** | **18 730 980** | **143 334 904** | **25 293 986** | **108 258 117** | **3 446 584 410** |

| Asset duration 2009-12-31 | Payable on demand | < 3 mth | 3 mth - 1 yr | 1-5 yr | > 5 yr | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Lending to credit institutions | 1 433 378 467 | - | - | - | - | 1 433 378 467 |
| Lending to the public | - | 9 329 431 | 73 261 981 | 38 089 040 | 1 073 756 788 | 1 194 437 240 |
| Interest bearing securities | - | - | - | - | 267 433 456 | 267 433 456 |
| Derivatives | - | 39 949 | 449 322 | 13 991 058 | 13 430 849 | 27 911 178 |
| Other financial assets | - | 3 686 412 | - | - | - | 3 686 412 |
| Other non financial assets | - | 159 265 | - | - | - | 159 265 |
| **Total** | **1 433 378 467** | **13 215 057** | **73 711 303** | **52 080 098** | **1 354 621 093** | **2 927 006 018** |
| **Liabilities** | | | | | | |
| Deposits from the public | 2 748 384 826 | - | - | - | - | 2 748 384 826 |
| Other financial liabilities | - | 10 789 693 | 16 106 155 | - | - | 26 895 848 |
| Other non financial liabilities | - | 1 232 052 | - | - | - | 1 132 052 |
| Debenture loan | - | - | - | - | 31 059 000 | 31 059 000 |
| **Total** | **2 748 384 826** | **12 021 745** | **16 106 155** | **0** | **31 059 000** | **2 807 571 726** |

## Note 26 Financial assets and liabilities

Group

| 2010-12-31 | Financial assets/ liabilities valued at fair value through profit or loss | Loans and receivables | Other financial liabilities | Non financial assets | Carrying value |
|---|---|---|---|---|---|
| | *Fair value* | *Amortised cost* | *Amortised cost* | *Carrying value* | *Carrying value* |
| **Assets** | | | | | |
| Lending to credit institutions | - | 1 076 948 509 | - | - | 1 076 948 509 |
| Lending to the public | - | 2 670 044 002 | - | - | 2 670 044 002 |
| Interest bearing securities | - | 238 384 829 | - | - | 238 384 829 |
| Intangible assets | - | - | - | 7 834 133 | 7 834 133 |
| Tangible assets | - | - | - | 861 971 | 861 971 |
| Derivatives | 35 043 546 | - | - | - | 35 043 546 |
| Other assets | - | 6 817 369 | - | 20 511 | 6 837 880 |
| Prepaid expenses and accrued income | - | - | - | 479 528 | 479 528 |
| **Total** | **35 043 546** | **3 992 194 709** | **0** | **9 196 144** | **4 036 434 398** |
| | | | | | |
| **Liabilities** | | | | | |
| Liabilities to credit institutions | - | - | 319 500 000 | - | 319 500 000 |
| Deposits from the public | - | - | 3 374 886 692 | - | 3 374 886 692 |
| Accrued expenses and prepaid income | - | - | 31 944 277 | - | 31 944 277 |
| Other liabilities | - | - | 26 542 480 | 677 911 | 26 913 373 |
| Debenture loan | - | - | 26 932 200 | - | 26 932 200 |
| **Total** | **0** | **0** | **3 779 805 649** | **677 911** | **3 780 176 542** |

Group

| 2009-12-31 | Financial assets/ liabilities valued at fair value through profit or loss | Loans and receivables | Other financial liabilities | Non financial assets | Carrying value |
|---|---|---|---|---|---|
| | *Fair value* | *Amortised cost* | *Amortised cost* | *Carrying value* | *Carrying value* |
| **Assets** | | | | | |
| Lending to credit institutions | - | 1 433 378 467 | - | - | 1 433 378 467 |
| Lending to the public | - | 1 194 437 240 | - | - | 1 194 437 240 |
| Interest bearing securities | - | 267 433 456 | - | - | 267 433 456 |
| Intangible assets | - | - | - | 3 172 687 | 3 172 687 |
| Derivatives | 27 911 178 | - | - | - | 27 911 178 |
| Other assets | - | 3 685 810 | - | 39 149 | 3 724 959 |
| Prepaid expenses and accrued income | - | - | - | 120 718 | 120 718 |
| **Total** | **27 911 178** | **2 898 934 973** | **0** | **3 332 554** | **2 930 178 705** |
| **Liabilities** | | | | | |
| Deposits from the public | - | - | 2 748 384 826 | - | 2 748 384 826 |
| Accrued expenses and prepaid income | - | - | 18 578 387 | - | 18 578 387 |
| Other liabilities | - | - | 8 934 009 | 515 504 | 9 449 513 |
| Debenture loan | - | - | 31 059 000 | - | 31 059 000 |
| **Total** | **0** | **0** | **2 806 956 222** | **515 504** | **2 807 471 726** |

Parent

| 2010-12-31 | Financial assets/ liabilities valued at fair value through profit or loss | Loans and recei-vables | Other financial liabilities | Non financial assets | Carrying value |
|---|---|---|---|---|---|
| | *Fair value* | *Amortised cost* | *Amortised cost* | *Carrying value* | *Carrying value* |
| **Assets** | | | | | |
| Lending to credit institutions | - | 1 068 355 535 | - | - | 1 068 355 535 |
| Lending to the public | - | 2 242 030 923 | - | - | 2 242 030 923 |
| Interest bearing securities | - | 238 384 829 | - | - | 238 384 829 |
| Shares and participation in associated companies | - | - | - | 3 100 000 | 3 100 000 |
| Intangible assets | - | - | - | 7 834 133 | 7 834 133 |
| Tangible assets | - | - | - | 861 971 | 861 971 |
| Derivatives | 35 043 546 | - | - | - | 35 043 546 |
| Other assets | - | 106 424 271 | - | 20 512 | 106 444 785 |
| Prepaid expenses and accrued income | - | - | - | 479 528 | 479 528 |
| **Total** | **35 043 546** | **3 655 195 558** | **0** | **12 296 146** | **3 702 535 250** |
| **Liabilities** | | | | | |
| Deposits from the public | - | - | 3 374 886 692 | - | 3 374 886 692 |
| Accrued expenses and prepaid income | - | - | 29 857 713 | - | 29 857 713 |
| Other liabilities | - | - | 14 229 894 | 677 911 | 14 907 805 |
| Debenture loan | - | - | 26 932 200 | - | 26 932 200 |
| **Total** | **0** | **0** | **3 445 906 499** | **677 911** | **3 446 584 410** |

Parent

| 2009-12-31 | Financial assets/ liabilities valued at fair value through profit or loss | Loans and receivables | Other financial liabilities | Non financial assets | Carrying value |
|---|---|---|---|---|---|
| | *Fair value* | *Amortised cost* | *Amortised cost* | *Carrying value* | *Carrying value* |
| **Assets** | | | | | |
| Lending to credit institutions | - | 1 433 378 467 | - | - | 1 433 378 467 |
| Lending to the public | - | 1 194 437 240 | - | - | 1 194 437 240 |
| Interest bearing securities | - | 267 433 456 | - | - | 267 433 456 |
| Shares and participation in associated companies | - | - | - | 100 000 | 100 000 |
| Intangible assets | - | - | - | 3 172 687 | 3 172 687 |
| Derivatives | 27 911 178 | - | - | - | 27 911 178 |
| Other assets | - | 3 685 810 | - | 39 149 | 3 724 959 |
| Prepaid expenses and accrued income | - | - | - | 120 718 | 120 718 |
| **Total** | **27 911 178** | **2 898 934 973** | **0** | **3 432 554** | **2 930 278 705** |
| | | | | | |
| **Liabilities** | | | | | |
| Deposits from the public | - | - | 2 748 384 826 | - | 2 748 384 826 |
| Accrued expenses and prepaid income | - | - | 18 578 387 | - | 18 578 387 |
| Other liabilities | - | - | 9 034 009 | 515 504 | 9 549 513 |
| Debenture loan | - | - | 31 059 000 | - | 31 059 000 |
| **Total** | **0** | **0** | **2 807 056 222** | **515 504** | **2 807 571 726** |

Regarding lending to credit institutions, the carrying value is considered consistent with the fair value. The same is applied on short-term financial receivables and liabilities. Lending to the public is showed as amortised cost using the effective interest method. Bonds and other interest bearing securities are showed using the effective interest method since they are not quoted on the active market. Method for determining the fair value of derivatives is described below.

## Note 27 Financial assets/liabilities valued at fair value

The company's financial assets and liabilities measured at fair value consist only of derivatives. These derivatives consist of currency options and interest rate caps and floors, all of which are valued using mark to model valuations in accordance with level 2 in IFRS 7. No changes between the levels have occured.

Level 1: Quoted prices (unadjusted) on active markets for identical assets or liabilities.

Level 2: Valuation model based on other observable data for the asset or liability than the prices included in level 1, either direct (prices) or indirect (derivatives) prices.

Level 3: Valuation model where essential data is based on non-observable data.

## Note 28 Capital adequacy analysis

For the establishment of statutory capital requirements, the Capital Adequacy and Large Exposures Act (2006:1371) applies, along with Swedish Financial Supervisory Authority Regulations and general guidelines regarding capital adequacy and large exposures (FFFS 2007:1).

From the company's perspective, the rules contributes to strengthen the company's resilience to financial losses. The rules state that the company's own funds (equity, conditional shareholder contributions, debenture loans, etc.) shall with a margin cover both the statutory minimum capital requirements, including capital requirements for credit risk, market risk and operational risk and also should include the estimated capital requirements for additional risks identified in the activity in accordance with company capital adequacy policy.

The company has an established plan to ensure that the projected capital requirements of the business shall be met at all times and is based on:

- the company's risk profile,
- identified risks and the potential financial impact,
- stress tests and downside scenario analysis,
- the expected expansion of the business, and
- new legislation, actions of competitors and other external changes.

The review of the capital requirements of the business is an integral part of the work on the company's Internal Capital Adequacy Assessment Process and general business planning. The plan is continuously monitored and fully reviewed by the Board of Directors at least annually to ensure that risks are properly taken into account and reflect the true risk profile and capital needs.

The company has chosen in this annual report disclose the information required on the capital base and capital according to Chapter 3. § 1-2 and Chapter 4. FSA regulations and guidelines on disclosure of information concerning capital adequacy and risk management FFFS 2007:5.

Additional capital refers to subordinated liabilities without maturity, which is eligible for the funds as additional capital in accordance with Chapter 3. § 4 of the Act on Capital Adequacy and Large Exposures.

**Capital base of the company**

| | 2010-12-31 | 2009-12-31 |
|---|---|---|
| Share capital | 10 000 000 | 10 000 000 |
| Shareholder contributions | 278 889 260 | 143 889 260 |
| Retained earnings | -31 182 281 | -8 563 835 |
| *Deductions from primary capital* | | |
| Loss for the year | -1 756 139 | -22 618 446 |
| Intangible assets | -7 834 133 | -3 172 687 |
| **Primary capital** | **248 116 707** | **119 534 292** |
| | | |
| **Supplementary capital** | **26 932 200** | **31 059 000** |
| | | |
| **Total primary and supplementary capital** | **275 048 907** | **150 593 292** |
| | | |
| **Total capital base** | **275 048 907** | **150 593 292** |

**Capital requirement for credit risk**
Calculation of the capital requirement for credit risk using the standardised method.

| Balance sheet items | 2010 Exposed amount | Risk weight | Risk weighted amount | Capital requirement | 2009 Capital requirement |
|---|---|---|---|---|---|
| Exposures to institutions (banks) | 1 068 354 719 | 20% | 213 670 944 | 17 093 676 | 22 934 055 |
| Exposures to companies | 100 525 708 | 100% | 100 525 708 | 8 042 057 | - |
| Exposures to mortgages with loan to value below 75% | 2 132 048 097 | 35% | 746 216 834 | 59 697 347 | 32 213 752 |
| Exposures to mortgages with loan to value above 75% | 65 090 365 | 75% | 48 817 774 | 3 905 422 | 1 022 767 |
| Exposures to non-performing loans with loan to value below 75 % | 44 892 457 | 100% | 44 892 457 | 3 591 397 | 2 148 585 |
| Exposures to non-performing loans with loan to value below 75 % loan to value above 75 % | - | 150% | - | - | 5 121 |
| Securitisations | 238 384 829 | 20% | 47 676 966 | 3 814 157 | 4 278 935 |
| Other exposures | 45 404 942 | 100% | 45 404 942 | 3 632 395 | 2 660 593 |
| **Total capital requirement for credit risks** | **3 694 701 117** | | **1 247 205 625** | **99 776 451** | **65 263 808** |

**Capital requirement for operational risk**
Calculation of the capital requirement for operational risk using the basic indicator approach.

| | 2010-12-31 | 2009-12-31 |
|---|---|---|
| Income indicator | 55 477 028 | - |
| Of which 15% | 8 321 554 | - |
| **Total capital requirement for operational risk** | **8 321 554** | - |
| **Capital requirement for market risk** | | |
| | | |
| Kapitalkrav för positioner i aktieanknutna finansiella instrument | - | - |
| Kapitalkrav för valutarisk | 7 618 737 | 11 878 150 |
| **Summa kapitalkrav för marknadsrisk** | **7 618 737** | **11 878 150** |
| | | |
| **Summa pelare 1 kapitalkrav** | **115 716 742** | **77 141 958** |
| **Kapitaltäckningskvot** | **2.38** | **1.95** |

Företaget uppfyller miniminivån för kapitalbasen vilket motsvarar en kapitalbas som minst uppgår till det totala minimikapitalkravet.

## Note 29 Transactions with related parties

| | Group | | Parent | |
|---|---|---|---|---|
| **Assets and liabilities** | **2010-12-31** | **2009-12-31** | **2010-12-31** | **2009-12-31** |
| Intercompany receivables | - | - | 100 525 708 | - |
| Debenture loan | -26 932 200 | -31 059 000 | - | - |
| Other liabilities | -11 198 636 | -1 192 902 | - | - |
| **Total** | **-38 130 836** | **-32 251 902** | **100 525 708** | **0** |
| | | | | |
| **Income and expenses** | | | | |
| Interest income | - | - | 4 021 594 | - |
| Commission income | 120 000 | 585 000 | - | - |
| Commission expense | -86 030 024 | -30 831 865 | - | - |
| Financial expense | -113 577 | -756 985 | - | - |
| Office rent | -637 239 | -201 874 | - | - |
| **Total** | **-86 660 840** | **-31 205 724** | **4 021 594** | **0** |

*Related parties*
Related parties for the group refers to:
- Bluestep Capital Holdings Limited, organisational number 89093, with domicile in Jersey, and
- Bluestep Bostadslån AB, organisational number 55666817-9575, with domicile in Stockholm.

Related parties for the company refers to:
- Bluestep Capital Holdings Limited, organisational number 89093, with domicile in Jersey,
- Bluestep Bostadslån AB, organisational number 55666817-9575, with domicile in Stockholm, and
- Bluestep Finans Funding No 1 AB, organisational number 556791-6928, with domicile in Stockholm.

*Senior officials*
See Note 10 Salaries and remuneration for details. No other transactions with senior officials has occured during the fiscal year

*Commission income*
ommission income concerns revenues from the Group company Bluestep Capital Holdings Limited.

*Commission expenses*
Commission expenses relate to loan origination services for lending activities in the company performed by Bluestep Bostadslån AB.

*Financial expenses*
The financial expenses relate to expensed interest on an internal loan between the company and the parent company Bluestep Bostadslån AB. See note 24.

*Office rent*
Rent concerns stipulated payments to the parent company Bluestep Bostadslån AB for used office space.

## Note 30 Memorandum items

| | Group and Parent | |
|---|---|---|
| | **2010** | **2009** |
| Pledged assets | | |
| Shares in subsidiary* | 100 000 | Inga |
| Assets in subsidiary** | 437 524 859 | Inga |
| Contingent liabilities | Inga | Inga |
| Commitments | Inga | Inga |

* Bluestep Finans AB have pledged its shares in Bluestep Finans Funding No 1 AB as collateral for a loan from a credit institution.

** Bluestep Finans Funding No 1 AB have pledged its' assets as collateral for a loan from a credit institution.

## Note 31 Events after end of fiscal year

In January 2011, a second acquisition was made by Bluestep Finans Funding No 1 AB comprising Swedish residential mortgages originated by Bluestep Bostadslån AB, of a value equivalent to SEK 1145.1m. The acquisition was financed through a combination of bank debt funding and equity. On 12th January 2011, the company received a capital contribution of SEK 50.0m. The funds have been used to support the acquisition and to support the growth planned in Sweden and Norway.

On 12th January 2011, the company received a capital contribution from the parent company by way of a conditional shareholders' contributions of SEK 50.0m to support the acquisition.

On 1st April 2011, the Bluestep Bostadslån AB Group was restructured, which resulted in all staff and operations that resided in Bluestep Bostadslån AB moving to Bluestep Finans AB.  Bluestep Bostadslån AB will act as a holding company going forward.

### Note 32 Parent company information

Bluestep Finans AB is a wholly owned subsidiary of Bluestep Bostadslån AB, 556668-9575, Stockholm where consolidated group accounts are prepared. The group consists of Bluestep Capital Holdings Ltd, Bluestep Bostadslån AB, Bluestep Finans AB, Bluestep Finans AB, filial Oslo and Bluestep Finans Funding No. 1 AB. The ultimate parent in the group is Bluestep Capital Holdings Ltd.

Stockholm on 19 May 2011

Per Otto Hyland
Chairman of the Board

Patrik Johnson

Peter Gertman

Rolf Stub

Adam Barron

Carl-Anders Sundvik

David Torpey
Managing Director

Our auditors' report is submitted on 19 May 2011

Deloitte AB

Göran Engquist
Authorized Public Accountant