BlueStep Bank

Annual report

BlueStep Bank 2017

The year in brief

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Robust growth compared to previous year

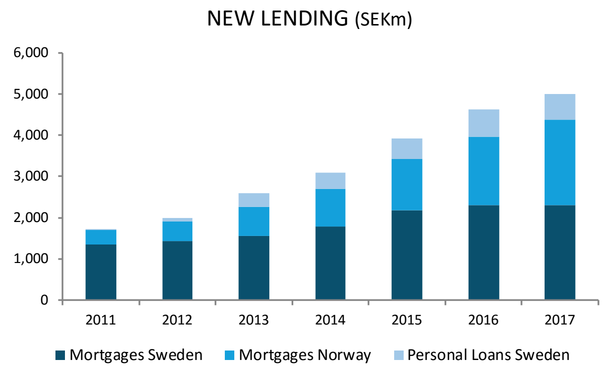
- New lending increased by 8% to SEK 4,997m
- The Swedish mortgage portfolio increased by 3%
- The Norwegian mortgage portfolio increased by 30%
- The private mortgage portfolio increased by 13%

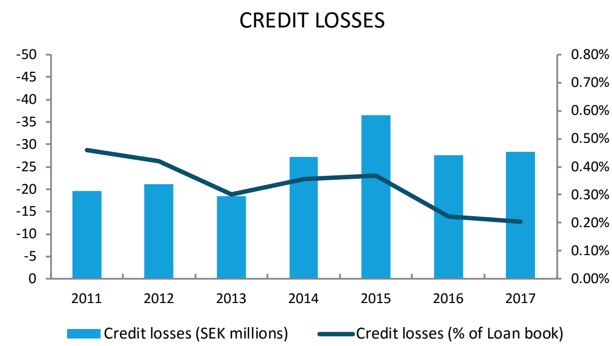
Profitability with a strong capital position

- Gross revenue was 7% of total the loan portfolio
- Credit losses were 0.21% of total loan portfolio
- Return on equity was 19%
- Common Equity Tier 1 capital ratio was 15.0%
- Liquidity coverage ratio (LCR) was 268%

Events during the year

- EQT, the leading private equity firm in the Nordic region, acquired the consolidated situation and its parent Bluestep Holding AB in November 2017.
- In March 2017 the Bank performed a securitisation transaction worth about SEK 3bn through its wholly-owned subsidiary, Bluestep Mortgages Securities No 4 DAC.
- The Bank's subsidiary Bluestep Finans Funding No 1 AB received a SEK 1bn credit facility from outside parties.
- The Bank was accepted as a member of the Swedish Bankers' Association during the year.





Remarks by the CEO

2017 – A year of changes

2017 was a year of changes for BlueStep. A year when were granted a banking license and were able to set a clear objective to equip ourselves for a market in transition. We have new owners, EQT, who believe in the Bank and the potential of our business.

Operating profit increased in 2017 by 18% to SEK 251m, the loan portfolio increased by 13% to SEK 13.6bn and customer satisfaction amounted to 86% according to Bright Relation AB. Bluestep is already standing on a solid foundation, however there is always room for improvement. Competition is increasing and the mortgage industry is changing. We believe in new forms of cooperation with traditional and new partners, and we will allow the insight into our customers' needs and behaviors to permeate our entire way of working. To achieve this requires a conscious agile thinking and action. Work on implementing this approach began in 2017.

In 2018, however, all our projects and processes will be based on the agile approach, from how operations and IT work to how customers perceive us. There is a need for our solutions in society, and the response has been tremendous. What we see today is that we must meet specific groups of customers where they are – rather than merely marketing ourselves through broad channels. This means thinking more digitally and "mobile first" when needed in the longer term. To take this approach, we must develop a new formula for finding and attracting the customers that we can help. Then we will rapidly deliver what they need, through the processes that we've developed.

> A focus on the future has been and will continue to be the core of our business

At Bluestep, we want to use the new digital possibilities to increase our understanding of customer needs. We are building a technical platform based on the fact that our customers are not a homogeneous group but represent a cross section of Sweden and Norway. The platform should be adaptable to the needs and behaviours of our customers and partners, today and in the future.

The labour market is in transformation. Due to new forms of employment and behaviours in society, the digital credit rating systems of the large banks are unable to adapt to customers' new wishes and demands. This is where we within Bluestep see a major opportunity. By adapting to trends in society, we will make Bluestep the first choice for everyone who supports themselves in the New Economy.

The mortgage market is strictly regulated. With a perspective that regulations strengthen market stability fosters a positive attitude towards regulatory compliance at the bank. Naturally the implementation of new regulations creates some operational challenges, but for a bank like Bluestep, this also creates opportunities. In the beginning of 2018 Buestep became a Swedsec certified Bank. Regulatory compliance and expertise will continue to be one of Bluestep's distinguishing characteristics. Our processes are intended to ensure our customers' future ability to pay. A focus on the future has been and will continue to be the core of our business.

> Regulatory compliance and expertise will continue to be one of Bluestep's distinguishing characteristics

Holding a continuous dialogue and paying attention to current and potential customers' needs, Bluestep will continue to grow and evolve and will guarantee that we continue to be significant to our customers, employees, owners and society in 2018 as well. I am looking forward to it.

Öyvind Thomassen
CEO, Bluestep Bank AB (publ)

ALBERT GUSTAFSSON
INVESTMENT ADVISOR TO EQT VII

Why did EQT purchase Bluestep Bank?
Bluestep is in a unique position as a leading player in an attractive niche, while at the same time they play an important role in society. We see many attractive development opportunities, as well as the potential for continued growth. Over the years Bluestep has built a strong organisation and sound culture as a responsible lender.

Bluestep's business concept is to play a complementary role to the traditional banks. How does this fit into the mortgage market of the future?
Society is in a process of change, and more and more people today work in modern types of employment. We are seeing changes in people's financial priorities as well. The traditional banks often apply standard frameworks and processes, and as a result a large group of people are denied the opportunity to take out a loan. Bluestep's business concept is to understand each customer's unique situation, and we believe that this will become ever more important as society changes.

What are the keys for Bluestep to continue as the leading specialty lender in the Nordic region?
Bluestep must remain attentive to the change taking place in our modern economy to better understand and meet future customer needs. Adaptability and agile are in Bluestep's philosophy and their DNA. This will allow them to solidify their position as the leading specialty lender in the Nordic region.

This is Bluestep

Bluestep is a focused and solutions-oriented lender offering mortgages to customers in Sweden and Norway who have difficulties in obtaining loans from traditional banks. Bluestep also offers consumer loans in Sweden. In addition, Bluestep offers savings accounts in Sweden and Norway with some of the most competitive interest rates on the market. A brief presentation of some key ratios that describe the business and its customers follows below.

MORTGAGE LENDING		PERSONAL LOANS		RETAIL DEPOSITS	
VOLUME		VOLUME		VOLUME	
20,149 Total number of customers[1]	**12,555** Total lending portfolio (MSEK)[4]	**10,583** Total number of customers[2]	**1,054** Total lending portfolio (MSEK)[5]	**60,584** Total number of accounts[3]	**10,419** Total deposits portfolio (MSEK)[4]
PURPOSE[6]		PURPOSE[6]		PRODUCT	
30% Of the mortgage customers are taking a mortgage to buy a new home	**70%** Of the mortgage customers use their property as collateral to refinance loans and credit cards	**66%** Loan for consolidate other loans and credits	**34%** Loan for other purposes	**75%** Of our customers have chosen variable savings accounts.	**25%** Of our customers have chosen a fixed interest account (from 3 months to 7 years)
AVERAGE LOAN SIZE[7]		AVERAGE LOAN SIZE[8]		AVERAGE DEPOSIT SIZE	
816,479 Sweden (SEK)	**1,520,312** Norway (NOK)	**106,267** Sweden (SEK)		**105,580** Sweden (SEK)	**374,943** Norway (NOK)

[1] Number of individuals with mortgages from Bluestep in Sweden and Norway (one loan may include several individuals) [2] Number of individuals with consumer loans from Bluestep in Sweden (one loan may include several individuals) [3] Number of active savings accounts in Sweden and Norway [4] Total portfolio in Sweden and Norway, including provisions and adjustments in accordance with IFRS [5] Total portfolio in Sweden, including provisions and adjustments in accordance with IFRS [6] Customers were asked about the purpose of the loans during the loan application process [7] Lending portfolio by object [8] Lending portfolio by loan

Bluestep according to the employees

Bluestep is an agile company on its way into the future with both confidence and a great dose of enthusiasm. We are a new thinking bank that knows we are needed and both want, and can, handle the ever-changing market.

BLUESTEP ACCORDING TO:
REDWAN AND SIHEM

It's easy to find the heart of Bluestep Bank when you are close to the end customer. Sihem Viljevac and Redwan Hdidenche both work as mortgage loan officers for the department Customer Service in Sweden. Where others see numbers, they see people. Both agree that 2017 was the year that a new group of customers found their way to Bluestep.

"All of our customers are special to us", says Sihem. "But the stricter new amortisation requirements increased the inflow of customers lacking permanent jobs to us at the beginning of the year. In a time of change, there simply is a need for a bank that listens and looks beyond last year's numbers. There is a pronounced trend of more customers with short credit histories finding their way to us. For example, they may be Swedish citizens who have been living abroad and have returned to Sweden."

When times are changing, there is a need for a bank that is looking ahead.

Redwan agrees:
"They want to re-establish themselves in Sweden, and everything stops when they want to purchase a home. They have permanent employment, but they had no income in 2015 and 2016, so the traditional banks don't approve them in most cases for mortgages even though they have an income. That's when we can provide a solution over a transition period."

The labour market has changed

Sihem explains that buying a home may also be difficult to do for people who have tested the waters of self-employment.

"A person may start a business and accumulate debt in the process. Then when the business doesn't do well, they go back to regular employment. But even though they have a steady income, these hardworking people are not accepted by an ordinary bank, which only sees the debts and the short income history."

"People are more accepting of change today, so their financial situations are more complex to analyse," says Redwan. "This is where the traditional banks may not have kept up. Shift workers receive a large portion of their wages as differential pay, and nurses may have permanent employment but be paid by the hour. Tradespeople, hairdressers and IT consultants who work for companies on contract are examples from other industries. The result is that the number of hours worked and their wages vary widely. We look at the cumulative salary and make an assumption. For example, if you've been employed for six months, we can assume that your wages will be the same for the next six months."

"Divorce is another life event where we've been able to help," says Sihem. "Children are going to school, and you don't want to uproot them from their friends and sense of security. But when one parent wants to take over the entire mortgage on a property, they can't. Then they hear about Bluestep from their friends or on the radio in the car. We give them an opportunity. Our mortgage calculator takes more types of income into account than traditional banks' calculators do."

"Or young families that have just had a baby and need a bigger place to live," Redwan continues. "We can see that one parent with a permanent job and another with child-care benefits may still be in a sufficient financial position. The same goes for unemployment benefits and sick leave – it's alright as long as the calculation works."

"It's common to use one's home as collateral to pay off unsecured loans taken out when a person is ill," Sihem adds.

At Bluestep Bank, numbers are more than numbers

Bluestep Bank knows that people are unique, and their financial situations require individual solutions. We pay more attention to future ability to pay than previous history. This philosophy is the origin of a robust bank product suited to a market undergoing constant change.

Bluestep according to the employees

But how does this work? How can Bluestep grant a mortgage to a self-employed person who was turned down by an ordinary bank, for example? Aren't numbers always numbers?
Sihem explains:
"Take a newly-started business. A traditional bank sees that a new business has no revenues when they obtain a credit rating. We dig down deeper and ask the loan customer to tell us about their plan. How many customers do you have today? Are there any signed contracts? What sort of revenues might they produce, and how much of a salary can you take out? As Bluestep loan officers, we then check the case with the Credit Department. We review it together to see if it is reasonable or not. This system allows us to be both attentive and flexible, while making well-grounded decisions."

> We are looking more to future payability than past history

An accessible bank

"We interact four to five times with customers who want to buy a home," says Redwan. "We speak with customers borrowing against their existing homes nearly every day until the process is complete and they receive the loan. It's not uncommon for them to have SEK 600,000 to a million in unsecured loans without knowing quite where. This is another situation where we help out and point out solutions."

"You could say that we're not just granting loans, we're training people in personal finance," says Sihem. "And they often receive a lower monthly payment in the bargain!"

"I usually ask my customers to go over how they ended up in this situation, in peace and quiet. I need to understand the situation a bit better. Sit down one evening and write down an explanation of why you took out the unsecured loans and ended up with a bad credit report. The customer has a chance to reflect on their situation."

"We spend far more time on each case than an ordinary bank," says Sihem. "We are accessible, which customers appreciate. This also makes relationships more personal, for us as well. Being able to help a single mother take control of her financial situation, someone who was just trying to help her children with unsecured loans – that makes your day. It's emotional sometimes. A lot of customers are so relieved that they cry. We have a bulletin board covered with thank-you cards."

BLUESTEP ACCORDING TO: MARK

If Mark Philak is to describe what he does himself, he says that he "makes sure the systems act nicely and behave". After spending five years at the Lund University Faculty of Engineering, Mark knows what he's talking about. That a systems specialist can speak in a simple and human way about technology is just one of the many reasons that the IT department in Helsingborg is so important to Bluestep.

How does IT improve the customer experience?

"I truly believe in cognitive design. The system should be so easy to understand that you don't need a user manual. It's important to listen carefully to the customer and understand that each case is unique, not to put your foot down and say that everyone needs to adapt to our systems. What we must do and want to do, is to build systems that are so flexible that they work for more people. The goal is a green light in all systems; nothing can stop the flow. So, I get to work proactively with both systems and processes, where it's important to stay updated on what needs to be worked on next. Are there new legal requirements on the way? Changes to external systems? Has a decision been made to change product logic? Suggestions may also come from a steering group or employees. Co-workers and systems don't always agree, in which case I investigate and propose solutions. System improvements may also originate with customer feedback, and things you discover on your own."

What do continuous improvements mean for you in the IT Department?

"You can see that the company is devoting resources to IT. We are receiving more resources, and as a company we are investing in both systems and human resources. You can see that we want to accomplish a lot. There's a sense of expectation in the air. For me personally, this means taking the agile approach to my work: have a good foundation and continually maintain the systems. That we are responsive to feedback from people who use the systems. Otherwise their enthusiasm could die out."

But can a bank be agile?

"As a smaller bank, it is extra important for us to maintain an agile workflow. All to quickly keep up with what affects the bank as various regulations, how we want to improve the bank and be at the forefront of an extremely changing world. We need to take into account government decisions and the requests of end users and internal users of smart new features that bloom over time."

BLUESTEP ACCORDING TO:
RAMI

Rami El-Zein fell for Bluestep's pioneer spirit back in 2006, when he began as a loan officer in the mortgage department. Twelve years and several titles later, Rami oversees the Partnership business in Sweden, but his work with process quality control began much earlier. It was quite simply necessary for a company in the start-up phase.

What do our partners mean for our business?

"The Partnership business is extremely important. We're stronger together. Through our partners, we reach other types of customers who would otherwise have had a hard time finding Bluestep on their own. Take estate agents, for example. They refer customers who are often in the process late. These are people who counted on getting a loan commitment from an ordinary bank. When the time comes to sign the contract, the bank may change its decision to no. Then we come to the rescue.

We try to create a win-win situation, and in these cases it's more like a win-win-win. And that's always my goal. Who we have worked with has varied over time. In the past our partners were traditional banks, consulting firms that assist with converting rental flats to tenant-owner flats, etc. Today our partners are more likely to be loan intermediaries and digital partners. Real estate websites reach people at an earlier stage in the process, as early as the dream stage. These customers are often quite aware that they won't be granted a mortgage with an ordinary bank and this is another case where we can make it happen. At the other end, we have estate agents whose customers are at an earlier stage of the purchase process, who view themselves as traditional bank customers but receive an unexpected rejection of the loan application."

When are strong partnerships extra important?

"We were the first in our category to enter the market, and we have an established position there. People's behaviours and expectations are changing, and we need to respond to this. At the same time, there is still a stigma attached to customers who fall outside the standard frameworks in the eyes of the public. But the loan intermediaries already understand this. This is where it's good to have a neutral third party who can speak well of us. The loan intermediaries become our standard bearers! They get the message out in a way that we can't. We are strategically important to our partners, and vice versa."

Jostein Granås has been working as a marketing coordinator at Bluestep Bank's marketing department in Norway for a year. His background is in PR where his client list featured sport and tourism firms. Bluestep's different concept got him to change industries.

What differences do you see between Norway and Sweden?

"In Norway the average customer is older than in Sweden. Most of them have experienced something that makes them need help with their personal finances. Consumer loans have been much debated, and there are plans to introduce a centralised debt database as in Sweden, although it would be private rather than in government hands.

Nor do we have rented flats as in Sweden, so there is no housing queue to join. People purchase a home as soon as they've saved up the down payment. The rental market consists of young people in student housing or sublets. There is not much difference between rich and poor in Norway compared with many other countries."

BLUESTEP ACCORDING TO:
JOSTEIN

What do we do to raise awareness?

"TV is still the broadest channel for raising awareness. Radio plays the same role, but social media is also an extremely valuable set of channels for getting the message out. When we use internet search advertising, we reach customers at the most relevant moment, since we reach people searching on relevant words and phrases.

Sustainability Report

The Bank's sustainability report for financial year 2017 follows below. The report covers the Parent Company Bluestep Bank AB and its subsidiaries.

Business model

The Bank is a dedicated, solution-oriented lender with the goal of helping customers get a better overview of its financial situation and to offer an attractive solution based on the customer's financial needs. The Bank is helping customers that are denied a mortgage loan by the traditional banks. The Bank offers mortgage and personal loans in Sweden and mortgage loans in Norway. In addition to the lending products, the Bank also offers deposit products. The Bank's funding is diversified and consist mainly of deposits, equity and issuance of residential mortgage backed securities.

To help customers that the traditional banks are not able to help requires a gentle touch. The Bank handles this by being a responsible lender offering loans to customers based on an assessment of each individual's financial situation and by offering a loan that improves the customer's financial situation. The majority of the Bank's customers get reduced monthly costs, but the Bank encourages the customers to return to the traditional banks if they have the possibility. Furthermore, the Bank's business model is based on a clear offering to the customers which has an important impact on society. It is important for the majority of the adult population in Sweden and Norway to own their accommodation. By helping customers with limited funds to enter the housing market, the Bank also offers these individuals the possibility of integration.

The Bank's credit losses are low, which establishes the Bank as a responsible lender. Furthermore, it is important to the Bank to integrate sustainability in the day-to-day business to ensure that the expectations and demands from customers, staff, investors, regulators and suppliers are met.

Sustainability policy and other relevant steering documents

The Bank has a CSR (Corporate Social Responsibility) policy in place that is based on an internal analysis. The policy was adopted in 2017 and describes the Bank's work with the three main focus areas governance, customer satisfaction and staff and work environment. To support operations, the following policies are in place:

- Governance and control policy
- Ethical guidelines policy
- Conflicts of interest policy
- AML policy
- Business continuity plan policy and Disaster Recovery plan
- Remuneration policy
- Complaints management policy

Governance and anti-corruption

Given the nature of the Bank's business, the Bank works actively to prevent money laundering, terrorist financing, bribes and corruption. The Bank has integrated the work with compliance, governance and internal control in its daily operations. Since the Bank operates on a highly regulated market with a strong focus on consumer protection, it is used to implementing regulatory changes and seeing them as ways of developing and identifying new business opportunities rather than as threats. The Bank has policies in place to prevent money laundering, conflicts of interest, bribes and corruption.

All new employees are trained internally to get a good understanding of the Bank's internal control functions (risk control, compliance and internal audit) and money laundering and terrorism financing as part of their introduction. All employees take part in an annual training with focus on how to prevent that the Bank is used for money laundering or terrorism financing. The Bank has never been the object of regulatory fines or sanctions. The Bank advocates an open and constructive dialogue with regulators. The result of the Bank's work is a high internal risk awareness and well-functioning processes. For further information on the Bank's risk management, see section "Risk management" in the Administration report and Note 2.

The Bank has developed a leadership profile as guidance for what good leadership is considered to be at Bluestep. The Bank has a strong focus on giving leaders space to grow and develop within the organization. Furthermore, the Bank is working on establishing a balanced scorecard where culture, leadership and staff are important dimensions. The goal is to create and maintain a stimulating work environment with common goals and delegation of decisions. Commitment index for 2017 was 73 on a scale of 100. The Bank's employees are dedicated and proud, especially when it comes to the work that the Bank does and the caring colleagues.

Customer satisfaction

The Bank measures customer satisfaction through the KPI's NPS (net promotor score) and NKI (customer satisfaction). A survey is triggered when the customer has had a phone call with the Bank. Every customer that has had a contact with the Bank receives a call and is asked to answer the survey within two weeks from the contact.

In the NPS survey the customers are asked whether they would recommend the Bank to a friend or colleague. The Bank's goal for 2017 was to reach an NPS[1] of 35 for both Sweden and Norway. The result was 35 in Sweden and 36 I Norway. The goal for 2018 is set at 37 for both Sweden and Norway.

In the NKI survey the customers are asked how satisfied they were with the service they received when they contacted the Bank. The Bank's goal for 2017 was to reach an NKI[2] of 86% for both Sweden and Norway. The result was 87% in Sweden and 89% in Norway. The goal for 2018 is set at 88% for both Sweden and Norway.

Staff, work environment and human rights

Equality and diversity are an important part of the Bank. The Bank can communicate with customers in over 20 different languages, which makes it easier to understand each customer's unique situation. This is possible because the Bank's employees come from many different backgrounds. Respect is one of the Bank's core values, and it is very important that all employees are treated with respect regardless of age, ethnicity or gender. The Bank's employees are 47% women and 53% men.

Another core value is different. The Bank embraces differences – in its customers as well as in its employees. The Bank focuses on future possibilities and abilities rather than historical.

The Bank always strives to treat employees and customers fairly and equally. This is reflected in the daily work, but also in the Bank's business plan. Since the Bank's operations involve very small risks of committing violations of human rights, risks and results in this area cannot be described.

Environment

The Bank strives to have as low environmental impact as possible when it comes to offices and travel. The goal is to choose environmental friendly alternatives when travelling for business purposes, and if possible, to use video conferences instead of travelling between offices.

The landlord for the headquarters in Stockholm, Vasakronan, has been LEED Gold certified since 2014. The Bank works together with the landlord to limit the use of heat, electricity and air conditioning. The employees recycle all daily waste.

Other initiatives that the Bank supports

The Bank is a partner of Mentor Sverige and participates in a professional mentoring program where bank employees meet with Year 8 pupils at Västerholms Friskola in the Stockholm suburb of Skärholmen to discuss personal finances. They also share their own experiences, both work-related and personal, to inspire the students to continue their studies and have a healthy attitude to personal finances. There is also an option for BlueStep employees to serve for a year as a mentor to a young person in need of support from an adult outside of home and school. Mentor Sverige is a non-profit organisation dedicated to mentoring young people. Having a mentor helps young people make decisions that are beneficial to them, as well as refraining from violence and drugs. Eighty-six percent of the young people participating in this mentoring program state that it helped them feel more confident about their future working life.

In 2017, an effort was also made in Oslo in cooperation with Mentor Norway, where Bluestep's employees met pupils at a school in Oslo.

[1] NPS is measured at a scale of 10 where 10 is most likely and 1 is unlikely. Respondents are grouped as follows: Promoters (score 9-10), Passives (score 7-8) and Detractors (score 0-6). Subtracting the percentage of Detractors from the percentage of Promoters yields the Net Promoter Score, which can range from a low of -100 (if every customer is a Detractor) to a high of 100 (if every customer is a Promoter).

[2] NKI is measured on a scale of 5 where 5 is the highest grade and 1 the lowest. The following aspects are measured: 1) Assess how quickly you reached a contact person (SPEED OF ANSWER), 2) Assess how you perceived the customer service and engagement in the conversation (ENGAGEMENT), 3) Evaluate your perception of the person knowledge and skills (KNOWLEDGE), 4) Evaluate the extent to which you received an answer to your question and your case was resolved (CASE SOLVED), and 5) Rate your satisfaction with the conversation as a whole (GENERAL SATISFACTION).

Administration report

The Board of Directors and the CEO of Bluestep Bank AB (publ), organisational number 556717-5129 with its registered office in Stockholm, hereby submit the annual report and the consolidated financial statements for the financial year from 2017-01-01--2017-12-31. The consolidated financial statements comprise the wholly-owned subsidiaries Bluestep Finans Funding No 1 AB, organisational number 556791-6928, with its registered office in Stockholm, Bluestep Mortgage Securities No 2 Designated Activity Company, organisational number 522186, with its registered office in Dublin, Bluestep Mortgage Securities No 3 Designated Activity Company organisational number 550839, with its registered office in Dublin, Bluestep Mortgage Securities No 4 Designated Activity Company organisational number 596111, with its registered office in Dublin, Bluestep Servicing AB, organisational number 556955-3927, with its registered office in Stockholm.

Organisation and operations

Bluestep Bank AB (publ) is a joint-stock bank under the supervision of the Swedish Financial Supervisory Authority. The Bank's head office is located at Sveavägen 163, SE-104 35 Stockholm, Sweden.

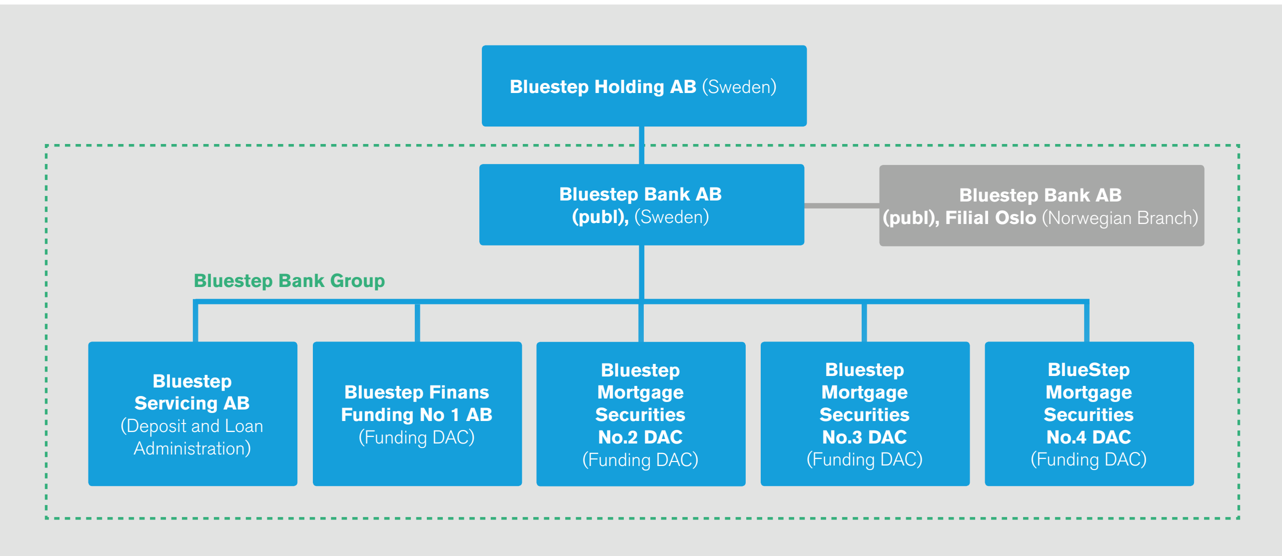
Ownership and definitions

The ownership structure and its definitions used are detailed below:

▪ Bluestep Holding AB ("BHAB")
– Owns 100% of Bluestep Bank AB
▪ Bluestep Bank AB (publ) ("the Bank", also known as "the Parent Company")
– Parent Company of the Bluestep Bank Group ("the Group")
▪ Bluestep Bank AB, Oslo branch office ("the Branch Office")
– Norwegian branch office for the Norwegian deposit and loan operation
▪ Bluestep Finans Funding No 1 AB ("BFF1")
– Legal entity for credit facilities. 100% owned by the Bank
▪ Bluestep Mortgage Securities No 2 Designated Activity Company ("Step 2")
– Securitisation entity. 100% owned by the Bank
▪ Bluestep Mortgage Securities No 3 Designated Activity Company ("Step 3")
– Securitisation entity. 100% owned by the Bank
▪ Bluestep Mortgage Securities No 4 Designated Activity Company ("Step 4")
– Securitisation entity. 100% owned by the Bank
▪ Bluestep Servicing AB ("BSAB")
– Deposit and loan administration 100% owned by the Bank

Bluestep operates in Sweden and Norway, with the Norwegian operation managed via the Branch Office. The Group is Sweden's and Norway's largest mortgage lender in its sector, and its core business is to engage in lending activities. The business is financed by deposits from the public, equity and issuance of securities backed by underlying assets (via the wholly owned subsidiaries Step 2, Step 3 and Step 4).

All financial information is provided for the Group unless stated otherwise, while regulatory information refers to the legal entity Bluestep Bank AB or the consolidated situation that Bluestep reports to the Swedish Financial Supervisory Authority. The consolidated situation per 2017-12-31 consists of BHAB, the Bank, the Branch Office, BSAB, BFF1, Step 2, Step 3 and Step 4. As a result of EQT's acquisition of BHAB, the consolidated situation during the year has been changed by replacing the company Lux Blue Holdings I Sarl, Lux Blue Holdings II Sarl, Engblue Holdings Ltd, Bluestep Capital Holdings Ltd with Butterfly Bidco AB.



Significant events during the year

New ownership

in November 2017 EQT VII acquired Bluestep Holding AB and the Group. In connection to that, the Bank's existing Board of Directors resigned except for Toby Franklin. Harry Klagsbrun became the new Chairman of the Board, while Andreas Pettersson Rohman, Albert Gustafsson and Göran Bronner became the new Board members. Öyvind Thomassen moved from Board member to Deputy Board member.

Successful SEK 3.0bn securitisation

In March 2017 the Bank performed a securitisation transaction worth SEK 2,986.1m through its wholly-owned subsidiary, Bluestep Mortgages Securities No 4 DAC. Mortgages worth a corresponding amount were sold, from both the Bank as well as Bluestep Finans Funding No 1 AB, to BlueStep Mortgages Securities No 4 DAC. The acquisition was funded by issuing notes consisting of Class A, Class B and Class Z notes, denominated in both EUR and SEK. At year-end the Bank held SEK 436.2m of bonds in Class Z notes. The Group's credit facility was paid off in connection with this transaction.

New credit facility and sale of loan portfolio

During the year Bluestep Finans Funding No 1 AB signed a guaranteed credit facility worth SEK 1 bn. The Bank had used SEK 550m of this facility by the end of the year.

In November 2017 the Bank sold loans valued at SEK 1,156m to Bluestep Finans Funding No 1 AB, which was financed through a combination the credit facility and an internal loan from Bluestep Bank AB (publ).

Financial review

Profit for 2017 compared with 2016

The Group's profit is derived mainly from net interest income, where mortgage lending is by far the largest source of revenue. Operating profit before tax amounted to SEK 251m (SEK 212m). The Branch Office's operating profit before tax amounted to SEK 83m (SEK 64m).

Net interest income

The Group's net interest income increased by 16% compared with the preceding year, to SEK 634m (SEK 548m). The increase is attributable to strong volume growth in lending to the public, mainly in the Norwegian market, combined with stable margins in both Sweden and Norway.

Operating expenses

The average number of employees in the Group during the year amounted to 227 (187), of which 49 (39) were employed by the Branch Office. Due to continued growth of the Group, as well as augmentation in the Systems/IT area, personnel expenses increased by SEK 17m.

Administrative costs increased by SEK 25m which is in line with the overall growth of the business.

Depreciation and impairment increased by SEK 2m, which corresponds to an increase of 12% from the previous year. The increase is attributable to higher depreciation due to investments in the Systems/IT area.

Credit losses

Total credit losses in the Group during the year amounted to SEK 34m (SEK 24m) of which recorded losses including reversals amounted to SEK 34m (SEK 24m).

Balance sheet

The Group's balance sheet total increased by SEK 2,483m to SEK 16,600m (SEK 14,117m).

Operating income

SEK Millions	**2017**	**2016**	**Change %**
Net interest income	633.7	547.8	16%
Commission income	0.2	0.3	-33%
Net result of financial transactions	27.0	21.6	25%
Other operating income	14.5	13.7	6%
Total operating income	**675.4**	**583.4**	**16%**

Operating expenses

SEK Millions	**2017**	**2016**	**Change %**
Staff costs	-197.0	-180.2	-9%
Administration costs	-163.8	-146.6	-12%
Depreciation and impairments	-22.8	-20.4	-12%
Total operating expenses	**-383.6**	**-347.2**	**-10%**

Credit losses

SEK Millions	**2017**	**2016**	**Change %**
Actual losses	-33.5	-24.0	-40%
Total bad debt charge in relation to average loan book	-0.26%	-0.22%	-18%

Lending

New lending continued to grow and amounted to SEK 4,997m (SEK 4,635m) for the year, resulting in a portfolio growth of SEK 1,541m during the year, and a total portfolio of SEK 13,610m (SEK 12,069m). At year-end the loan portfolio for the Sweden amounted to SEK 8,188m (SEK 7,788m). The loan portfolio in the Branch Office amounted to SEK 4,368m (SEK 3,347m). The balance of the consumer loan portfolio at year-end amounted to SEK 1,054m (SEK 934m).

Funding

The allocation of the Bank's sources of financing changed during the year, for reasons including a larger proportion of deposits from Norway. The Bank completed a third securitisation during the year, as well as signing a contract for a new credit facility.

At year-end the deposit balance amounted to SEK 10,419m (SEK 9,504m) of which the Branch Office's deposit balance amounted to SEK 5,599m (SEK 4,425m).

Liquidity

At year-end the liquidity reserve of the consolidated situation amounted to SEK 2,595m (SEK 1,748m) of which SEK 1,936m (SEK 835m) was invested with credit institutions, SEK 492m (SEK 703m was invested in covered bonds issued by Swedish and Norwegian credit institutions, SEK 151m (SEK 138m) was invested in bonds issued by the Swedish and Norwegian government and SEK 1m (SEK 1m) was invested in bonds issued by other European governments. The Banks liquidity reserve amounted to SEK 2 035m (SEK 1 330m). The size of the liquidity reserve well exceeded the internal limits stipulated by the Board. The development of the liquidity reserve under various stressed scenarios also exceeded stipulated limits.

The Liquidity coverage ratio ("LCR") for all currencies amounted to 268% (263%) for the consolidated situation at year-end. The net stable funding ratio ("NSFR") amounted to 174% (143%) at year-end. Both the LCR and the NSFR exceeded regulatory as well as internal limits.

Capital base and capital adequacy

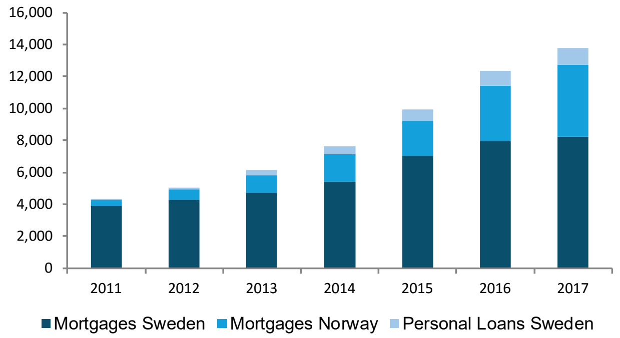
At year-end, Common Equity Tier 1 ("CET1") capital amounted to SEK 1,064m (SEK 915m) for the consolidated situation, which corresponded to a CET1 capital ratio of 15.0% (15.0%). CET1 capital amounted to SEK 1,064m (SEK 887m) for the Bank, which corresponded to a CET1 capital ratio of 17.1% (17.6%). The total capital adequacy requirements for Pillar I amounted to SEK 567m (SEK 488m) for the consolidated situation, and SEK 499m (SEK 402m) for the Bank. For additional and more detailed information concerning capital resources at year-end, see Note 29.

Risk Management

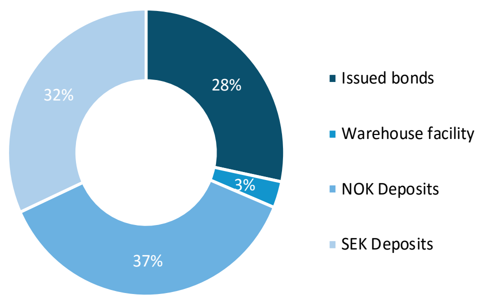
To manage identified risks, the Bank has created a framework for managing risk and capital through principles, organisational structures and valuation and supervision processes tailored to the activities of the business. The framework consists of the following:

(i) the Board of Directors performs the overall supervision of risk and capital management;
(ii) the Bank operates a three lines of defense management model;
(iii) risk strategy and risk tolerance are defined based on strategic plans to combine risk, capital and performance targets;

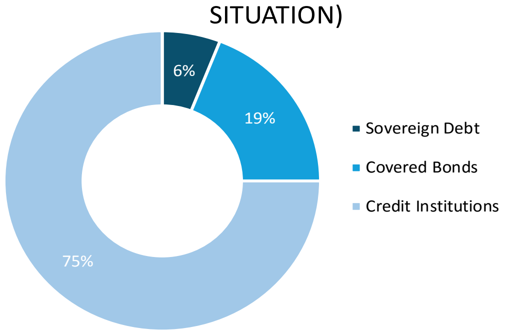
LENDING PORTFOLIO (SEK MILLIONS)



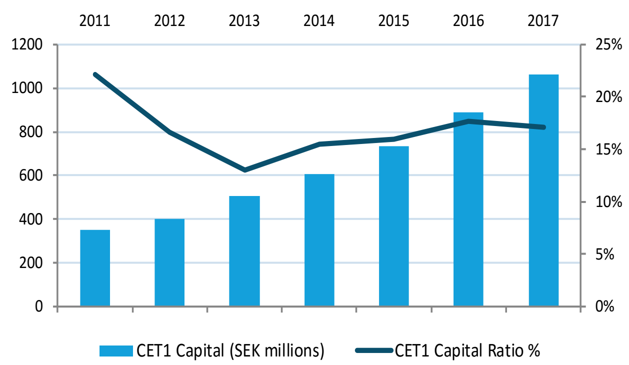
EXTERNAL FUNDING SOURCES



LIQUIDITY RESERVE (CONSOLIDATED SITUATION)



CET1 CAPITAL & CET1 CAPITAL RATIO (BANK)



(iv) all major risks are managed via risk management processes, consisting of credit risk, market risk, operational risk, liquidity risk, and interest rate risk;
(v) modelling and measurement approaches for quantifying risk and capital requirements are implemented in all the major risk classes, while other risks such as business risk, strategic risk and reputational risk are assessed and quantified during the internal capital and liquidity adequacy assessment process ("ICLAAP"); and,
(vi) effective processes and policies are established in order to implement the identified risk management processes, and constitute a critical component of the Bank's risk management capability.

Delegation of risk and control responsibility - the three lines of defense model

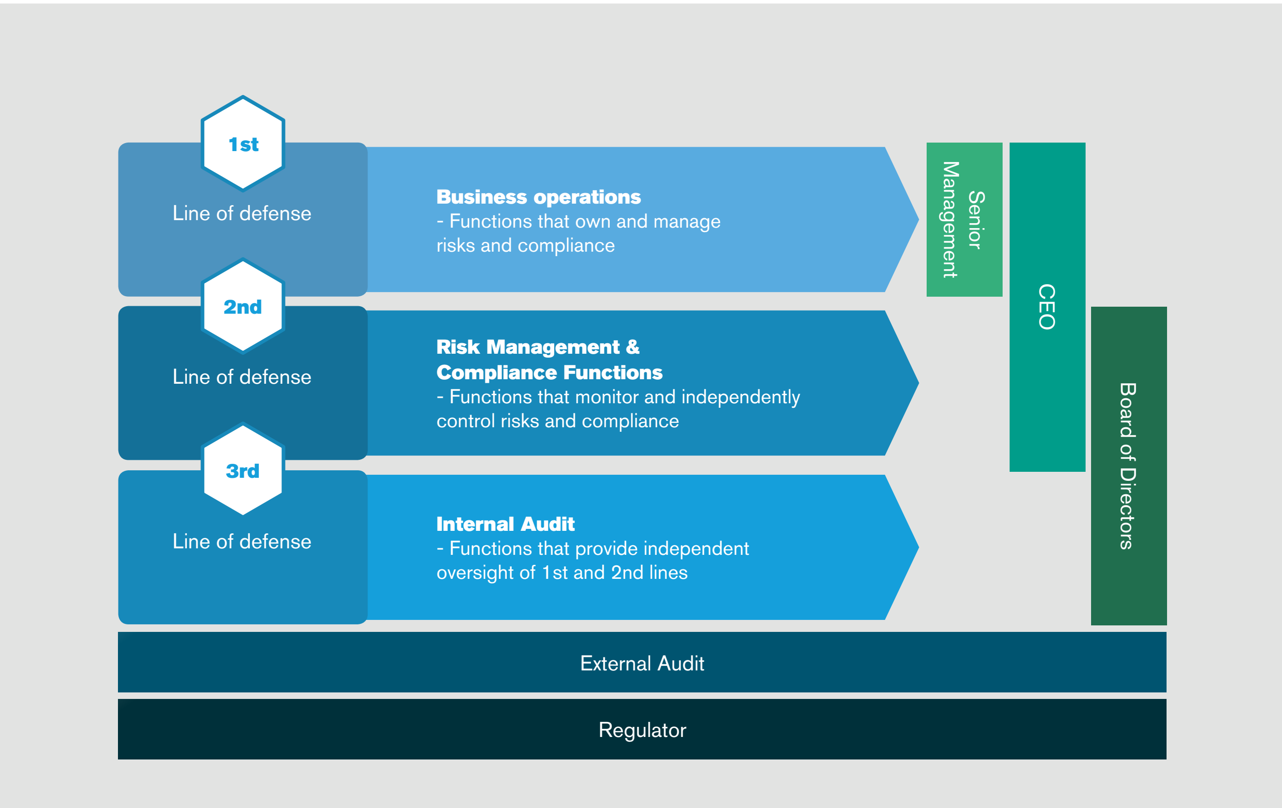
The Bank's risk management, risk control and compliance process is based on the three lines of defense approach to allocate roles and areas of responsibility. This approach aims at achieving satisfactory risk management with effective risk control and compliance.

The three lines of defense are the foundation of the Bank's model for risk management, risk control and compliance. Under this model, the first line of defense consists of the business units, which own and manage risks and compliance with laws and regulations as well as internal policies. The second line of defense consists of the risk management and compliance functions, which are independent from the business units and which monitor and independently control risks and compliance within the Bank. The third line of defense consists of the function for independent review and oversight, which ensures internal control. The internal auditors perform the work of the third line of defense on a regular basis. The Bank has appointed KPMG to manage the Bank's internal audit function. The internal audit function reports directly to the Board of Directors.

The Board of Directors bears the ultimate responsibility for the Bank's risk level and risk management system, and for ensuring that the Bank has adequate controls in place. The Board of Directors provides directives to the CEO by means of policies, with respect to governance, management, control and reporting of risks, as well as issuing policies and instructions. The Board of Directors is thus responsible for the Bank's risk management system and must ensure that the Bank has appropriate internal controls in place. The Board of Directors has established a committee, the Audit, Risk and Compliance Committee ("ARCCO"). The ARCCO is continuously monitoring the quality of the Bank's financial reporting, the quality of its corporate governance, internal control, compliance, risk control and internal audit.

The Board of Directors has resolved to appoint a Risk Manager who is responsible for the identification, assessment, management and reporting of risks within the business that arise in all business lines and all types of risk within the organisation. As part of the second line of defense, the Risk Manager reports directly to the CEO and the Board of Directors.

The risk management system is complemented by two CEO committees, namely the Risk and Compliance Committee ("RiCO") and the Asset and Liability Management Committee ("ALCO"). RiCO's objective is to improve and promote a strong risk management culture, and to strengthen the Bank's risk management processes and controls by assisting the business in the management of operational and compliance risks. The work done by the RiCO is also complemented by the Bank's New Product Approval Process ("NPAP"), which is an established process for approving new or altered products, procedures or systems, where their risks are presented, analysed and evaluated. The ALCO assists the business in the management of balance sheet-related risks. These risks are primarily interest rate risk, liquidity risk, exchange rate risk and credit risk.



Capital management

The Board has set the Bank's capital target based on regulatory requirements and internal assessments of the Bank's capital requirements. The capital target is set based on the Bank's capital policy.

Capital requirements and capital adequacy

The statutory minimum capital requirement means that the Bank's total capital base must amount to at least 8 percent of the risk-weighted exposure for Pillar I risks, such as credit risk, operational risk, credit valuation adjustment risk ("CVA") and market risk. In addition, the statutory capital requirements encompass the estimated capital requirements for the additional Pillar II risks within the Bank's business identified in the ICLAAP, as well as for the combined buffer requirements. The Bank maintains this minimum capital level of 8 percent of the risk-weighted exposure amount and has sufficient capital to always meet the capital requirements of the Pillar II framework. The Bank is furthermore required to hold capital buffers in the form of CET1 capital, namely the capital conservation buffer and countercyclical capital buffer, which the Bank also continually adheres to. Moreover, the Bank holds an extra amount of capital to reduce the risk of breaching the regulatory requirements due to unexpected revenue volatility. This is an internal target or internal buffer, and thus not a regulatory requirement. The Board of Directors has currently set the level of this extra internal capital buffer at 1 percentage point above the regulatory requirement.

The Bank allocates capital for Pillar I and Pillar II risks. Risks under Pillar II are assessed in the Bank's ICLAAP. The Bank's ICLAAP takes the capital limits and targets set out in the Bank's capital policy into account, allowing the Bank to assess its capital requirement and, if capital is needed for the Bank to meet all requirements and buffers, provides the Bank with alternatives for obtaining capital that properly support all relevant current and future risks in the business for an upcoming period of three years, based on the Bank's strategy and business plans. The capital policy is reviewed at least once per year and revised as needed.

The Bank continually monitors its ICLAAP and updates it at least once per year or more frequently if there are substantial changes in the conditions upon which the assessment of the need for capital or liquidity was based, to ensure that the risks are properly considered and reflect the Bank's actual risk profile and capital requirements. The ICLAAP is adopted by the Board of Directors.

As part of its capital planning, the Bank has also established a recovery plan in accordance with the EU bank recovery and resolution directive ("BRRD") and the Swedish Financial Supervisory Authority's regulations (FFFS 2016:6) regarding recovery plans, group recovery plans and intra-group financial support agreements. The recovery plan describes and defines the Bank's strategy to prevent capital risks the Bank could face. The Plan is reviewed at least once per year.

Method

The Bank allocates capital for its Pillar I risks based on a standardised method for each risk. The risk exposure amount for credit risks is calculated by risk weighting the Bank's asset items against different risk classes, where each risk class has several different risk weightings. The allocation between risk categories and underlying risk weightings depends on the type of exposure and counterparty. The total risk-weighted exposure is multiplied by 8 percent to calculate the minimum capital requirement for credit risks. In accordance with the standardised approach to operational risks, the Bank's all business lines are classified as retail business, where the capital requirement is 12 percent of the average net operating income for the last three financial years. The Bank also applies the standardised approach to the calculation of capital requirements for both market risks and CVA risks.

Pillar II capital requirements are allocated based on the following methods:

- Concentration risk The Swedish Financial Supervisory Authority's methods
- Interest rate risk from the banking book: The Swedish Financial Supervisory Authority's methods
- Pension risk: The Swedish Financial Supervisory Authority's methods
- Business risks, strategic risks and reputation risks: internal methods
- Liquidity risks: internal methods

Liquidity management

The daily management of liquidity risk is performed by the Bank's Treasury function. The Bank's tolerance for risk is low, which is why the Bank maintains significant excess liquidity in a liquidity reserve. The Bank measures its liquidity reserves in both expected and stressed scenarios to verify that the minimum liquidity requirement is maintained. The minimum liquidity reserve is set by the Board of Directors. Internal indicators are also used, in order to detect deviations from the expected liquidity development at an early stage. Contingency plans have also been established to enable rapid responses to mitigate risks related to the size of the liquidity reserve.

Liquidity risk is measured and reported daily to senior management. The daily reporting covers the level of the Bank's liquidity reserve and its composition, under both expected and stressed scenarios. The Bank's CEO reports monthly to the Board of Directors regarding liquidity management and liquidity risk. The Bank's Risk Manager is the central function for independent control of liquidity, and reports to the Board of Directors and CEO. Independent control regarding the liquidity management is also performed within the internal audit framework. The reports show key figures concerning liquidity risks such as the liquidity reserve, liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR").

The size and composition of the liquidity reserve are regularly analysed and evaluated against estimated emergency needs in the Bank's ICLAAP which addresses liquidity shortfalls in emergency situations.

The LCR measures the extent to which the Bank has sufficient high-quality liquid assets to cover its need for liquidity in stressed situations over the next 30 days. The Bank complies with the LCR requirement on a consolidated basis for all currencies and separately for each relevant currency: SEK, NOK and EUR. The Bank also complies with the requirements for the NSFR, which ensures that the institution's long-term assets are funded with a minimum level of stable long-term funding. In addition to the LCR and NSFR, the bank also uses internal measurements and limits to ensure that liquidity risk is managed in accordance with the Bank's risk tolerance. The internal measurements and limits are primarily attributable to the size and composition of the Bank's liquidity reserve. The liquidity reserve is set primarily in relation to the size and duration of deposits from the public. In addition, there are internal limits to ensure that the Bank can continue to operate without liquidity injections over a longer period.

The Bank has established a strategy that diversifies both the source and duration of its financing through deposits from the public and securitisations.

For further information on liquidity risk, see Note 2.

Significant regulatory updates

The Bank will apply the new accounting standard IFRS 9 Financial instruments from January 1, 2018. IFRS 9 replaces IAS 39 Financial instruments: Recognition and Measurement and includes new requirements for classification and measurement, impairment and hedge accounting. The Bank's assessment is that the implementation of the new standard will decrease equity by SEK 13.9m after tax. For further information regarding IFRS 9, please see Note 1 Accounting policies. In accordance with ÅRL 6 Chapter 11§, the Bank has chosen to establish the statutory sustainability report as a report separated from the annual report. The sustainability report can be found on pages 10-11 of this printed document.

Key figures | the Group	**2017**	**2016**	**2015**	**2014**	**2013**
Net Profit after Tax (SEK m)	191.8	163.2	115.6	113.0	88.2
Gross Income / ANR	7.4%	7.4%	7.8%	7.8%	8.3%
Cost of Funds / Funding balance	-2.2%	-2.1%	-2.5%	-2.3%	-2.5%
Operating Income / ANR	5.3%	5.4%	5.3%	5.3%	6.3%
Net Income Pre BDC / ANR	2.2%	2.2%	2.0%	1.5%	2.3%
Net Income Post BDC / ANR	2.0%	2.0%	1.7%	1.9%	1.8%
Return on Equity	18.9%	19.4%	16.8%	20.1%	19.1%
Return on Assets	1.6%	1.6%	1.4%	1.5%	1.3%
Liquidity Reserve* (SEK m)	3,029.7	2,076.7	1,803.3	1,699.5	2,002.5
Deposits from the public (SEK m)	10,418.6	9,504.4	7,186.8	7,201.0	6,601.3
External Funding (SEK m)	4,831.2	3,404.0	3,675.6	1,971.7	1,763.3
Lending portfolio (SEK m)	13,774.4	12,366.0	9,918.0	8,344.0	6,883.0
Credit losses (SEK m)	-28.3	-27.5	-36.4	-27.2	-18.5
Leverage Ratio	6.4%	6.5%	6.3%	6.1%	5.6%
Average number of employees	227	187	176	153	134

**The amount includes an unutilised credit facility for Bluestep Finans Funding No 1 AB, amounting to SEK 450m (2017), SEK 400m (2016), SEK 375m (2014)*

Proposal for the appropriation of profits	
The following profits are available for appropriation at the annual general meeting	
Non-restricted equity from previous years	830,855,299
Result of the year	183,877,001
Exchange differences, foreign operations	-4,722,210
	1,010,010,090
The Board propose that	
the following be carried forward	1,010,010,090
	1,010,010,090

The Board of Directors' assessment is that the Bank's equity as stated in the annual report is sufficient in relation to the size and risk of the business. For information regarding the results and financial position of the Group and the Bank, please see the following income statements and statements of financial position, statements of cash flow and supplementary disclosures.

Future performance

Going into 2018, the Board of Directors forecasts continued growth in all business areas while maintaining lending margins and credit quality.

Income Statement

SEK Millions	Note	Group 2017-01-01 2017-12-31	Group 2016-01-01 2016-12-31	Parent 2017-01-01 2017-12-31	Parent 2016-01-01 2016-12-31
Operating income					
Interest income		957.4	819.3	964.7	873.8
Interest expense		-323.8	-271.5	-515.6	-442.3
Net interest income	**4**	**633.6**	**547.8**	**449.1**	**431.5**
Commission income	5	-	-	12.4	8.0
Net result of financial transactions	6	0.2	0.3	0.2	0.3
Other operating income	7	27.0	21.6	17.9	14.8
Övriga rörelseintäkter		14.5	13.7	10.5	10.3
Total operating income		**675.3**	**583.4**	**490.1**	**464.9**
Operating expense					
General administration expenses	8,9,10	-368.2	-326.8	-198.0	-215.1
Depreciation on fixed assets	11,12	-22.8	-20.4	-18.6	-19.1
Total expenses		**-391.0**	**-347.2**	**-216.6**	**-234.2**
Result pre credit losses		**284.3**	**236.2**	**273.5**	**230.7**
Credit losses, net	13	-33.5	-24.0	-31.9	-24.4
Operating profit/loss		**250.8**	**212.2**	**241.6**	**206.3**
Tax	14	-59.0	-49.0	-57.7	-47.6
NET PROFIT/LOSS FOR THE YEAR		**191.8**	**163.2**	**183.9**	**158.7**
Statement of Comprehensive Income					
Net income		**191.8**	**163.2**	**183.9**	**158.7**
Items that may be reclassified to the income statement		-	-	-	-
Exchange differences, foreign operations		-4.7	0.7	-4.7	0.7
COMPREHENSIVE PROFIT/LOSS		**187.1**	**163.9**	**179.2**	**159.4**

Balance Sheet

SEK Millions	Note	Group 2017-12-31	Group 2016-12-31	Parent 2017-12-31	Parent 2016-12-31
Assets					
Lending to credit institutions	15	1,935.5	835.4	1,386.4	479.3
Lending to the public	16	13,609.7	12,068.6	12,495.9	10,145.5
Derivatives	17	169.1	107.8	34.9	38.8
Bonds and other interest-bearing securities	18	644.2	841.3	644.2	841.3
Shares and participations in associated companies	19	-	-	4.6	8.6
Intangible assets	11	61.3	53.9	45.6	43.9
Tangible assets	12	9.3	11.6	7.8	10.1
Other assets	20	146.8	170.0	753.5	1,532.7
Prepaid expenses and accrued income	21	24.2	28.4	22.7	27.2
Total assets		**16,600.1**	**14,117.0**	**15,395.6**	**13,127.4**
Liabilities					
Liabilities to credit institutions	22	547.8	600.0	3,673.2	2,440.2
Issued bonds	23	4,283.4	2,804.0	-	-
Deposits from the public	24	10,418.6	9,504.4	10,418.6	9,504.4
Derivatives	17	56.0	78.9	35.4	58.5
Tax liabilities	14	29.1	31.4	30.0	29.5
Other liabilities	26	55.4	86.4	57.9	89.4
Accrued expenses and prepaid income	25	100.4	89.6	70.5	74.5
Total liabilities		**15,490.7**	**13,194.7**	**14,285.6**	**12,196.5**
Equity					
Shareholders' equity		1,109.4	922.3	-	-
Share capital		-	-	100.0	100.0
Shareholder contributions received		-	-	363.7	363.7
Profit and loss account reserve brought forward		-	-	462.4	308.5
Result for this year		-	-	183.9	158.7
Total equity		**1,109.4**	**922.3**	**1,110.0**	**930.9**
Total equity and liabilities		**16,600.1**	**14,117.0**	**15,395.6**	**13,127.4**

Changes in Equity

Group (SEK Millions)	Restricted equity	Non restricted equity		
	Share capital	Shareholder contributions	Retained earnings	Total Equity
Opening balance 2016-01-01	**100.0**	**363.7**	**294.7**	**758.4**
Result for the year reported via income statement			163.2	163.2
Exchange differences, foreign operations			0.7	0.7
Ending balance 2016-12-31	**100.0**	**363.7**	**458.6**	**922.3**
Opening balance 2017-01-01	**100.0**	**363.7**	**458.6**	**922.3**
Result for the year reported via income statement			191.8	191.8
Exchange differences, foreign operations			-4.7	-4.7
Ending balance 2017-12-31	**100.0**	**363.7**	**645.7**	**1,109.4**

Shareholders' equity

Parent (SEK Millions)	Restricted equity	Non restricted equity		
	Share capital	Shareholder contributions	Retained earnings	Total Equity
Opening balance 2016-01-01	**100.0**	**363.7**	**307.8**	**771.5**
Result for the year reported via income statement			158.7	158.7
Exchange differences, foreign operations			0.7	0.7
Ending balance 2016-12-31	**100.0**	**363.7**	**467.2**	**930.9**
Opening balance 2017-01-01	**100.0**	**363.7**	**467.2**	**930.9**
Result for the year reported via income statement			183.9	183.9
Exchange differences, foreign operations			-4.7	-4.7
Ending balance 2017-12-31	**100.0**	**363.7**	**646.4**	**1,110.1**

The share capital consists of 2 ordinary shares of the same share class and with a quotient value of SEK 50,000,000. All shares have equal voting rights.

Cash Flow Statement

SEK Millions	Note	Group 2017-01-01 2017-12-31	Group 2016-01-01 2016-12-31	Parent 2017-01-01 2017-12-31	Parent 2016-01-01 2016-12-31
Operating activities					
Pre tax income		250.8	212.2	241.6	206.3
		250.8	**212.2**	**241.6**	**206.3**
Adjustments for items not included in cash flow					
Depreciation	11,12	22.8	20.4	18.6	19.1
Unrealised changes in value	6	-53.8	-21.6	-44.7	-14.8
Credit losses excluding recoveries	13	70.3	56.9	68.7	57.4
Total – Items not included in cash flow		**39.3**	**55.7**	**42.6**	**61.7**
Taxes paid		-61.2	-57.6	-57.2	-56.1
Cash flow from current operations before changes to operating capital		**228.9**	**210.3**	**227.0**	**211.9**
Cash flow from changes to operating capital					
Increase (-)/decrease (+) of lending to the public		-1,611.4	-2,433.4	-2,419.1	-510.8
Increase (-)/decrease (+) of change in receivables		-33.9	26.5	787.6	-1,337.7
Increase (+)/decrease (-) of deposits from the public		914.2	2,317.6	914.2	2,317.6
Increase (+)/decrease (-) of change in short term liabilities		-43.1	19.5	-58.4	50.1
Cash flow from operating activities		**-545.3**	**140.5**	**-548.7**	**731.1**
Investing activities					
Investments in intangible assets	11	-26.8	-30.2	-17.6	-21.7
Acquisition of fixed assets	12	-1.2	-9.0	-0.5	-7.5
Increase (-)/decrease (+) of financial assets	18,19	250.8	-80.0	245.7	-84.2
Cash flow from investing activities		**222.8**	**-119.2**	**227.6**	**-113.4**
Financing activities					
Liabilities to credit institutions	22	-52.2	600.0	1,233.0	-853.6
Issued bonds	23	1,479.4	-871.6	-	-
Cash flow from financing activities		**1,427.2**	**-271.6**	**1,233.0**	**-853.6**
NET CASH FLOW FOR THIS YEAR		**1,104.7**	**-250.3**	**911.9**	**-235.9**
Liquid funds at beginning of year		**835.4**	**1,085.0**	**479.3**	**714.4**
Currency difference i liquidity		**-4.6**	**0.7**	**-4.8**	**0.7**
LIQUID FUNDS END OF YEAR		**1,935.5**	**835.4**	**1,386.4**	**479.2**
Cash flow includes interest receipts of		**962.3**	**815.3**	**970.3**	**874.0**
Cash flow includes interest payments of		**-339.1**	**-296.2**	**-531.0**	**-467.0**

Disclosures

All amounts in the notes are in millions of Swedish kronor (SEKm) and represent carrying amounts unless otherwise indicated. Figures in parentheses refer to the previous year.

Note 1 | Accounting policies

General information

The Annual Report was approved for publication by the Board of Directors on April 27, 2018. The income statement and statement of financial position will be presented to the Annual General Meeting for adoption on April 27, 2018. The Bank is a wholly owned subsidiary of Bluestep Holding AB. The Bank's business is described in the Administration Report.

Compliance with standards and laws

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Swedish Financial Supervisory Authority's Regulations and general guidelines, FFFS 2008:25. The Group also applies RFR 1, Additional Accounting Regulations for Groups and related interpretations issued by the Swedish Financial Reporting Board, and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL).

The Bank applies so-called legally limited IFRS, and as a rule follows IFRS and the accounting policies applied in the consolidated financial statements. This means that all International Financial Reporting Standards (IFRSs) endorsed by the EU as well as accompanying interpretations issued by the IFRS Interpretations Committee (IFRIC) are applied as far as possible within the framework of Swedish legislation and taking into account the connection between reporting and taxation. The Parent Company must furthermore observe and prepare its annual report in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), the Swedish Financial Supervisory Authority's Regulations and general guidelines, FFFS 2008:25 and RFR 2 Accounting for Legal Entities issued by the Swedish Financial Reporting Board.

The accounting policies below have been applied consistently to all periods presented in the financial statements, unless otherwise stated.

Changes in accounting policies due to new or amended IFRS

New or revised standards and interpretations adopted by the EU with effect from January 1, 2017 have had no material effect on the Bank's financial statements. The accounting policies and methods of calculation used in the preparation of the Bank's financial statements are essentially unchanged since the previous year.

New and revised standards and interpretations that have not yet come into force

Several new or amended IFRS standards come into force during the coming financial year and have not been applied in advance in the preparation of this year's financial statements. The expected effects from the application of the new or amended IFRS standards on the Bank's financial statements are described below. Apart from these effects, no other new standards are expected to affect the Bank's financial statements.

IFRS 15 Revenue from contracts with customers

The standard establishes the principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The standard introduces a five-step model for determining how and when to recognise revenue, but it does not impact the recognition of financial instruments in the scope of IAS 39 or IFRS 9. The standard stipulates new disclosure requirements to provide more relevant information. The standard has been adopted by the EU and is applicable from January 1, 2018. The new standard is not expected to have any material effect on the Group's financial position, profit/loss or cash flow.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases. The standard was approved by the EU in November 2017 for application to the financial year beginning on 1 January 2019. The new standard significantly changes the way lessee entities should account for leases. For lessees, the standard eliminates the distinction between finance and operating leases and requires entities to recognise right-of-use assets and lease liabilities arising from most leases on the balance sheet. In the income statement general administrative expenses will be replaced by depreciation of the right-of-use asset and interest expenses on the lease liability. For lessors, the requirements remain largely unchanged and maintain the distinction between finance and operating leases. The impacts on the Group's financial reports are still being assessed.

IFRS 9 Financial instruments

IFRS 9 Financial Instruments contains rules for accounting, classification, measurement, impairment, derecognition and hedge accounting. The standard was adopted by the EU in November 2016 and will replace IAS 39 Financial Instruments: Recognition and Measurement on January 1, 2018. The major changes are related to classification and measurement, impairment and hedge accounting. IFRS 7 Financial Instruments: Disclosures is updated with additional disclosures for when IFRS 9 enters into force.

As permitted by IFRS 9, the Bank has chosen not to restate comparative periods. When IFRS 9 enters into force, impairment will increase and equity will decrease by SEK 13.9 m as a one-off effect. This effect will be recorded as of January 1, 2018.There is an option to apply transitional rules for the capital adequacy, which means that the effect will be spread over a five-year period after the introduction of IFRS 9. The Bank has chosen to not apply these transition rules.

The impact from adopting IFRS 9 is described below:

- Since IFRS 9 will not have any impact on the Bank's measurement of financial assets, this part of the standard will not have any impact on the Bank's equity.
- Application of the impairment requirements will reduce equity by SEK 13.9m (after tax).
- The Bank as chosen to continue to apply hedge accounting in accordance with IAS 39. Equity will therefore not be affected by this part of the standard.

The total effect on the Group's equity is shown in the table below.

Effect of IFRS 9	Equity
Equity as of 2017-12-31 (SEK m)	**1,109.4**
Changes related to the implementation of expected credit losses according to IFRS 9	-17.2
Tax effect related to the implementation of expected credit losses according to IFRS 9	3.3
Equity as of 2018-01-01 (SEK m)	**1,095.4**

The total effect on the Branch Office's equity is shown in the table below.

Effect of IFRS 9	Equity
Equity as of 2017-12-31 (NOK m)	**98.2**
Changes related to the implementation of expected credit losses according to IFRS 9	-0.4
Equity as of 2018-01-01 (NOK m)	**97.8**

Classification and measurement
A financial asset will initially be measured at fair value, and subsequently according to one of the following principles:
▪ fair value through profit or loss,
▪ fair value through other comprehensive income, or
▪ amortised cost.

The principle for measuring debt instruments is determined by a combination of the business model applied for the asset and the extent to which the cash flows from the asset consist of solemnly principal and interest (the cash flow characteristics). The Bank's financial assets will be valued at fair value through profit or loss or amortised cost. No financial assets will be valued at fair value through comprehensive income. The Bank has evaluated the business model for financial instruments on portfolio basis and based on how they are managed and analysed. SPPI (solemnly principal and interest) tests have been performed for a representative sample from each portfolio. The business model assessment will not result in any change in the measurement of the Bank's financial assets compared to the measurement under IAS 39. The requirements for classification and measurement of financial liabilities are to a large extent the same as under IAS 39.

The majority of the Bank's financial assets consist of lending to the public. The Bank's business model for these assets is to receive contractual cash flows (principal and interest), which means that the assets are to be recognised at amortised cost. Since lending to the public is measured at amortised cost under IAS 39, the transition to IFRS 9 does not entail any change.

Fixed interest rate loans in Norway, where fixed rate compensation is applied, would fail the SPPI test (determination of cash flow characteristics) due to the fact that the cash flows from the asset does not consist of solemnly principal and interest and would therefore need to be measured at fair value. This has been noted by the IASB, and an amendment to IFRS 9 has been released to ensure that these loans also pass the SPPI test. The amendment was adopted by the EU on March 22, 2018 and will enter into force on January 1, 2019, but it may be applied in advance from January 1, 2018, which the Bank will choose to do.

The Bank's bonds and other interest-bearing securities are measured at fair value under IAS 39. The business model for these assets is "other models", which means that the assets are to be recognised at fair value through profit or loss. The transition to IFRS 9 does not entail any change in measurement.

The transition to IFRS 9 will not have any impact on the measurement of the Bank's assets, and will therefore not have any impact on equity.

Impairment
IFRS 9 introduces an impairment model that calculates expected credit losses for financial assets that are measured at amortised cost. The calculated expected credit losses are based on the estimated risk at the time of the calculation, whether a significant increase in credit risk has occurred since recognition but also macroeconomic development even if no actual loss has occurred. Expected credit losses will be calculated based on internal and external information. The information will consist of past events, current circumstances and reasonable verifiable prognoses of future economic conditions that can affect expected future cash flows. Consequently, credit impairment provisions will be more sensitive to changes in the future economic outlook and therefore probably more volatile compared to IAS 39.

The impairment calculations according to IFRS 9 are based on a three-stage model where each stage reflects the current credit risk of a receivable, stating that stage 1 represents the lowest credit risk and an expected credit loss equivalent to expected credit losses within 12 months. The Bank's definition of a default event is that the receivable is more than 90 days past due. If a significant increase in credit risk compared to initial estimated credit risk is noted, the asset will

	IAS 39		IFRS 9	
	Loans and receivables	**Financial assets**	**Hold to collect**	**Hold to collect and sell**
	Amortised cost	Fair value	Amortised cost	Fair value
Assets				
Lending to credit institutions	X		X	
Lending to the public	X		X	
Derivatives		X		X
Bonds and other interest-bearing securities		X		X

be moved to stage 2 and the expected credit loss will be calculated on expected credit losses for the asset's remaining lifetime. The expected credit losses shall take asset specific and macroeconomic factors into account and reflect the Bank's expectations on these factors. Stage 3 includes financial assets which are credit-impaired and for which there is objective evidence of impairment and is largely bases on the same loss events that imply a write-down under IAS 39. The purpose of the new model is to ensure that accounting reflects the Bank's expectations of the factors that affect the impairment provisions earlier compared to IAS 39.

The Bank's model for impairment according to IFRS 9 is based on a quantitative cash flow model that calculates expected credit loss, using a number of input models to estimate the expected credit losses in the portfolio at a given time of calculation, within 12 months as well as the asset's remaining lifetime.

Expected credit losses are measured for each individual exposure as the discounted product of a probability of default (PD), an exposure at default (EAD), and a loss given default (LGD). The PD represents the likelihood that a borrower will default on its obligation, during the next 12 months or during the remaining lifetime of the obligation. The EAD is an expected exposure at the time of default, taking into account scheduled repayments of principal and interest, and expected further drawdowns on irrevocable facilities. The LGD represents the expected loss on a defaulted exposure, taking into account such factors as counterparty characteristics, collateral and product type. Expected credit losses are determined by projecting the PD, LGD and EAD for each future month over the calculated lifetime of an exposure. This effectively calculates monthly expected credit losses, which are discounted back to the reporting date using the original effective interest rate and summed. The sum of all months over the remaining calculated lifetime results in the lifetime expected credit losses and the sum of the next 12 months results in the 12-month expected credit losses. When estimating expected credit losses, the Bank considers at least three scenarios (a base case, an upside and a downside), represented by relevant macroeconomic variables. The macroeconomic variables when calculating ECL for the Swedish mortgage loans are interest rates and house price index and house price index only for the Norwegian mortgage loans.

The calculation is different for mortgage loans compared to personal loans. ECL for mortgage loans is calculated as write-offs minus expected recoveries (after a cure rate has been applied). For personal loans ECL is calculated as write-offs minus the income that is generated when the loan is sold (in accordance with agreement).

If the receivable's lifetime PD exceeds a pre-decided limit, the receivable is considered to have a significant increase in credit risk and shall be moved to stage 2 where the expected credit loss is calculated for the receivable's expected life. All receivables that are between 30-89 days past due are deemed as stage 2 (significant increase in credit risk) by the "backstop" that is suggested by the standard. The expected life is determined by the Bank by adjusting the receivable's remaining exposure downward by an expected payment rate (both contractual and prepayments).

The third stage consist of receivables where a default event has occurred (stage 3). This includes receivables more than 90 days past due.

In order to determine whether a significant increase in credit risk has occurred, the Bank measures whether the lifetime PD has increased more than a pre-determined threshold (compared to the lifetime PD based on the PD at the time of issuance of the loan). If the receivable, based on the above criteria, does not indicate a significant increase in credit risk (stage 1), the expected credit loss is calculated for 12 months.

Hedge accounting

IFRS 9 retains the three basic hedging relationships as introduced by IAS 39, but entails greater flexibility in the transactions where hedge accounting can be applied. The efficiency is defined by the requirement of a financial relationship between the instruments in the hedging relationship and that the hedging relationship is in line with the Bank's risk management strategy. Focus will be on the forward-looking efficiency measurement. The retrospective efficiency measurement in accordance with IAS 39 will be removed as a criterion to be able to apply hedge accounting, but the efficiency must still be proven. IFRS 9 also includes an option to continue using the hedge accounting rules that apply under IAS 39. Since the new rules for hedge accounting does not yet include macro hedging, the Bank will use the option to continue to apply hedge accounting in accordance with IAS 39.

Other changes in IFRS standards and interpretations are not considered to have any material impact on the Bank's financial statements.

Estimations and critical assessments

When preparing the financial statements, management must In certain cases rely on estimations and assessments that affect the reported amounts of assets, liabilities and disclosures of any assets and liabilities at the balance sheet date, as well as reported revenues and expenses during the reporting period.

The Bank's management makes assessments and estimates to determine the value of certain financial assets and liabilities. These are attributable to financial instruments, lending to the public and asset-backed securities. The assessments and estimates are based on historical experience and other factors that are deemed reasonable under the present circumstances.

Assessments

Depending on the degree of observability of market data and the market activity, different methods are used to determine the fair value of financial instruments. Quoted prices in active markets are used first. When these are not available, valuation models are used instead. The Bank determines when the markets are considered inactive and when quoted prices no longer correspond to fair value, and an evaluation model needs to be used instead.

Estimates

Lending to the public is based on the loan's expected lifetime, average return and expected credit losses. Past performance is continuously reviewed and expected market conditions evaluated to ensure that the estimates are updated. Receivables are tested if a loss event has occurred. A loss event refers to an event which occurred after the claim, and that has a negative impact on future expected cash flows, such as late or non-payments, concessions granted due to the borrower's financial difficulties, bankruptcy or other financial reconstruction, and local economic developments

linked to non-payment such as a decline in housing prices. Individual receivables where a loss event has occurred are classified as doubtful receivables. Provisions for credit losses are made for the difference between the estimated value, i.e. the estimated future cash flows discounted by the loan's original effective interest rate, and amortised cost. Amortised cost is the contractual cash flow discounted by the loan's original effective interest rate. When estimating cash flows, the customer's financial situation and the value of the underlying security are evaluated.
Assessments and estimates for asset-backed securities are based on expected lifetime and average return, based on historical performance, expected cash flows and interest rates.

The Group has issued bonds secured by Swedish mortgages (so called securitisation) several times in the past years. Mortgages have been sold from the Bank and BFF1 to wholly-owned subsidiaries, so called SPVs (Special Purpose Vehicles). The SPVs have issued bonds that external parties invested in. The Bank has made the assessment that the assets that have been sold to the subsidiaries do not fulfil the criteria to be derecognised in accordance with IAS 39. Since the credit risk has not left the Bank, and the risk has therefore not passed to the subsidiary, the assets are still recognised in the Bank and not in each subsidiary.

Foreign currency

The Bank's functional currency is the Swedish krona. Monetary assets and liabilities in foreign currency are translated to the functional currency at the exchange rate prevailing at the end of the reporting period. Exchange rate differences arising from translation are recognised in profit or loss. Non-monetary assets and liabilities recognised at historical cost are translated to the exchange rate on the transaction date. Non-monetary assets and liabilities recognised at fair value are translated to the functional currency at the rate prevailing on the date of valuation at fair value.

Revenue recognition

Revenue is recognised when the income can be calculated reliably, and it is likely that the financial benefits will accrue to the Bank.

Interest income and interest expense

Interest income and interest expenses are recognised using the effective interest method within Net interest income/expense. The effective interest rate is the interest rate that accurately discounts the estimated future deposits and disbursements over the expected duration of the financial instrument, or a shorter period if applicable, to the financial asset's or liability's recognised net value.

Interest income and interest expenses include, where appropriate, periodised amounts of fees received, which are included in the effective rate, transaction costs and any discounts, premiums and other differences between the original value of the receivable/liability and the amount settled on maturity.

Commission income and commission expense

Commissions consist of transaction-based fees that are recognised when the transaction is performed. Periodisation occurs in the period to which the income or expense refers.

Commissions received, which mainly relate to administrative services performed for the former Group Company BlueStep Capital Holdings Limited, are recognised as revenue when the service were performed and provided.

Net income from financial transactions

Net income from financial transactions includes the realised and unrealised changes in value arising from financial transactions classified as held for trading, instruments included in fair value hedges, possible ineffectiveness in hedging relationships, and currency gains and losses on financial assets and liabilities.

Financial instruments

Most of the Bank's balance sheet items refer to financial instruments. A financial instrument is any form of agreement that gives rise to a financial asset in a company and a financial liability or equity instrument in another company. On the asset side, financial instruments include lending to the public and credit institutions, bonds and other interest-bearing securities and derivatives, for example. On the liability side, some examples are deposits and borrowings by the public, subordinated liabilities, liabilities to credit institutions and accounts payable.

Financial assets are recognised in the balance sheet on the business day when contracts were entered into for acquisitions, except for contracts in the "loan receivables" valuation category which are recognised on the settlement date. Accounts receivable are recognised in the balance sheet when invoices have been sent. Liabilities are recognised when the counterparty has performed, and a contractual obligation exists even though an invoice has not yet been received. Accounts payable are recognised when the invoice has been received. A financial asset is derecognised from the balance sheet when the contractual rights to the asset are realised, extinguished or the Bank loses control over them. A financial liability is derecognised from the balance sheet when the contractual obligation has been fulfilled or in some other manner extinguished.

Financial assets and liabilities are offset and recognised as a net amount in the balance sheet only when a legal right to offset the amounts exists and an intention exists to settle the items in a net amount or simultaneously realise the asset and settle the liability. Financial instruments are initially recognised at cost, which corresponds to the instrument's fair value plus transaction costs, for all financial instruments except those belonging to the category of financial assets and liabilities recognised at fair value through profit or loss. Subsequent accounting depends on how the financial instruments are classified:

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

The Bank has not categorised any financial instruments as "Financial assets held to maturity".

Financial assets measured at fair value through profit or loss

This category consists of financial assets classified as held for trading. The Bank's assets in this sub-group consist of: (i) derivative instruments with positive market value not included in an effective hedging relationship (see the Hedge accounting section); (ii) derivatives that constitute effective hedging instruments; and (iii) bonds and other interest-bearing securities held for liquidity risk management.

Assets in this category are initially recognised at fair value, while attributable transaction costs are recognised in profit or loss. Changes in fair value and realised profit/loss for these assets are recognised directly in profit or loss under "Net result of financial transactions", while accrued interest and interest received are recognised as interest income.
Fair value is the price at the valuation date that would be received by selling an asset or payable on the transfer of a debt through an orderly transaction between market participants. The fair value of financial instruments valued at fair value and traded on an active market, such as Swedish covered bonds, is based on quoted prices. For financial instruments not traded in an active market, fair value is determined based on generally accepted valuation techniques, which are based on observable market quotations to the greatest extent possible.

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

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

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

Derivatives
The Bank's derivative instruments have been acquired to hedge the risks of interest rate and exchange rate exposures to which the Bank is exposed. The Bank applies hedge accounting in accordance with IAS 39 for hedging relationships that meet the requirements. Derivatives not included in a hedging relationship in accordance with IAS 39 are recognised at fair value through profit or loss. Derivatives included in an effective hedging relationship are recognised as described below.

Hedge accounting
The bank uses derivatives to hedge interest rate risks in the business. The derivatives are measured at fair value in the balance sheet, and otherwise managed according to each hedging relationship. IAS 39 contains extensive requirements for being allowed to apply hedge accounting. The requirements mean that the hedge must be documented, there must a well-founded expectation that the hedging instrument is highly effective in counteracting the hedged risk's impact on the hedged item, and that it must be possible to measure and evaluate this effectiveness in a reliable way. Effectiveness is measured through both forward-looking (prospective) and backward-looking (retrospective) monitoring. Ineffectiveness is recognised in profit or loss. If the conditions for hedge accounting are no longer fulfilled, the derivatives are recognised at fair value through profit or loss according to the basic rules.

Fair value hedging
The Bank applies fair value hedging according to the carve-out method in IAS 39. The hedged items consist of portfolios of borrowing, deposits and lending which have a fixed interest rate, and the hedging instruments consist of derivatives where Bluestep pays a fixed interest rate and receives a variable rate. Fair value hedging means that the hedged item is revalued at fair value with respect to the hedged risk. The changes in value that arise are recognised in profit or loss and counteract the changes in value that arise in the hedging instrument, which are also recognised through profit or loss. Coupon rates on hedging instruments are recognised in net interest income/expense as interest income if the hedged item is a portfolio of assets and as interest expense if the hedged item is portfolio of liabilities.

Bonds and other interest-bearing securities
The Bank has invested some of its excess liquidity in bonds and other interest-bearing securities. These assets have fixed or determinable payments. Capital gains and losses are taken up as net income from financial transactions. Interest income is recognised using the effective interest rate method.

Loans and receivables

Loans and receivables are financial assets that are not derivatives, that have determined or determinable payments and that are not quoted on an active market. In the statement of financial position, these are represented by the balance sheet items Lending to credit institutions, Lending to the public and Other assets depending on characteristics. These assets are recognised at amortised cost. Loan receivables are initially recognised at cost, which consists of the loan amount paid less fees received and additional costs that form an integral part of the return. The interest rate that produces the loan's cost when calculating the present value of future payments is considered the effective interest rate. Amortised cost is obtained by discounting the remaining future payments by the effective interest rate amount. Receivables other than loan receivables, which are not interest-bearing, have a short expected maturity, so they are recognised at a nominal amount without discounting. Doubtful receivables are assessed individually, and any impairment losses are recognised in operating expenses.

Lending to the public
Lending to the public consists of loans to individuals secured with collateral in housing, as well as lending to individuals without collateral. Impairment losses and reversals of impairment losses are taken up as net credit losses.

Credit losses and impairment of financial assets recognised at amortised cost
At the end of the reporting period, an assessment is made of whether there is objective evidence of impairment of an individual receivable. This happens due to events that occurred after the asset was recognised for the first time, and which are believed to have affected the estimated future cash flows for the current receivable or group of receivables. Events that may affect the need for impairment are, for example, stoppage of payments, composition and an order to pay.

The size of the impairment is calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted by the original effective interest rate of the loan receivable. Cash flows attributable to the borrower or issuer and possible utilisation of the collateral is considered when assessing the need for impairment. Any costs associated with the realisation of the collateral are included in the cash flow calculations. Probable loan losses or impairments of other financial assets are calculated gross and, if there is a guarantee, this is correspondingly reported as a claim on the counterparty. If the present value of future cash flows exceeds the asset's carrying value, no impairment occurs nor is the receivable found to be doubtful. The write-down amount is recognised in profit or loss under "Net credit losses" or "Impairment of financial assets" depending on the type of receivable.

An impairment loss is reversed if there is evidence that there is no longer a need for impairment and there has been a change in the assumptions used to calculate the impaired amount.

Other financial liabilities

Borrowing, deposits and other financial liabilities such as accounts payable are included in this category. The liabilities are measured at amortised cost.

Financial liabilities measured at fair value through profit or loss

The bank's liabilities in this category are derivative instruments with negative market values which are automatically classified as held for trading since they are not part of an effective hedging relationship. For more information see the section on hedge accounting. Derivatives that constitute effective hedging instruments are also recognised at fair value. Liabilities in this category are initially recognised at fair value, while attributable transaction costs are recognised in profit or loss. Changes in fair value and realised profit/loss are recognised directly in profit or loss under "Net income from financial transactions", while accrued interest and interest received are recognised in net interest income/expense.

Shareholders' contributions and group contributions

The Bank recognises group contributions and shareholders' contributions in accordance with the general rule of the Swedish Financial Reporting Board's Recommendation RFR 2 Accounting for Legal Entities. Group contributions received from subsidiaries are recognised as financial income and group contributions to subsidiaries are recognised as an increase in participations in group companies. Group contributions provided to the Parent Company are recognised in equity.

Approved group contributions not paid at the reporting date may be entered as a liability, even if the decision was taken after the end of the reporting period.

Shareholders' contributions received are recognised in equity.

Intangible assets

Intangible assets are recognised at cost less accumulated amortisation and impairment losses. Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful life of the asset. Intangible assets with a determinable useful life are written off from the date when they are available for use. The expected useful life is estimated at five years.

Intangible assets are recognised in the balance sheet only if the asset is identifiable, it is likely that the asset will generate future financial benefits and BlueStep has control over the asset.

The carrying amount of an intangible asset is derecognised in the balance sheet on disposal or sale, or when no future economic benefits are expected from the use of the asset. Gains or losses arising from the sale or disposal of an asset consist of the difference between the selling price and the asset's carrying amount less direct selling expenses. Gains and losses are recognised as other operating income/expenses.

Impairment testing takes place at least once a year, or if there is an indication of decreased value.

Tangible assets

These assets are recognised at cost less accumulated depreciation based on an assessment of the assets' useful life. The expected useful life is estimated at five years.

Leasing

All leasing agreements are recognised as operational leasing agreements, which means that the leasing fee is allocated on a straight-line basis over the lease term.

Pensions

Pensions are reported as defined contribution plans and are expensed over the year. There are no pension provisions since the Bank fulfilled its obligations in connection with its premium payments.

Taxes

Income taxes consist of current and deferred tax. Current tax is tax payable or received with respect to the current year, applying the tax rates decided or determined at the balance sheet date, including adjustments of current tax attributable to prior periods.

Current tax assets and liabilities are valued at the amount expected to be received or paid. Income taxes are recognised in profit or loss except when the underlying transaction is recognised in other comprehensive income or in equity, in which case the associated tax effect is recognised in other comprehensive income or in equity.

Deferred taxes refers to tax on differences between recognised and taxable value. Deferred tax liability is recognised for all taxable temporary differences. Deferred tax assets represent a reduction of future tax attributable to temporary tax-deductible differences, tax loss carryforwards or other future tax deductibles. Deferred tax assets are tested at the end of each accounting year and recognised to the extent that they are likely to be utilised at each balance sheet date. Statutory tax rates at the end of the reporting period are used in the calculations.

Cash-flow statements

The cash flow statement is prepared using the indirect method, in accordance with IAS 7. The reported cash flow includes only transactions that entail deposits or payments.

Cash and cash equivalents

Cash and cash equivalents comprise cash funds held at credit institutions, as well as short-term investments with a maturity of less than three months from the acquisition date and exposed to only a slight risk of value fluctuations. Cash and cash equivalents are recognised at nominal amounts.

Securitisation

When a financial asset is transferred, the Bank must evaluate the extent to which it retains the risks and benefits associated with ownership of the financial asset. If the Bank retains essentially all the risks and benefits associated with ownership of the financial asset, the Bank continues to recognise the financial asset in the statement of financial position. The Bank carried out securitisation transactions recognised accordingly in 2013, 2015, and 2017.

Note 2 | Risk management

Risk profile and strategy

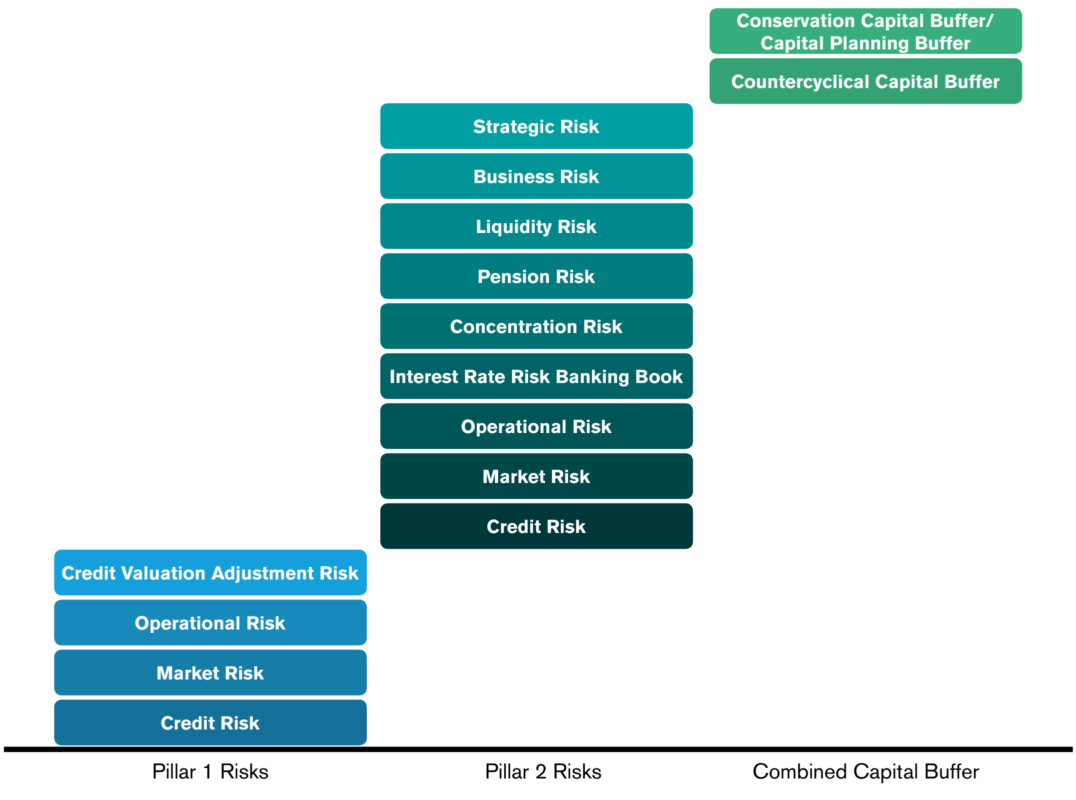
The primary goals of the Bank's risk management are to ensure that the outcomes of risk-taking activities are consistent with the Bank's strategies and risk appetite, and that there is an appropriate balance between risk and reward. The Bank's risk management framework provides the foundation for achieving these goals.

Risk is defined as a potentially negative impact on the Bank's value that could occur due to current internal processes or future internal or external events. The concept of risks includes both the probability that an event will occur and the potential impact it would have on the Bank. In order to achieve the Bank's business goals for growth, profitability and financial stability, the Bank's targets must be assessed against the risks that might arise in the Bank's operations whilst doing so.

The Bank's main activity is to provide loans to the public in Sweden and Norway and to fund them through a combination of retail deposits, issued securities (Residential Mortgage Backed Securities, RMBS) and, to a certain extent, secured credit facilities. Consequently, the Bank is exposed to a number of risks, such as credit risk, liquidity risk, operational risks and other financial risks. The capital adequacy requirement is founded on three pillars: risks and capital needs are assessed in the first two pillars; and disclosure requirements are part of the third pillar:

1. Pillar I, minimum capital requirements: deals with maintenance of regulatory capital calculated for the major components of risk that a bank faces: credit risk, operational risk, CVA risk and market risk. The methodology applicable to calculate the capital requirements is stated in the the Regulation (EU) 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR).
2. Pillar II, supervisory review: provides a framework for dealing with the underestimations of those risks assessed under Pillar I and, additionally, interest rate risk of the loan book, systemic risk, pension risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk. The process for ICLAAP is a result of Pillar II of the Basel II accords. The ICLAAP includes a number of stress scenarios which test the Bank's exposure to, and the impact of identified risks.
3. Pillar III, market discipline: aims to complement the minimum capital requirements and supervisory review process by developing a set of disclosure requirements which will allow the market participants to gauge the capital adequacy of an institution.

Based on the Pillar I and II assessment process, the Bank has identified the following primary risk categories and the measurement, controls and mitigants of those risks.



For further information on capital adequacy and Pillar I and II, see note 29.

Credit risk

Definition

Credit risk is the risk of a counterparty failing to meet its obligations. Given the nature of the business, lending to the public, credit risk is the main risk that the Bank faces. Credit losses arise as a consequence of, firstly, defaults due to inability or unwillingness of a customer or a counterparty to meet their commitments in relation to lending (probability of default) and, secondly, the recoveries from the defaulted assets being insufficient to cover the principal, accrued interest and associated costs (loss given default). In addition, credit risk can be reflected as losses via provisions resulting from a reduction in portfolio values arising from actual or perceived deterioration in credit quality.

Mitigation

The Bank mainly provides residential mortgages in Sweden and Norway and unsecured loans in Sweden, basing its credit strategy on the borrowers' expected ability to repay their debts and credit history. In order to estimate probability of default, the Bank categorises borrowers into different risk grades (both for mortgages and personal loans).

Credit risk is mainly managed through the Bank's credit instructions in which the Bank's risk appetite is defined. Active credit risk management is also achieved through prudent customer selection by the Bank's credit departments, which is part of the first line of defence function within the business. This means that they are responsible for the credit decision process and for adhering to the credit policies and instructions established by the Board. Active credit risk management is also achieved through the collection departments by being responsible for the non-performing loans, i.e. where customers have ceased to service their debt obligations and so breached their contractual terms, and attempt to return them to orderly payments or take other actions to mitigate the risk of loss.

The performance of the loan books is continuously monitored, and risk drivers analysed, allowing for a better understanding of the underlying risk.

Credit rating agencies

The relation between the credit quality steps and the ratings provided by rating agencies are displayed in table below.

Credit Quality Step	Moody's	Fitch	S&P's
1	Aaa - Aa3	AAA - AA-	AAA - AA-
2	A1 - A3	A+ - A-	A+ - A-
3	Baa1 - Baa3	BBB+ - BBB-	BBB+ - BBB-
4	Ba1 - Ba3	BB+ - BB-	BB+ - BB-
5	B1 - B3	B+ - B-	B+ - B-
6	<B3	<B-	<=CCC+

Operational risk

Definition

Operational risk is defined as the risk of economic loss resulting from processes, people, systems and external events. The definition also includes legal risk but excludes strategic and reputational risks.

Mitigation

The Bank has a range of measures and tools in place for identifying, evaluating, documenting, controlling and reporting operational risks. During the Bank's history they have been developed into a solid set of policies, instructions, routines and procedures to ensure that staff has the proper competence, training and work experience to maintain the operational risks at an acceptable level in the business.

IT related risks specifically are mitigated through the development of reliable IT-systems with built-in controls, reconciliations, backup procedures and business continuity through contingency plans, continuity plans and disaster recovery plans in the event of a material disruption. The Bank frequently performs tests of continuity management plans.

The day-to-day management of the mortgage portfolio in Sweden and the administration of deposit accounts for Sweden is outsourced to the Bank's subsidiary BSAB, while the management of the mortgage portfolio and the administration of deposit accounts for Norway is provided in-house by the Norwegian loan administration department (Norla). The administration of unsecured loans in Sweden is outsourced to a third party (Emric). In order to manage operational risk, the Bank performs regular audits of outsourced business operations and internal controls, as well as their business continuity plans.

Credit valuation adjustment risk (CVA)

Definition

CVA risk is part of the counterparty credit risk, meaning the risk of a counterparty to a transaction defaulting before the final settlement of the transaction. Specifically, CVA means that an adjustment is made to the mid-market valuation of a portfolio of transactions with counterparties to reflect the current market value of the credit risk of the counterparty, but excludes the current market value of the credit risk of the institution to the counterparty.

As the Bank uses OTC derivatives for its hedging strategies, the CVA risk is very sensitive to mark-to-market valuations and the terms of the transaction. The Bank frequently assesses and reports CVA exposures. As CVA is a consequence of the hedging activities, and the average term of these activities is below three years, no risk mitigating actions are required.

Market risk

Definition

Market risk is the risk that changes in market prices (including foreign exchange rates and interest rates), will affect the Bank's income and/or the value of the financial instruments it holds.

Mitigation

Given its operations in Norway and some funding in EUR, the Bank is exposed to market risk related to changes in foreign exchange rates. The Bank's Treasury function hedges this with derivatives and through matching of the currency denomination of liabilities and assets. The Bank has a documented process for managing its market risk exposures in its established policies.

	Consolidated situation				Parent			
	Sweden		Norway		Sweden		Norway	
Maximum Credit Risk Exposure	2017-12-31	2016-12-31	2017-12-31	2016-12-31	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Governments or central banks								
- Credit Quality Step 1	171.4	160.1	50.3	42.9	168.8	159.1	50.3	42.9
Total Governments or central banks	**171.4**	**160.1**	**50.3**	**42.9**	**168.8**	**159.1**	**50.3**	**42.9**
Lending to credit institutions								
- Credit Quality Step 1	1,268.8	663.6	631.5	201.6	709.1	245.7	631.5	201.6
- Credit Quality Step 2	-	-	-	-	-	-	-	-
- No rating	-	0.0	3.6	-	-	-	3.6	-
Total lending to credit institutions	**1,268.8**	**663.6**	**635.1**	**201.6**	**709.1**	**245.7**	**635.1**	**201.6**
Corporates								
- No rating	-	0.0	-	-	612.5	1,368.5	-	-
Total corporates	**-**	**0.0**	**-**	**-**	**612.5**	**1,368.5**	**-**	**-**
Lending to the general public								
- Unsecured loans	1,061.9	940.6	-	-	1,061.9	940.6	-	-
- Loans secured by residential property	8,179.7	7,777.2	4,383.5	3,358.5	7,072.3	5,862.6	4,383.5	3,358.5
Total lending to the general public	**9,241.6**	**8,717.8**	**4,383.5**	**3,358.5**	**8,134.2**	**6,803.2**	**4,383.5**	**3,358.5**
Bonds and other interest-bearing securities								
- Credit Quality Step 1	226.5	509.3	268.0	201.4	226.5	509.3	268.0	201.4
- Credit Quality Step 2	-	-	-	-	-	-	-	-
Total bonds and other interest-bearing securities	**226.5**	**509.3**	**268.0**	**201.4**	**226.5**	**509.3**	**268.0**	**201.4**
Derivatives								
- Credit Quality Step 2	258.2	199.5	2.1	8.4	124.1	130.5	2.1	8.4
- Credit Quality Step 2	-	-	-	-	-	-	-	-
- No rating	-	0.0	-	0.0	-	0.0	-	0.0
Total derivatives	**258.2**	**199.5**	**2.1**	**8.5**	**124.1**	**130.5**	**2.1**	**8.4**
Other assets								
- No rating	31.9	45.7	7.0	5.7	29.0	48.5	7.0	5.7
Total other assets	**31.9**	**45.7**	**7.0**	**5.7**	**29.0**	**48.5**	**7.0**	**5.7**
Total	**11,198.4**	**10,296.0**	**5,346.0**	**3,818.5**	**10,004.2**	**9,264.8**	**5,346.0**	**3,818.5**

Credit risk	Consolidated situation				Parent			
	Sweden		Norway		Sweden		Norway	
Receivables from private individuals	**2017-12-31**	**2016-12-31**	**2017-12-31**	**2016-12-31**	**2017-12-31**	**2016-12-31**	**2017-12-31**	**2016-12-31**
Performing	8,955.5	8,475.1	4,145.7	3,192.8	7,890.7	6,625.3	4,145.7	3,192.8
Due 30-60 days	146.5	140.3	93.6	58.3	127.0	108.8	93.6	58.3
Due 60-90 days	44.5	24.1	36.7	27.7	37.9	15.8	36.7	27.7
Due over 90 days	95.1	78.3	107.5	79.6	78.6	53.3	107.5	79.6
Total	**9,241.6**	**8,717.8**	**4,383.5**	**3,358.5**	**8,134.2**	**6,803.2**	**4,383.5**	**3,358.5**
Provisions	**24.5**	**20.9**	**4.1**	**2.7**	**23.9**	**20.9**	**4.1**	**2.7**

	Consolidated situation				Parent			
	Sweden		Norway		Sweden		Norway	
Other financial assets	**2017-12-31**	**2016-12-31**	**2017-12-31**	**2016-12-31**	**2017-12-31**	**2016-12-31**	**2017-12-31**	**2016-12-31**
Performing	**1,956.8**	**1,578.2**	**962.5**	**460.0**	**1,870.0**	**2,461.6**	**962.5**	**460.0**
- Credit Quality Step 1	1,924.9	1,532.5	951.9	454.3	1,228.5	1,044.6	951.9	454.3
- Credit Quality Step 2	-	-	-	-	-	-	-	-
- No rating	31.9	45.7	10.6	5.7	641.5	1,417.0	10.6	5.7
Non performing	-	-	-	-	-	-	-	-
Total	**1,956.8**	**1,578.2**	**962.5**	**460.0**	**1,870.0**	**2,461.6**	**962.5**	**460.0**
Provisions	-	-	-	-	-	-	-	-

Sensitivity analysis with an instantaneous change in currency of 10%
The table below shows the Bank's net position in foreign currencies as of the balance sheet date.

SEK Thousands	Total position 2017-12-31	Value change -100 bps	Value change +100 bps
EUR position	1,145	-114	114
GBP position	184	-18	18
NOK position	102,999	-10,300	10,300
Impact on earnings	**104,328**	**-10,432**	**10,432**

A change in relevant exchange rates in relation to the Swedish krona of -10% would at the balance sheet date result in an instantaneous net negative impact on earnings amounting to SEK 10.4m (SEK 3.5m). A change in relevant exchange rates in relation to the Swedish krona of +10% would at the balance sheet date result in an instantaneous net positive impact on earnings of SEK 10.4m (SEK 3.5m).

Financial instruments that have been offset in the balance sheet or are subject to netting agreement

The Bank enters into derivative contracts, all under the International Swaps and Derivatives Association's (ISDA) master netting agreement, which means that when a counterparty cannot settle their obligations, the agreement is cancelled and all outstanding commitments between the parties shall be settled by a net amount. ISDA agreements do not meet the criteria for offsetting in the balance sheet since offsetting is only permitted due to a party's inability to settle, and also that no intention to reach a net settlement exists.

Interest rate risk from the banking book

Definition
Interest rate risk is the risk to earnings or market values of a loan portfolio due to uncertain future interest rates. In particular, the Bank may suffer losses or reduced profits as interest rates fluctuate over time and as both its asset and liability base comprise a mixture of fixed and floating interest rate items of various maturities and

	Consolidated situation 2017-12-31			
Amounts that have not been offset in the balance sheet	**Gross value**	**Netting in the Balance sheet**	**ISDA Agreement**	**Net amount Balance sheet**
Derivative	169.1	-	-	169.1
Sum financial assets	**169.1**	**-**	**-**	**169.1**
Derivative	56.0	-	-	56.0
Sum financial liabilities	**56.0**	**-**	**-**	**56.0**

resetting periods. The Bank is therefore exposed to the risk of losses arising from adverse movements in market interest rates and its lending and deposits offered.

Mitigation
Following the SFSA's methodology for assessing individual types of risks, exposures to interest rate risk arising as a consequence of interest rate fluctuations are part of the Pillar II capital requirements and the Bank actively manages the risk by matching fixed and floating interest rates and durations of assets and liabilities or, when not possible, by mitigating the risk with hedging instruments. The Bank runs numerous stress scenarios and calculates the interest rate risk exposure under these scenarios. If the exposures breach the limits imposed in the established policy or are close to doing so, the Bank enters into new hedging instruments to reduce the interest rate exposure to within the limits.

The Bank's Finance and Treasury functions are responsible for monitoring and reporting all aspects of interest rate risk within the Bank, and reports to the Board monthly.

Hedging strategy for interest rate risks

The Bank uses derivative instruments to achieve desired reduction of interest rate risks. Interest rate risks are primarily attributable to fixed rates to a larger extent being applied to lending, whereas financing is to a larger extent conducted at variable rates. The Bank began to apply hedge accounting during 2016 for new derivative transactions.

The change in value of hedged items amounted to SEK 10.8m (-11.0m) as per 31 December, and the corresponding change in value of hedge instruments was SEK -11.3m (10.4m). The unrealised market valuation of hedge accounting is reported under "Net result of financial transactions" and amounted to SEK -0.6m (-0.1m). The hedge accounting is effective and thereby meets the conditions for when hedge accounting may be applied.

Sensitivity analysis in case of market rate change with 200 basis points (bps)
The Bank calculates interest risk exposures based on the Swedish FSA's guidance on methods to assess individual risk types under Pillar II. The tables below shows the exposure at a positive/negative change in market rates of 200 bps.

	Change	Absolute risk	Risk, % of capital base
Increased interest rates	+200bp	-7.7	-0.72%
Decreased interest rates	-200bp	4.9	0.46%

The calculation assumes that market rates increase/decrease by 200 bps and states the instantaneous change in the economic value for the Bank.

	Change	Absolute risk	Risk, % of net interest income
Increased interest rates	+200bp	-15.1	-3.40%
Decreased interest rates	-200bp	5.1	1.16%

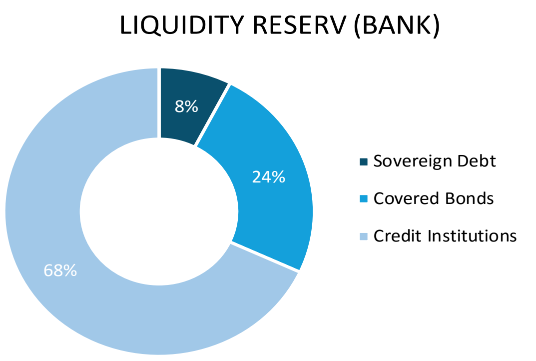
The calculation assumes that market rates increase/decrease by 200 bps and states the change in the net interest income for the Bank over the next 12 months.

Concentration risk

Definition
Concentration risk is defined as the risk of suffering losses from a lack of diversification and lending too heavily in one industry, market, geographic area or purchasing only one type of financial instrument. Concentration risk can also arise from concentration in funding and liquidity mix.

Mitigation
Since the Bank operates only in Sweden and Norway, and the outstanding loan portfolio mainly consists of secured loans, a certain level of exposure to concentration risk is inherent on the Bank's business model. Concentration risk is one of the core focus areas in customer credit assessment, and the Bank's Risk Manager continuously monitors and assesses the risk to ensure that the risk profile is in line with expectations and managed appropriately. The Risk Manager reports to the Bank's Board monthly and the Board sets the concentration risk limits through the credit risk strategy.

The concentration risk and associated capital requirements have been assessed under three different categories within the capital requirements for Pillar II: individual concentration, industry concentration and geographical concentration. The total capital requirement for the concentration risk is equal to the sum of the three different categories of concentration risk. Based on this, the Bank maintains sufficient capital for the assessed concentration risk.



Liquidity risk

Definition

Liquidity risk is the risk of not being able to meet payment obligations on their due dates without the cost of obtaining the funds increasing considerably.

Mitigation

The Bank has a low liquidity risk appetite and its policy for managing liquidity risk states that the Bank shall retain enough excess liquidity in a liquidity reserve to meet unforeseen cash outflows. The Bank's liquidity reserve is only composed of highly rated liquid securities (sovereign debt and covered bonds) and bank account balances according to the Bank's liquidity policy. The Board sets the limit for the minimum liquidity reserve and liquidity buffer that the Bank shall maintain at any time.

The Bank is mainly exposed to liquidity risk related to retail deposits and refinancing of issued securities (Residential Mortgage Backed Securities, RMBS). As the Bank diversifies its funding sources, deposit product features and pricing are designed to maximise their cost/risk efficiency. All Swedish and Norwegian deposit products are covered by the government deposit guarantee scheme , which also reduces liquidity risk. The Bank offers different deposit products depending on the needs of the Bank and market prices, incorporating this risk into its decision making.

	Consolidated situation		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Liquidity Reserve				
Cash and balances with central banks	42.2	32.0	42.2	32.0
Deposits in other banks	1,903.9	865.2	1,344.2	447.3
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	154.3	140.3	154.3	140.3
Covered bonds issued by other institutions	494.5	710.7	494.5	710.7
Total	**2,594.9**	**1,748.2**	**2,035.2**	**1,330.3**

The Bank's Treasury function manages the operational handling of liquidity risks and measures and reports to senior management daily. Liquidity risk is also reported monthly to the Board.

The numbers in the table above include accrued interest. The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are calculated and monitored every month. The purpose of the LCR is to ensure that the Bank has enough high-quality liquid assets to meet its liquidity needs in stressed situations over the coming 30 days. The NSFR ensures that an institution's long-term assets are funded with a minimum level of stable long-term funding.

Below numbers show the LCR and the NSFR for the Consolidated situation.

Other risks

As part of the ICLAAP, the Bank carries out a thorough assessment of other risks facing the Bank, such as business risk, strategic risk and reputational risk among others. As part of these assessments, the Bank identifies and analyses the main drivers of these risks in order to allocate capital based on the potential profitability impact of the risks.

	Consolidated situation	
	2017-12-31	2016-12-31
Liquidity Coverage Ratio (LCR) %	**268**	**263**
Liquid Assets Level 1	470.7	569.0
Liquid Assets Level 2	107.8	-
High-Quality Liquid Assets	**578.5**	**569.0**
Customer deposits	762.1	647.1
Other outflows	101.9	217.6
Cash Outflows	**864.0**	**864.7**
Inflows from retail customers, lending activities	189.4	168.1
Other inflows	1,773.8	919.9
Cash Inflows (max. 75% of Cash Outflows)	**648.0**	**648.6**
Net Stable Funding Ratio (NSFR) %	**174**	**143**
Available Stable Funding	17.4	12.4
Required Stable Funding	10.0	8.7

Note 3 | Operating segments

Income statement 2017	Group Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, reclassifications	Totalt
Interest income	581.3	324.9	115.5	-64.3	957.4
Interest expense	-233.8	-118.1	-12.7	40.8	-323.8
Net interest income	**347.5**	**206.9**	**102.8**	**-23.5**	**633.7**
Total operating income	**380.7**	**216.6**	**102.8**	**-24.8**	**675.3**
Total expenses	**-232.3**	**-129.7**	**-53.8**	**24.8**	**-391.0**
Result pre credit losses	**148.4**	**87.0**	**49.0**	**0**	**284.4**
Credit losses, net	-2.8	-3.8	-26.9	-	-33.5
Operating profit/loss	**145.6**	**83.2**	**22.1**	**0**	**250.9**
Allocated tax*	-31.1	-22.8	-5.0	-	-58.9
NET PROFIT/LOSS FOR THE YEAR	**114.4**	**60.4**	**17.1**	**0**	**191.9**

Balance sheet 2017-12-31	Group Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, reclassifications	Totalt
Lending to credit institutions	1,300.4	635.1	-	-	1,935.5
Lending to the public	8,187.6	4,367.8	1,054.3	-	13,609.7
Deposits from the public	4,820.0	5,598.6	-	-	10,418.6

Income statement 2016	Group Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, reclassifications	Totalt
Interest income	518.7	246.3	98.1	-43.8	819.3
Interest expense	-203.8	-87.7	-8.9	28.9	-271.5
Net interest income	314.9	158.6	89.2	-14.9	547.8
Total operating income	**344.4**	**166.3**	**89.2**	**-16.6**	**583.3**
Total expenses	**-218.2**	**-99.2**	**-46.3**	**16.6**	**-347.1**
Result pre credit losses	**126.2**	**67.1**	**42.9**	**0**	**236.2**
Credit losses, net	-2.6	-3.1	-18.3	-	-24.0
Operating profit/loss	**123.6**	**64.0**	**24.6**	**0**	**212.2**
Allocated tax*	-30.0	-16.2	-2.8	-	-49.0
NET PROFIT/LOSS FOR THE YEAR	**93.6**	**47.8**	**21.8**	**0**	**163.2**

Balansräkningen 2016-12-31	Group Mortgages Sweden	Mortgages Norway	Other operations	Eliminations, reclassifications	Totalt
Utlåning till kreditinstitut	633.8	201.6	-	-	835.4
Utlåning till allmänheten	7,787.9	3,346.9	933.8	-	12,068.6
In- och upplåning från allmänheten	5,079.1	4,425.3	-	-	9,504.4

**Allocated tax is used to allocate taxes to the different segments and is not a measure required by IFRS.*

The operating segment report is based on the Group's accounting policies, organisation and management accounts. Market–based transfer prices are applied between operating segments, while all expenses for IT, other Group functions and Group staffs are transfer priced at cost to the operating segments. Executive management expenses are not distributed. Cross–border transfer pricing is applied according to OECD transfer pricing guidelines.

Mortgages is the dominant operating segment, which is split into Mortgages Sweden and Mortgages Norway. All mortgage companies (the Bank, Step 2, Step 3, and BFF1) and companies performing support functions (BSAB) within the group is included in Mortgages Sweden. Mortgages Norway consists of the Branch. Other operations contain private loans operating from the Bank.

There are 169 (134) full-time employees in Mortgages Sweden, 49 (39) in Mortgages Norway, and 9 (14) in Other operations.

Note 4 | Net interest income

	Group		Parent	
	2017	2016	2017	2016
Interest income				
Lending to credit institutions	0.2	5.2	3.4	5.3
Lending to the public	947.9	800.6	899.3	784.0
Derivates	-	-	-	34.5
Covered bonds	9.4	13.4	50.2	42.3
Intercompany loans	-	-	11.8	7.7
Other	-0.1	0.1	-0.0	0.0
Total interest income	**957.4**	**819.3**	**964.7**	**873.8**
Of which:				
Interest income from financial items not measured at fair value through profit or loss	948.0	805.9	902.7	789.3
Interest expense				
Liabilities to credit institutions	-1.4	-0.7	-	-
Deposits from the public	-156.2	-142.3	-465.3	-373.5
Derivates	-89.5	-62.4	-34.1	-53.1
Bonds	-48.4	-40.5	-	-
Other	-28.3	-25.6	-16.2	-15.7
Total interest expense	**-323.8**	**-271.5**	**-515.6**	**-442.3**
Of which:				
Interest expense from financial items not measured at fair value through profit or loss	-185.9	-168.6	-481.5	-389.2
Total net interest income	**633.6**	**547.8**	**449.1**	**431.5**

Note 5 | Commission income

	Group		Parent	
	2017	2016	2017	2016
Other commission income	0.2	0.3	0.2	0.3
Total	**0.2**	**0.3**	**0.2**	**0.3**
Of which:				
Interest income from financial items not measured at fair value through profit or loss	0.2	0.3	0.2	0.3

Commission income refers to income from the former Group company BlueStep Capital Holdings Limited.

Note 6 | Net result of financial transactions

	Group		Parent	
	2017	2016	2017	2016
Covered bonds - unrealised changes	-4.9	-3.7	-4.9	-3.7
Mortgage book derivates - unrealised changes	50.4	-11.9	50.6	-9.6
-realised change i value	-26.8	26.9	-26.8	26.9
Exchange rate changes: loans and receivables and other debts and related derivatives - unrealised changes	9.2	10.4	-0.1	1.3
Exchange rate changes other receivables and liabilities - unrealised changes	-0.3	-0.0	-0.3	-0.0
Hedge accounting - fair value hedged item*	10.8	-11.0	10.8	-11.0
Hedge accounting - fair value hedge instrument*	-11.4	10.9	-11.4	10.9
Total	**27.0**	**21.6**	**17.9**	**14.8**

**Hedging portfolio in regards to interest rate risk*

All derivative contracts in the Group are entered into for the purpose to hedge interest rate- and currency risks in the Group's business and all interest-bearing securities are included in the Group's liquidity portfolio.

Note 7 | Other operating income

	Group		Parent	
	2017	2016	2017	2016
Billing fees	9.0	8.6	8.8	8.6
Valuation fees	1.7	1.7	1.7	1.7
Other operating income	3.8	3.3	0.0	-0.0
Total	**14.5**	**13.6**	**10.5**	**10.3**

Note 8 | General administration expenses

	Group		Parent	
	2017	2016	2017	2016
Personnel costs				
Salaries and emoluments	-123.4	-111.9	-114.8	-104.3
Variable performance benefit	-13.8	-14.5	-13.2	-14.1
Social security charges	-39.1	-32.8	-35.8	-30.2
Pension expenses	-6.7	-7.2	-6.0	-6.0
Other personnel costs	-14.0	-13.8	-12.9	-13.1
Total	**-197.0**	**-180.2**	**-182.7**	**-167.7**
Other administration expenses				
Administration expenses deposits from the public	-1.0	-2.1	-10.1	-11.2
Administration expenses lending to the public	-16.6	-11.5	-26.2	-28.1
Professional fees	-13.9	-16.3	-11.1	-10.3
Other administration expenses	-139.7	-116.7	32.1	2.2
Total	**-171.2**	**-146.6**	**-15.3**	**-47.4**
Total General administration expenses	**-368.2**	**-326.8**	**-198.0**	**-215.1**

Note 9 | Auditors remuneration and expenses

	Group		Parent	
SEK Thousands	**2017**	**2016**	**2017**	**2016**
Deloitte AB				
Audit assignment	2,406	2,042	1,316	1,269
Audit activities in addition to audit assignment	1,142	919	989	906
Total	**3,548**	**2,961**	**2,305**	**2,175**

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

Note 10 | Salaries and remuneration

The Board

The Board's fees are determined by the Bank's annual general meeting. At the end of the year the Board consisted of five members and one board alternate.

The Board has compensated six of the members for their Board work between the Annual General Meeting on April 20, 2017 up until the Annual General Meeting on April 27, 2018 with a total of SEK 6,976 thousands. One board alternate is employed by the Bank and have received salary during the year. No other compensation has been made for the remaining Board members.

Senior officials

Compensation to the CEO and other individuals identified as Remuneration Code Staff is proposed by the Bank's Remuneration committee and determined by the Board. Compensation to other senior officials is determined by the CEO, and in some cases in consultation with members of the Board. Compensation to the CEO and senior officials consists of a basic salary, variable pay in the form of bonus and pension contributions. The CEO had no bonus in 2017. The period of notice for the CEO is twelve months. Agreements on severance pay with the CEO or any other Senior Executives are determined by individual contracts. Information on compensation according to the Financial Supervisory Authority's regulations and general guidelines on compensation policies (FFFS 2011:1) is published on the Bank's website.

Pension commitments

In Sweden, the Bank has a pension plan implemented for all employees whereby 4.5 % of the employee's gross monthly wage is invested in to an eligible plan. In Bluestep Servicing AB there is an additional 30% on income above 7.5 income base amounts (in accordance to the BTB-plan). In the Branch, 3.5 % of the employee's gross monthly wage is invested in to an eligible plan unconditionally.

Salaries and remuneration - Members of the Board and CEO SEK Thousands 2017	Salary	Bonus*	Pension	Total
CEO and Board alternate - Öyvind Thomassen	4,264	-	1,055	5,319
Chariman of the Board - John Neil Maltby (resigned November 2017)	910	-	-	910
Board member - Carl Sundvik (relates to 2016 & 2017)	838	-	-	838
Board member - Tina Steinsvik Sund (between May and November 2017)	450	-	-	450
Board member - Viveka Ekberg (between May and November 2017)	488	-	-	488
Board member - David Torpey (resigned November 2017)	3,941	-	100	4,041
Board member - Rolf Stub (resigned May 2017)	5,248	1,470	157	6,875
Board member - Peter Gertman (resigned May 2017)	2,173	628	88	2,889
Board member - Toby Franklin	350	-	-	350
Board member - Adam Frahm (resigned November 2017)	-	-	-	-
Board member - Patrik Johnson (resigned November 2017)	-	-	-	-
Chariman of the Board - Harry Klagsbrun**	-	-	-	-
Board member - Göran Bronner**	-	-	-	-
Board member - Andreas Pettersson Rohman**	-	-	-	-
Board member - Albert Gustafsson**	-	-	-	-
Total costs related to pensions 2017	**18,662**	**2,098**	**1,400**	**22,160**

** 60% of that amount is deferred and payable in equal amount over five years under the Company's remuneration policy*

*** Assigned November 2017, no remuneration 2017*

SEK Thousands 2016	Salary	Bonus*	Pension	Total
CEO/Board member - Öyvind Thomassen (appointed June 2016)	2,333	-	646	2,979
Board member - David Torpey (resigned as CEO June 2016)	5,100	1,275	200	6,575
Chariman of the Board - John Neil Maltby (appointed May 2016)	682	-	-	682
Board member - Carl Sundvik (resigned as Chairman May 2016)	340	-	-	340
Board member - Rolf Stub	4,134	1,749	73	5,956
Board member - Peter Gertman	1,906	645	68	2,619
Board member - Toby Franklin	340	-	-	340
Board member - Adam Frahm	-	-	-	-
Board member - Patrik Johnson	-	-	-	-
Total costs related to pensions 2016	**14,835**	**3,669**	**987**	**19,491**

** 60% of that amount is deferred and payable in equal amount over five years under the Company's remuneration policy*

Salaries and remuneration - Other employees	Group		Parent	
SEK Thousands	**2017**	**2016**	**2017**	**2016**
Salaries and remuneration	116,387	107,926	107,227	99,895
Pension costs	5,353	6,183	4,613	5,014
Total salaries, remuneration, social security contributions, and pensions	**121,740**	**114,109**	**111,840**	**104,909**

	Parent	
Distribution by gender in board and management	**2017**	**2016**
The Board		
Women	-	-
Men	6	9
Management team including CEO		
Women	2	2
Men	7	9

Average number of employees	Group 2017	Group 2016	Parent 2017	Parent 2016
Sweden				
Women	89	75	82	65
Men	89	73	75	64
Norway				
Women	22	17	22	17
Men	27	22	27	22
Total	**227**	**187**	**206**	**168**

Note 11 | Intangible assets

	Group 2017-12-31	Group 2016-12-31	Parent 2017-12-31	Parent 2016-12-31
Acquisition value brought forward	**114.6**	**83.6**	**103.2**	**80.7**
Investments for the year	25.8	31.0	16.6	22.5
Reclassification	0.5	-	0.5	-
Acquisition value carried forward	**140.9**	**114.6**	**120.2**	**103.2**
Depreciation brought forward	**-60.7**	**-41.9**	**-59.2**	**-41.5**
Reclassification	-0.1	-	-0.1	-
Depreciation for the year	-18.8	-15.9	-15.3	-14.8
Impairments	-	-2.9	-	-2.9
Depreciation carried forward	**-79.6**	**-60.7**	**-74.6**	**-59.2**
Residual value at the end of the accounting period	**61.3**	**53.9**	**45.6**	**43.9**

FX revaluation of foreign operations result in an exchange difference amounting to SEK 1.4m as at balance sheet date. Exchange difference is the difference between the year's depreciation on the balance sheet and depreciation in the income statement.

Note 12 | Tangible assets

	Group 2017-12-31	Group 2016-12-31	Parent 2017-12-31	Parent 2016-12-31
Acquisition value brought forward	**20.3**	**11.1**	**18.6**	**11.0**
Investments for the year	1.5	9.2	0.8	7.6
Reclassification	-0.5	-	-0.5	-
Acquisition value carried forward	**21.3**	**20.3**	**18.9**	**18.6**
Depreciation brought forward	**-8.7**	**-6.2**	**-8.5**	**-6.2**
Reclassification	0.1	-	0.1	-
Depreciation for the year	-3.4	-2.5	-2.7	-2.3
Depreciation carried forward	**-12.0**	**-8.7**	**-11.1**	**-8.5**
Residual value at the end of the accounting period	**9.3**	**11.6**	**7.8**	**10.1**

FX revaluation of foreign operations result in an exchange difference amounting to SEK 1.1m as at balance sheet date. Exchange difference is the difference between the year's depreciation on the balance sheet and depreciation in the income statement.

Note 13 | Credit losses

	Group		Parent	
	2017	2016	2017	2016
Actual losses	-65.1	-60.5	-65.1	-60.5
Recoveries previous losses	36.8	33.0	36.8	33.0
Net change in provisions	-5.2	3.5	-3.6	3.1
Total	**-33.5**	**-24.0**	**-31.9**	**-24.4**

Group level net losses during the year amounted to SEK -33.5m (SEK -24.0m) of which actual losses amounted to SEK -65.1m (SEK -60.5m). Recoveries related to previous losses as well as sale of loans to third parties amounted to SEK 36.8m (SEK 33.0m). The net change in provisions amounted to SEK -5.2m (SEK 3.5m) due to impaired performance of the loan book.

Note 14 | Tax on net result

The current tax rate is the tax rate for income tax of the Bank. The tax rate for 2017 in Sweden is 22% (22%). The tax rate for 2017 in Norway is 25% (25%).

	Group		Parent	
	2017	2016	2017	2016
Current tax	-59.0	-49.0	-57.7	-47.6
Total tax cost	**-59.0**	**-49.0**	**-57.7**	**-47.6**

	Group		Parent	
	2017	2016	2017	2016
Net profit before tax	250.8	212.2	241.6	206.3
Tax based on current tax rate	-58.7	-48.8	-57.4	-47.4
Tax effect of:				
Non taxable income	0.0	0.0	0.0	0.0
Non deductible items	-0.3	-0.2	-0.3	-0.2
Total tax cost	**-59.0**	**-49.0**	**-57.7**	**-47.6**

Note 15 | Lending to credit institutions

	Group		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Swedish banks	1,935.4	835.3	1,386.3	479.2
Foreign banks	0.1	0.1	0.1	0.1
Total	**1,935.5**	**835.4**	**1,386.4**	**479.3**

Note 16 | Lending to the public

	Group		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Loan assets	13,638.3	12,092.2	12,523.9	10,169.1
Provisions for losses	-28.6	-23.6	-28.0	-23.6
Total	**13,609.7**	**12,068.6**	**12,495.9**	**10,145.5**

	Group		Parent	
Specification provision for losses	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Provisions for losses at beginning of year	-23.6	-26.9	-23.6	-26.9
Net movement during the year	-5.0	3.3	-4.4	3.3
Provisions for losses at end of year	**-28.6**	**-23.6**	**-28.0**	**-23.6**

Note 17 | Derivatives

The derivative instruments consist of hedging instruments covering lending to the public, bonds and other interest-bearing securities. A breakdown of the instruments is specified below:

	Group					
	2017-12-31			2016-12-31		
Assets	Notional amount	Purchase value	Recoqnised value	Notional amount	Purchase value	Recoqnised value
Swedish financial institutes	3,475.0	-	5.8	2,385.0	-	11.9
Foreign financial institutes	7,072.6	-	163.3	5,284.0	-	95.9
Total	**10,547.6**	**-**	**169.1**	**7,669.0**	**-**	**107.8**

	Parent					
	2017-12-31			2016-12-31		
Assets	Notional amount	Purchase value	Recoqnised value	Notional amount	Purchase value	Recoqnised value
Swedish financial institutes	3,475.0	-	5.8	2,385.0	-	11.9
Foreign financial institutes	3,153.8	-	29.1	3,533.5	-	26.9
Total	**6,628.8**	**-**	**34.9**	**5,918.5**	**-**	**38.8**

	Group					
	2017-12-31			2016-12-31		
Liabilities	Notional amount	Purchase value	Recoqnised value	Notional amount	Purchase value	Recoqnised value
Swedish financial institutes	6,134.0	-	25.9	6,102.0	-	49.3
Foreign financial institutes	8,449.5	-	30.1	4,855.9	-	29.6
Total	**14,583.5**	**-**	**56.0**	**10,957.9**	**-**	**78.9**

	Parent					
	2017-12-31			2016-12-31		
Liabilities	Notional amount	Purchase value	Recoqnised value	Notional amount	Purchase value	Recoqnised value
Swedish financial institutes	6,134.0	-	25.8	6,102.0	-	49.2
Foreign financial institutes	3,202.0	-	9.6	1,322.4	-	9.3
Total	**9,336.0**	**-**	**35.4**	**7,424.4**	**-**	**58.5**

Note 18 | Bonds and other interest-bearing securities

	Group and Parent			
	2017-12-31		2016-12-31	
	Purchase value	Recoqnised value	Purchase value	Recoqnised value
Swedish issuers				
Bonds issued by the Swedish government	111.9	104.3	111.9	108.7
Covered bonds (listed) issued by Swedish credit institutions	223.7	225.5	514.2	502.6
Foreign issuers				
Bonds issued by the German government	1.0	1.1	1.0	1.1
Bonds issued by the Norwegian government	50.2	46.9	29.3	29.0
Covered bonds (listed) issued by Norwegian credit institutions	272.5	266.4	193.9	199.9
Total	**659.3**	**644.2**	**850.3**	**841.3**

Note 19 | Shares in associated companies

Company name	Number of shares	Share %	Recognised value
Bluestep Finans Funding No 1 AB	100,000	100%	4.5
Bluestep Mortgage Securities No 2 Designated Activity Company	1	100%	0.0
Bluestep Mortgage Securities No 3 Designated Activity Company	1	100%	0.0
Bluestep Mortgage Securities No 4 Designated Activity Company	1	100%	0.0
Bluestep Servicing AB	50,000	100%	0.1
Total			**4.6**

Company name	Org. No.	Domicile	Equity	Net profit
Bluestep Finans Funding No 1 AB	556791-6928	Stockholm	3.2	-0.8
Bluestep Mortgage Securities No 2 Designated Activity Company	522186	Dublin	-	2.0
Bluestep Mortgage Securities No 3 Designated Activity Company	550839	Dublin	-	8.7
Bluestep Mortgage Securities No 4 Designated Activity Company	596111	Dublin	-	-5.8
Bluestep Servicing AB	556955-3927	Stockholm	12.4	4.0

Note 20 | Other assets

	Group		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Accounts receivable	37.6	42.7	32.0	38.2
Intercompany receivables	0.0	0.5	612.5	1,368.5
Securities financial instruments	82.5	93.5	82.5	93.5
Tax receivables	23.1	30.7	22.7	29.8
Long term deposits	1.0	2.5	1.0	2.5
Other assets	2.6	0.1	2.8	0.2
Total	**146.8**	**170.0**	**753.5**	**1,532.7**

The change in intercompany receivables in the Parent is due to an internal loan between the Parent and BFF1.

Note 21 | Prepaid expenses and accrued income

	Group		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Prepaid expenses	2.5	2.5	2.2	2.2
Accrued interest	13.3	16.4	13.3	16.4
Other prepaid expenses and accrued income	8.4	9.5	7.2	8.6
Total	**24.2**	**28.4**	**22.7**	**27.2**

Note 22 | Liabilities to credit institutions

	Group		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Foreign banks*	547.8	600.0	-	-
Bluestep Mortgage Securities No 2, No 3, and No 4	-	-	3,673.2	2,440.2
Total	**547.8**	**600.0**	**3,673.2**	**2,440.2**

**Consists of a committed credit line in BFF1.*

Note 23 | Issued bonds

	Group		Parent	
Bonds	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Carrying balance	2,804.0	3,675.6	-	-
Issued bonds during year	2,549.9	-	-	-
Repayments on bonds	-1,138.2	-922.8	-	-
Change due to currency fluctiation	67.7	51.2	-	-
Total	**4,283.4**	**2,804.0**	**-**	**-**

The Group has issued securities with collateral in Swedish mortgage loans (so-called securitization) on several occasions in recent years. The most recent securitization transaction was conducted in 2017. For more information, see section "Important events during the year".

Note 24 | Deposits from the public

	Group		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Deposits from the public	10,418.6	9,504.4	10,418.6	9,504.4
Total	**10,418.6**	**9,504.4**	**10,418.6**	**9,504.4**

Note 25 | Accrued expenses and prepaid income

	Group		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Accrued salaries and remunerations	33.9	35.2	32.4	34.2
Accrued social costs	7.2	7.6	6.8	7.3
Accrued interest	45.6	36.9	19.5	24.1
Other accrued expenses and prepaid income	13.7	9.9	11.8	8.9
Total	**100.4**	**89.6**	**70.5**	**74.5**

Note 26 | Other liabilities

	Group		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Trade creditors	15.7	9.6	13.9	7.3
Intercompany liabilities	-	0.1	5.4	5.8
Social costs	12.0	22.2	11.4	21.8
Other liabilities	16.4	21.6	15.9	21.6
Advance payment from customers	11.3	32.9	11.3	32.9
Total	**55.4**	**86.4**	**57.9**	**89.4**

Other liabilities include group contribution from Bluestep Bank AB to Bluestep Holding AB.

Note 27 | Assets and liabilities duration information

	Group					
	Non discounted contractual cash flows					
Remaining duration 2017-12-31	Payable on demand	< 3 mth	3 mth - 1 yr	1 - 5 yr	>5 yr	Total
Assets						
Lending to credit institutions	1,954.2	-	-	-	-	1,954.2
Lending to the public	0.0	197.2	402.4	676.6	13,792.9	15,069.1
Derivatives	0.1	54.3	564.5	12.5	-	631.4
Interest bearing securities	-	3.3	92.7	1,868.3	-	1,964.3
Total	**1,954.3**	**254.8**	**1,059.6**	**2,557.4**	**13,792.9**	**19,619.0**
Liabilities						
Liabilities to credit institutions	-	0.9	6.4	550.0	-	557.3
Issued bonds	-	21.4	214.4	6,586.7	-	6,822.5
Deposits from the public	7,224.5	1,073.5	1,407.7	642.9	38.8	10,387.4
Derivatives	0.0	43.5	500.7	14.1	0.1	558.4
Total	**7,224.5**	**1,139.3**	**2,129.2**	**7,793.7**	**38.9**	**18,325.6**

	Group					
	Non discounted contractual cash flows					
Remaining duration 2017-12-31	**Payable on demand**	**< 3 mth**	**3 mth - 1 yr**	**1 - 5 yr**	**>5 yr**	**Total**
Assets						
Lending to credit institutions	843.5	-	-	-	-	843.5
Lending to the public	0.0	174.9	356.8	600.0	12,231.0	13,362.7
Derivatives	0.0	34.6	359.8	7.9	-	402.3
Interest bearing securities	-	4.3	121.0	2,439.7	-	2,565.0
Total	**843.5**	**213.8**	**837.6**	**3,047.6**	**12,231.0**	**17,173.5**
Liabilities						
Liabilities to credit institutions	-	1.0	7.0	602.4	-	610.4
Issued bonds	-	14.0	140.3	4,311.8	-	4,466.1
Deposits from the public	6,590.6	979.3	1,284.2	586.5	35.4	9,476.0
Derivatives	0.1	61.2	705.5	19.9	0.2	786.9
Total	**6,590.7**	**1,055.5**	**2,137.0**	**5,520.6**	**35.6**	**15,339.4**

	Parent					
	Non discounted contractual cash flows					
Remaining duration 2017-12-31	**Payable on demand**	**< 3 mth**	**3 mth - 1 yr**	**1 - 5 yr**	**>5 yr**	**Total**
Assets						
Lending to credit institutions	1,471.9	-	-	-	-	1,471.9
Lending to the public	-	187.3	402.3	675.7	12,375.4	13,640.7
Derivatives	0.1	0.6	-	-	-	0.7
Interest bearing securities	-	3.3	92.7	1,868.3	-	1,964.3
Total	**1,472.0**	**191.2**	**495.0**	**2,544.0**	**12,375.4**	**17,077.6**
Liabilities						
Liabilities to credit institutions	-	0.9	6.4	550.0	-	557.3
Deposits from the public	7,224.5	1,073.5	1,407.7	642.9	38.8	10,387.4
Derivatives	0.0	15.3	129.7	14.1	0.1	159.2
Total	**7,224.5**	**1,089.7**	**1,543.8**	**1,207.0**	**38.9**	**11,103.9**

Remaining duration 2016-12-31	Parent Non discounted contractual cash flows Payable on demand	< 3 mth	3 mth - 1 yr	1 - 5 yr	>5 yr	Total
Assets						
Lending to credit institutions	508.8	-	-	-	-	508.8
Lending to the public	-	152.1	326.6	548.6	10,047.6	11,074.9
Derivatives	0.1	0.7	-	-	-	0.8
Interest bearing securities	-	4.3	121.0	2,439.7	-	2,565.0
Total	**508.9**	**157.1**	**447.6**	**2,988.3**	**10,047.6**	**14,149.5**
Liabilities						
Liabilities to credit institutions	-	0.6	4.2	365.4	-	370.2
Deposits from the public	6,590.6	979.3	1,284.2	586.5	35.4	9,476.0
Derivatives	0.1	25.2	214.0	23.3	0.2	262.8
Total	**6,590.7**	**1,005.1**	**1,502.4**	**975.2**	**35.6**	**10,109.0**

Note 28 | Financial assets and liabilities

	Group				
	Financial assets and liabilities	Loans and receivables	Other financial liabilities	Non financial assets and liabilities	Carrying value
2017-12-31	*Fair value*	*Amortised cost*	*Amortised cost*	*Carrying value*	*Carrying value*
Assets					
Lending to credit institutions	-	1,935.5	-	-	1,935.5
Lending to the public	-	13,609.7	-	-	13,609.7
Derivatives	169.1	-	-	-	169.1
Bonds and other interest-bearing securities	644.2	-	-	-	644.2
Intangible assets	-	-	-	61.3	61.3
Tangible assets	-	-	-	9.3	9.3
Other assets	-	37.6	-	109.2	146.8
Prepaid expenses and accrued income	-	13.3	-	10.9	24.2
Total	**813.3**	**15,596.1**	**-**	**190.7**	**16,600.1**
Liabilities					
Liabilities to credit institutions	-	-	547.8	-	547.8
Issued bonds	-	-	4,283.4	-	4,283.4
Deposits from the public	-	-	10,418.6	-	10,418.6
Derivatives	56.0	-	-	-	56.0
Tax liabilities	-	-	-	29.1	29.1
Other liabilities	-	-	43.4	12.0	55.4
Accrued expenses and prepaid income	-	-	100.4	-	100.4
Total	**56.0**	**-**	**15,393.6**	**41.1**	**15,490.7**

	Group				
	Financial assets and liabilities	**Loans and receivables**	**Other financial liabilities**	**Non financial assets and liabilities**	**Carrying value**
2016-12-31	*Fair value*	*Amortised cost*	*Amortised cost*	*Carrying value*	*Carrying value*
Assets					
Lending to credit institutions	-	835.4	-	-	835.4
Lending to the public	-	12,068.6	-	-	12,068.6
Derivatives	107.8	-	-	-	107.8
Bonds and other interest-bearing securities	841.3	-	-	-	841.3
Intangible assets	-	-	-	53.9	53.9
Tangible assets	-	-	-	11.6	11.6
Other assets	-	43.2	-	126.9	170.1
Prepaid expenses and accrued income	-	16.4	-	11.9	28.3
Total	**949.1**	**12,963.6**	**-**	**204.3**	**14,117.0**
Liabilities					
Liabilities to credit institutions	-	-	600.0	-	600.0
Issued bonds	-	-	2,804.0	-	2,804.0
Deposits from the public	-	-	9,504.4	-	9,504.4
Derivatives	78.9	-	-	-	78.9
Tax liabilities	-	-	-	31.4	31.4
Other liabilities	-	-	64.2	22.2	86.4
Accrued expenses and prepaid income	-	-	89.6	-	89.6
Total	**78.9**	**-**	**13,062.2**	**53.6**	**13,194.7**

	Parent				
	Financial assets and liabilities	**Loans and receivables**	**Other financial liabilities**	**Non financial assets and liabilities**	**Carrying value**
2017-12-31	*Fair value*	*Amortised cost*	*Amortised cost*	*Carrying value*	*Carrying value*
Assets					
Lending to credit institutions	-	1,386.4	-	-	1,386.4
Lending to the public	-	12,495.9	-	-	12,495.9
Derivatives	34.9	-	-	-	34.9
Bonds and other interest-bearing securities	644.2	-	-	-	644.2
Shares and participations in associated companies	-	-	-	4.6	4.6
Intangible assets	-	-	-	45.6	45.6
Tangible assets	-	-	-	7.8	7.8
Other assets	-	644.5	-	109.0	753.5
Prepaid expenses and accrued income	-	13.3	-	9.4	22.7
Total	**679.1**	**14,540.1**	**-**	**176.4**	**15,395.6**
Liabilities					
Liabilities to credit institutions	-	-	3,673.2	-	3,673.2
Deposits from the public	-	-	10,418.6	-	10,418.6
Derivatives	35.4	-	-	-	35.4
Tax liabilities	-	-	-	30.0	30.0
Other liabilities	-	-	46.5	11.4	57.9
Accrued expenses and prepaid income	-	-	70.5	-	70.5
Total	**35.4**	**-**	**14,208.8**	**41.4**	**14,285.6**

	Parent				
	Financial assets and liabilities	**Loans and receivables**	**Other financial liabilities**	**Non financial assets and liabilities**	**Carrying value**
2016-12-31	*Fair value*	*Amortised cost*	*Amortised cost*	*Carrying value*	*Carrying value*
Assets					
Lending to credit institutions	-	479.3	-	-	479.3
Lending to the public	-	10,145.5	-	-	10,145.5
Derivatives	38.8	-	-	-	38.8
Bonds and other interest-bearing securities	841.3	-	-	-	841.3
Shares and participations in associated companies	-	-	-	8.6	8.6
Intangible assets	-	-	-	43.9	43.9
Tangible assets	-	-	-	10.1	10.1
Other assets	-	1,406.8	-	126.0	1,532.8
Prepaid expenses and accrued income	-	16.4	-	10.7	27.1
Total	**880.1**	**12,048.0**	**-**	**199.3**	**13,127.4**
Liabilities					
Liabilities to credit institutions	-	-	2,440.2	-	2,440.2
Deposits from the public	-	-	9,504.4	-	9,504.4
Derivatives	58.5	-	-	-	58.5
Tax liabilities	-	-	-	29.5	29.5
Other liabilities	-	-	67.6	21.8	89.4
Accrued expenses and prepaid income	-	-	74.5	-	74.5
Total	**58.5**	**-**	**12,086.7**	**51.3**	**12,196.5**

Financial assets and liabilities are valued at fair value through profit or loss. All derivative contracts in this group are entered into for the purpose to hedge interest rate- and currency risks in the Group's business and all interest-bearing securities are included in the Group's liquidity portfolio.

Regarding lending to credit institutions, the carrying value is considered consistent with the fair value since the post is not subject to significant value changes. Any currency change is recorded in the income statement. There is no material difference in lending to the public if all loans were lent to the interest rates per December 31st compared to the current interest rate of the loans. Method for determining the fair value of derivatives is described in the accounting principles. Bonds and other interest-bearing securities quoted in an active market are valued at fair value.

Deposits from the public have mainly short term maturity profiles why the market value is in accordance with the carrying value. For all other financial assets and liabilities with a short term period the carrying value equals the fair value since the discounted value does not produce a noticeable effect.

Financial assets at fair value

	Group							
	2017-12-31				2016-12-31			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Derivatives	-	169.1	-	169.1	-	107.8	-	107.8
Bonds / other interest-bearing securities	644.2	-	-	644.2	841.3	-	-	841.3
Total	**644.2**	**169.1**	**-**	**813.3**	**841.3**	**107.8**	**-**	**949.1**
Liabilities								
Derivatives	-	56.0	-	56.0	-	78.9	-	78.9
Total	**-**	**56.0**	**-**	**56.0**	**-**	**78.9**	**-**	**78.9**

	Parent							
	2017-12-31				2016-12-31			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Derivatives	-	34.9	-	34.9	-	38.8	-	38.8
Bonds / other interest-bearing securities	644.2	-	-	644.2	841.3	-	-	841.3
Total	**644.2**	**34.9**	**-**	**679.1**	**841.3**	**38.8**	**-**	**880.1**
Liabilities								
Derivatives	-	35.4	-	35.4	-	58.5	-	58.5
Total	**-**	**35.4**	**-**	**35.4**	**-**	**58.5**	**-**	**58.5**

Note 29 | Capital adequacy analysis - Parent company and consolidated situation

For the establishment of statutory capital requirements for the Bank, the Regulation (EU) 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) applies; and, European Directive (2013/36/EU) on access to the activity of credit institutions, the prudential supervision of credit institutions and investment firms transposed into Act (2014:966) on capital buffers and Act (2014:968) on special supervision of credit institutions and securities companies.

The rules state that the Bank's own funds shall cover both the statutory minimum capital requirements (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 the Bank's ICLAAP.

In this note, the Bank discloses information regarding the Bank, and the consolidated situation. For further information regarding ownership structure, see section on financial overview.

The Bank has an established capital planning for the next three years based on:

- the Bank's risk profile,
- identified risks in terms of probability and financial impact,
- stress tests and scenario analysis, the expected expansion of lending and financing opportunities, and
- new legislation, actions of competitors and other external changes.

The review of the capital plan is an integral part of the work on the Bank's yearly ICLAAP. The plan is monitored continuously and at least an annual review is performed or more often if needed to ensure that risks are properly taken into account and reflect the Bank's true risk profile and capital needs.

In this annual report, the Bank has chosen to disclose the information required on the capital base and capital adequacy according to the European Regulation 573/2013 on prudential requirements for credit institutions and investment firms (Supervisory), the SFSA's Regulations (FFFS 2014:12) regarding prudential requirements and capital buffers and the Regulation (EU) No 1423/2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions.

Capital Adequacy	Consolidated situation 2017-12-31	Consolidated situation 2016-12-31	Parent 2017-12-31	Parent 2016-12-31
Total capital base	**1,063.8**	**914.7**	**1,064.4**	**886.9**
Common Equity Tier 1 (CET1) capital	**1,063.8**	**914.7**	**1,064.4**	**886.9**
Capital instruments and the related share premium accounts	4,286.6	601.8	463.7	463.7
Retained earnings	9.7	531.6	646.3	467.1
Accumulated other comprenhensive income	-	0.0	-	-
Intangible assets (net of related tax liability)	-3,232.5	-218.7	-45.6	-43.9
Additional Tier 1 capital				
Tier 2 Capital				
Risk Exposure Amount	**7,083.8**	**6,098.6**	**6,239.7**	**5,030.4**
Risk exposure amount credit risk	5,926.4	5,122.6	5,388.5	4,331.2
Risk exposure amount market risk	104.3	34.6	104.3	35.4
Risk exposure amount operational risk	773.9	661.0	719.2	634.3
Risk exposure amount credit valuation adjustment risk	279.1	280.3	27.7	29.5
CET 1 capital ratio, %	**15.02%**	**15.00%**	**17.06%**	**17.63%**
Tier 1 capital ratio, %	**15.02%**	**15.00%**	**17.06%**	**17.63%**
Total capital ratio, %	**15.02%**	**15.00%**	**17.06%**	**17.63%**

Capital Buffer Requirements %	Consolidated situation 2017-12-31	Consolidated situation 2016-12-31	Parent 2017-12-31	Parent 2016-12-31
Institution specific buffert requirement	4.50%	4.00%	4.50%	4.00%
of which capital conservation buffer	2.50%	2.50%	2.50%	2.50%
of which countercyclical capital buffer	2.00%	1.50%	2.00%	1.50%
of which systemic risk buffer	-	-	-	-
of which: G-SII or O-SII buffer	-	-	-	-
CET1 available to meet buffers	7.02%	7.00%	9.06%	9.63%

Capital requirement for credit risk

Calculation of the capital requirement for credit risk using the standardised approach.

Exposure class	Parent 2017-12-31 Exposed amount	Parent 2017-12-31 Risk weight	Parent 2017-12-31 Risk weighted amount	Parent 2017-12-31 Capital requirement	Parent 2016-12-31 Capital requirement
Governments or central banks	219.1	0%	-	-	-
Exposures to institutions	1,470.4	20%	297.0	23.8	9.4
Exposures to corporates	612.5	0%	2.1	0.2	0.0
Retail exposures	1,061.9	75%	796.4	63.7	56.4
Exposures to mortgages	11,267.7	36%	4,018.7	321.5	259.5
Exposures in default	188.2	100%	189.0	15.1	11.1
Exposures in the form of covered bonds	494.5	10%	49.4	4.0	5.7
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-
Equity exposures	4.6	100%	4.6	0.4	0.7
Other exposures	31.3	100%	31.3	2.5	3.6
Securitisations	-	-	-	-	-
Total capital requirement for credit risk	**15,350.2**		**5,388.5**	**431.1**	**346.4**

	Consolidated situation				
	2017-12-31				2016-12-31
Exposure class	Exposed amount	Risk weight	Risk weighted amount	Capital requirement	Capital requirement
Governments or central banks	221.7	0%	-	-	-
Exposures to institutions	2,164.3	20%	435.8	34.9	17.2
Exposures to corporates	-	0%	-	-	0.0
Retail exposures	1,061.9	75%	796.4	63.7	56.4
Exposures to mortgages	12,375.2	36%	4,417.1	353.4	315.4
Exposures in default	188.1	100%	188.8	15.1	11.0
Exposures in the form of covered bonds	494.5	10%	49.4	4.0	5.7
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-
Equity exposures	-	-	-	-	-
Other exposures	38.9	100%	38.9	3.1	4.1
Securitisations	-	-	-	-	-
Total capital requirement for credit risk	**16,544.6**		**5,926.4**	**474.1**	**409.8**

Capital requirement for operational risk

Calculation of the capital requirement for operational risk using the standardised approach.

	Consolidated situation		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Relevant indicator	516.0	440.7	479.5	422.9
of which 12% (business line retail banking)	61.9	52.9	57.5	50.7
Total capital requirement for operational risk	**61.9**	**52.9**	**57.5**	**50.7**

Capital requirement for market risk

Calculation of the capital requirement for market risk is performed using the standardised approach.

	Consolidated situation		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Capital requirement for currency risks	8.3	2.8	8.3	2.8
Total capital requirement for market risk	**8.3**	**2.8**	**8.3**	**2.8**

Capital requirements for credit valuation adjustment risk

Calculation of capital requirement for credit valuation adjustment risk using the standardised method.

	Consolidated situation		Parent	
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
Capital requirements for credit valuation adjustment risk	22.3	22.4	2.2	2.4
Total capital requirement for credit valuation adjustment risk	**22.3**	**22.4**	**2.2**	**2.4**
Total Pillar 1 capital requirement	**566.6**	**487.9**	**499.1**	**402.3**

Bank meets the minimal capital ratio which at its lowest level equals the total minimum value.

Note 30 | Related parties

Assets and liabilities	Group 2017-12-31	Group 2016-12-31	Parent 2017-12-31	Parent 2016-12-31
Intercompany receivables	0.0	0.4	612.5	1,368.5
Intercompany payables	12.4	12.4	17.8	16.2

Incomes and expenses	Group 2017	Group 2016	Parent 2017	Parent 2016
Interest and Commission income	0.6	0.7	219.3	149.3
Financial expense	-	-	-20.0	-26.2
Total	**0.6**	**0.7**	**199.3**	**123.1**

Related parties

Related parties for the group refers to:

- Butterfly Bidco AB, organisational number 559118-8437, with domicile in Stockholm, and
- Bluestep Holding AB, organisational number 556668-9575, with domicile in Stockholm.

Related parties for the Bank refers to:

- Butterfly Bidco AB, organisational number 559118-8437, with domicile in Stockholm,
- Bluestep Holding AB, organisational number 556668-9575, with domicile in Stockholm,
- Bluestep Finans Funding No 1 AB, organisational number 556791-6928, with domicile in Stockholm,
- Bluestep Mortgage Securities No 2 Designated Activity Company, organisational number 522186, with domicile in Dublin,
- Bluestep Mortgage Securities No 3 Designated Activity Company, organisational number 550839, with domicile in Dublin,
- Bluestep Mortgage Securities No 4 Designated Activity Company, organisational number 596111, with domicile in Dublin
- Bluestep Servicing AB, organisational number 556955-3927, with domicile in Stockholm.

Senior officials

See Note 10 Salaries and remuneration. No remuneration with senior officials have occurred during the fiscal year.

Interest income

The interest income relates to interest income on an internal loan between the Bank and the subsidiaries in the Group.

Commission income

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

Note 31 | Pledged assets, contingent liabilities and commitments

	Group 2017-12-31	Group 2016-12-31	Parent 2017-12-31	Parent 2016-12-31
Pledged assets for own liabilities				
Shares and participations in associated companies*	None	None	0.0	0.0
Assets in Bluestep Mortgage Securities No 2	1,864.0	2,186.1	None	None
Assets in Bluestep Mortgage Securities No 3	2,629.2	3,234.5	None	None
Assets in Bluestep Mortgage Securities No 4	4,622.6	None	None	None
Assets in Bluestep Finans Funding No 1 AB	1,187.3	2,007.6	None	None
Other assets pledged and pledged collateral				
Assets pledged for financial instruments	82.5	93.5	82.5	93.5
Contingent liabilities				
Contingent liabilities	None	None	None	None
Commitments	None	None	None	None

** The Bank has pledged all shares in its subsidiary Step 2, Step 3, and Step 4 as collateral for loans from credit institutions*

Note 32 | Subsequent events

In January, Bluestep Finans Funding No 1 AB utilized another SEK 250m of the outstanding credit facility. In connection to that, the internal loan was paid to the Bank with the corresponding amount. In February, Bluestep Finans Funding No 1 AB purchased loans worth SEK 418.7 million from the Bank, which was financed by an internal loan to the Bank. During March, the Bank moved the administration of private loans from Emric to Bluestep Servicing AB.

Board of Directors

The Board of Directors is appointed by the shareholders at the Annual General Meeting. The Board currently consists of six members, whereof one is a deputy director and a full time employee.

Harry Klagsbrun

Chairman of the Board

Göran Bronner

Member of the Board

Albert Gustafsson

Member of the Board

Toby Franklin

Member of the Board

Andreas Pettersson Rohman

Member of the Board

Öyvind Thomassen

Deputy Director and
Chief Executive Officer

Senior Management

The Senior Management are responsible for the operative, day-to-day, executive decision-making within Bluestep.

Anna Bofeldt

Chief Marketing Officer,
Marketing & BDM

Christian Jonsson

Chief Legal Officer

Daniel Garcia

Risk Manager

Eric Walberg Olstadt

Branch Manager Norway

Erik Lind

Chief Information Officer,
Systems & IT

Karin Gustafsson

Human Resource Manager

Nicolas Adlercreutz

Chief Financial Officer

Peter Gertman

Chief Operating Officer
Sweden

Rolf Stub

Head of Strategy and
Business Development

Öyvind Thomassen

Chief Executive Officer

BlueStep Bank

www.bluestep.se
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ORGANISATIONAL NUMBER 556717-5129 | DOMICILE: STOCKHOLM