Bluestep.

Risk Management and Capital Adequacy (Pillar III) Report

2020

Bluestep Bank AB (publ)

Bluestep Bank AB (publ)
Adress: Box 23138, 104 35 Stockholm
Besök oss: Sveavägen 163

Växel: 08-501 004 00
Fax: 08-501 004 11
E-post: info@Bluestep.se

Org.nr: 556717-5129
Styrelsens säte: Stockholm
Hemsida: www.Bluestep.se

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1 Introduction

1.1 Purpose

This report provides information on the key elements of the risk management, capital adequacy, liquidity and remuneration as of 31st of December 2020 for the consolidated financial group (the "**Financial Group**") of Bluestep Bank AB (publ) (**BBAB**" or the "**Bank**"). The information published herein, together with certain information in financial statements, satisfies the regulatory requirements for disclosure applicable to the Bank, and allows market participants, including analysts, partner banks, investors, and customers, to assess the Bank from a risk, capital and liquidity perspective.

1.2 Regulatory context

Together with information presented in the Bank's Annual Report, the Bank's Interim Reports, and the Bank's website (www.bluestepbank.com), this report complies with the disclosure requirements for credit institutions and investment firms set out in the Act (2014:968) regarding special supervision of credit institutions and securities companies; the Swedish Financial Supervisory Authority's ("**SFSA**") Regulations (FFFS 2014:12) regarding prudential requirements and capital buffers; the SFSA's Regulations (FFFS 2010:7) regarding management of liquidity risks in credit institutions and investment firms; the SFSA's Regulations (FFFS 2011:1)[1] regarding remuneration structures in credit institutions, investment firms and fund management companies licensed to conduct discretionary portfolio management; the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("**CRR**"); and the Commission Implementing Regulation (EU) No 1423/2013 laying down technical standards for the implementation of the capital adequacy requirements applicable to institutions under Regulation (EU) of the European Parliament and of the Council) No 575/2013.

1.3 Scope of application

The Bank conducts banking operations, and is supervised by the SFSA. The Bank has a Norwegian branch Bluestep Bank AB (publ), filial Oslo for deposits and mortgage lending, and a Finnish branch Bluestep Bank AB (publ), filial i Finland for mortgage lending.

The Bank is included in the Financial Group for prudential reporting purposes. Bluestep Holding AB is the ultimate parent company in the Financial Group, and the information disclosed in this report is therefore on the basis of Bluestep Holding AB's consolidated situation. The following companies are included in the Financial Group: BBAB, Bluestep Finans Funding No 1 AB, Bluestep Servicing AB, Bluestep Mortgage Securities No 2 DAC[2], Bluestep Mortgage Securities No 3 DAC[3], and Bluestep Mortgage Securities No 4 DAC. All entities are subject to full consolidation[4].

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[1] Including amendments made through FFFS 2014:22 and FFFS 2020:30, hereinafter jointly referred to as FFFS 2011:1.

[2] Since February 2019, Bluestep Mortgage Securities NO 2 DAC is a dormant company with no activity and is under liquidation.

[3] Since May 2020, Bluestep Mortgage Securities NO 3 DAC is a dormant company with no activity and is under liquidation.

[4] The scope of the "BBAB's accounting consolidation" includes all the entities referred to with the exception of Bluestep Holding AB; and "BBAB's solo level" only includes the Bank and its Norwegian and Finnish branches.

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Fax: 08-501 004 11
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Org.nr: 556717-5129
Styrelsens säte: Stockholm
Hemsida: www.bluestep.se

1.4 Basis of preparation

The Board of Directors (“**Board**”) has reviewed and approved this report for publication.

The information in this report is prepared solely to meet the disclosure requirements outlined in Section 1.2, and to provide certain specified information about risk management and capital management, and for no other purpose. The disclosures do not constitute any form of financial statements relating to the Financial Group, or any form of contemporary or forward-looking record or opinion about the Financial Group.

The disclosures are subject to internal review, challenge and approval processes. An audit trail to support disclosures is maintained.

Wherever possible and relevant, there has been ensured consistency between the disclosures of the reporting under the Pillar I and Pillar II requirements, e.g. information about risk management practices and capital resources at year-end.

In order not to conflict with requirements under accounting standards, and to ease the validation process, the quantitative basis of the disclosures is extracted from the mandated set of reporting explaining the annual financial statements unless otherwise mentioned.

This report is published on the Bank’s website: www.bluestepbank.com.

1.5 Date and frequency of disclosure

This report reflects the situation of the Financial Group as of 31st December 2020.

The disclosures herein are made on an annual basis in conjunction with the publication of the Bank’s financial statements[5]. The Bank is on an ongoing basis assessing the need to publish any further disclosures more frequently than annually based on the characteristics of its business.

1.6 Exclusion of non-material, proprietary and confidential information

In accordance with Article 432 in the CRR, the Board may choose to omit certain information from publication in this report if the information is deemed immaterial, proprietary or confidential. These conditions are specified in the regulation as:

- Information is regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.
- Information is regarded as proprietary if disclosing it to the public would undermine the Bank’s competitive position.
- Information is regarded as confidential if the Bank has obligations to customers or other counterparty relationships binding it to confidentiality.

If this would be the case, the Bank will state the fact that the specific items of information are not disclosed.

1.7 Declaration of the management body

The Board ensures that the risk management arrangements of the Bank are adequate with regard to its business model, risk profile and strategy. These arrangements are either already implemented, or

[5] The disclosures regarding own funds, capital requirements and liquidity risk are also made on a quarterly basis in line with the SFSA requirements.

in the process of being improved as part of an approved action plan. This declaration is based on the reliability of the risk-related information communicated to the Board through the dedicated channels foreseen by the risk governance arrangements. In particular, the Audit, Risk and Compliance Committee ("**ARCCO**") that assists the Board in financial reporting, governance, internal control, compliance, risk management, and internal and external audit issues.

2 Business overview

The business model is to complement the traditional banks specialised in the mortgage market, creating value by offering mortgages, and take the time to understand and consider the customer's entire situation. Great emphasis is placed on the customer's future prospects and ability to pay, rather than merely looking at the history.

The Bank provides mortgage loans to the public in Sweden, Norway and Finland. The lending operations were established in Sweden during 2005, in Norway during 2010, and in Finland during 2020. Until mid-February 2020, the Bank provided personal loans to the public in Sweden, and the portfolio was divested at the end of December 2020.

The Bank also offers savings accounts with attractive and competitive interest rates in Sweden and Norway.

The funding is diversified and consists of equity, deposits from the public, issuance of residential mortgage backed securities ("**RMBS**"), covered bonds (since April 2020), senior unsecured bonds, and contracted credit facilities.

The Bank has no trading book.

The main income sources are interest income, commission income, and income from other financial items. The main expenses are interest, staff, marketing, and IT costs. The financing expenses are included in net interest income and set off against interest income, not specified as a net cost.

3 Risk management

The Bank's risk management aims to ensure that risk-taking is consistent with set risk management strategies and risk appetite, and an appropriate balance between risk and reward. The risk management is integrated into the overall governance and internal control, and is linked to the strategic planning and capital management. The risk management covers backward-looking, actual and forward-looking risks, on and off the balance sheet, the Bank is, or might be, exposed to in the business and the organisation in its efforts to achieve set goals for growth, profitability and financial stability. The Bank defines risk as the possibility that an event will occur and that adversely affect the achievement of an objective or process. The risks are limited and mitigated through set risk appetite and risk tolerance, which makes it possible to make well-informed decisions for risk-taking and to ensure awareness and understanding of risk management within the Bank.

The risk governance and risk management framework is governed by the Risk Management Policy and Instruction, approved by the Board.

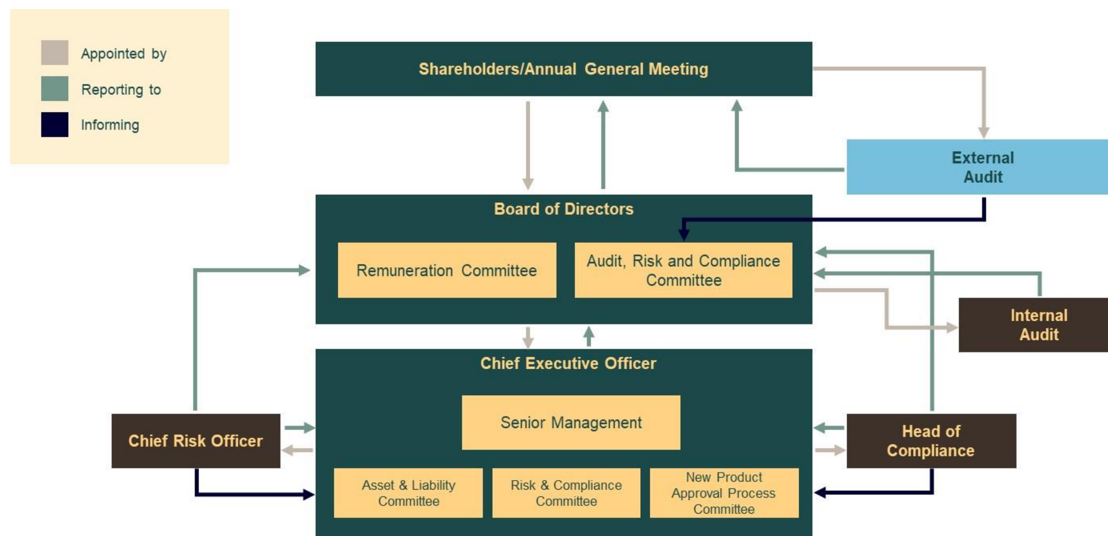
3.1 Risk governance

The risk governance is performed from an organisational perspective, as well as from a perspective with three lines of defence.

3.1.1 Organisational perspective

The organisational perspective consists of the Board, the CEO, the Senior Management Team, business functions, and control functions.

Figure 3.1 Risk management governance structure



Board

The Board sets financial and business goals and strategies, ensures that there are effective operating structures and systems in place, and ensures compliance with laws, regulations and internal policies. The Board thus has the ultimate responsibility for risk management, capital management, compliance and internal control. The responsibility includes deciding on the risk management strategies and risk appetite, and ensuring that the risk, capital and liquidity situation is within set framework, and that the risk management, compliance and internal control is effective and appropriate. The Board members are selected on the basis of skills and experience relevant to an organisation of the Bank's size, complexity and business activities. Attention is paid to the need to ensure a diverse composition of Board members in order to ensure the Board is capable of making objective judgements and providing effective challenge regarding the running of the business. During 2020, the Board met on 21 occasions.

Board Committees

The Board has established the following committees:

- ARCCO assists the Board in reviewing financial reporting, risk management, compliance, internal control and auditing. During 2020, the ARCCO met on eight (8) occasions.
- Remuneration Committee assists the Board in preparing proposals for remuneration. During 2020, the Remuneration Committee met on three (3) occasions.

CEO

The Board has appointed a CEO, responsible for the management of the Bank's operations, to ensure that the organisation and working methods are appropriate, and to ensure that business functions comply with external and internal rules.

CEO Committees and Forums

The CEO has established the following committees and forums;

- Senior Management Team (the "**SMT**") supports the CEO in the day-to-day management of the Bank.
- Risk and Compliance Committee (the "**RiCO**") improves and promotes a strong risk culture, and strengthen the risk management processes and controls, by assisting the business and support functions in operational risk management, compliance and audit issues. The RiCO is chaired by the Chief Risk Officer (the "**CRO**"). During 2020, the RiCO met on four (4) occasions.
- New Product Approval Process Committee (the "**NPAP Committee**") provides a uniform procedure for the consideration and evaluation of new or changed products, processes, services, systems, and material organisational changes. The NPAP Committee is chaired by the Head of Compliance. During 2020, the NPAP Committee met on ten (10) occasions.
- Asset and Liability Management Committee (the "**ALCO**") assists the business and support functions in the management of balance-sheet related issues and risks. The ALCO is chaired by the Chief Financial Officer (the "**CFO**"). During 2020, the ALCO met on eleven (11) occasions.

CRO and the Risk Management function

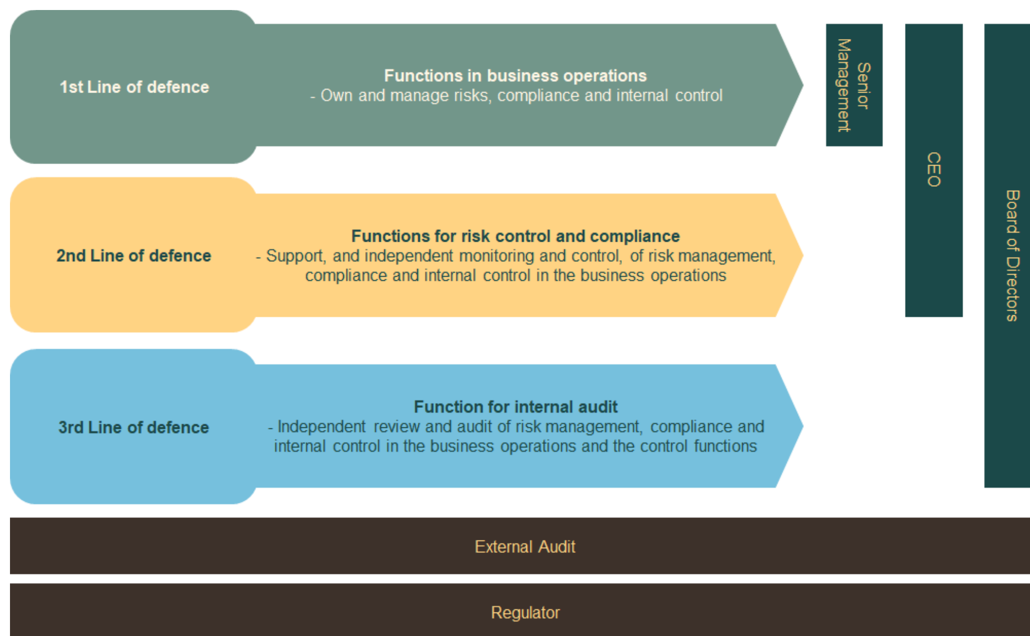
The Board has appointed a CRO who is directly subordinated to the CEO. The CRO leads the Risk Management function, and is responsible for supporting and independently monitoring and controlling the risk management for the Bank. Thereby it could be ensured that the risks are identified, assessed, managed, monitored and reported correctly.

3.1.2 Three lines of defence perspective

The perspective with three lines of defence consists of the following areas of responsibility for risk management, compliance and internal control.

- *First line of defence* – Business and support functions, where managers own their risks and are responsible for the day-to-day risk management, compliance and internal control. The managers of the business functions report to the SMT and the CEO.
- *Second line of defence* – The Risk Management function and the Compliance function are responsible for the risk management, compliance and internal control frameworks, and perform support and independent monitoring and control of these areas. The CRO and the Head of Compliance report directly to the CEO, and to the Board.
- *Third line of defence* – The Internal Audit function is responsible for independent review of risk management, compliance and internal control in the business and control functions. The Internal Audit function reports directly to the Board. The internal audit it outsourced to Deloitte AB.

Figure 3.2 Risk governance framework



3.2 Risk management framework

The risk management framework covers principles, risk culture, risk management strategy, risk appetite and risk tolerance, risk profile, risk management process, risk control, approval process for new products, sensitivity analysis, stress tests and scenario analysis, internal capital and liquidity assessment process ("**ICLAAP**"), risk reporting, and risk-related policies and instructions.

The risk management framework is operationalised through the risk management strategy, via approved policies and/or instructions, performed in daily processes, procedures and routines, and followed-up and controlled by the risk owners in the first line of defence, the control functions in the second and third lines of defence, as well as of the CEO and the Board.

The following principles underpin the risk management within the Bank;

- Sound risk management with good ability to identify, assess, manage, monitor and report as well as control risks, individual and aggregated, which the Bank is, or might be, exposed to.
- Dependence within and between risks, including the contagion effect, and concentrations of risks should be taken into account.
- Effective and integrated risk management framework with the overall governance framework, and thus, in the organisational and decision structure, and the operating and supporting activities within the Bank.
- Risk management carried out on an on-going basis, which means that the Board, the CEO, the control functions, and employees and third parties, are responsible for performing their duties in accordance with applicable external and internal rules and in accordance with sound practice and standards.

The risk management process, covering to identify, assess, manage, monitor and report risks, provides taking and managing risks while providing opportunities to achieve set strategic, business and operating goals.

3.3 Identification, assessment and management of risks

Identified risks are assessed based on the effect on the business operations as well as the risk, capital and liquidity situation. The assessment is based on forward-looking, actual and backward-looking analyses, and are assessed both on short-term, medium-term and long-term (which is the same time horizon as the strategic planning horizon).

The risks that might result in losses that affect earnings are prevented and addressed to minimise the likelihood of the risk being realised, reduce the vulnerability to these risks, and use of effective control procedures. For each identified risk, measure and mitigation plans are established with the aim of either accepting, reducing, eliminating or increasing the risk.

The Bank is exposed to a number of risks, such as strategic risk, business risk, credit risk, market risk, liquidity risk, reputational risk and operational risk. Identified risks are assessed qualitatively based on probability and impact, and some risks are thereto assessed quantitatively by calculating capital requirement.

The assessment and management for material risks are in general terms described below.

3.3.1 Credit risk

Credit risk is the risk of economic loss, negative change in earnings or material change in risk profile due to failure of a counterparty to fulfil its obligations in accordance with agreed terms.

Given the nature of the business with lending to the public, credit risk is a material risk. Credit losses could arise partly due to defaults to inability or unwillingness of a customer or a counterparty to fulfil its obligation in relation to lending (probability of default), and partly due to recoveries from the defaulted assets being insufficient to cover the principal amounts, accrued interest and others 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.

Residential mortgages is provided in Sweden, Norway and Finland. To strengthen the strategic focus on mortgage lending, personal loans was stopped offering in mid-February 2020, and the portfolio was divested at the end of the year. The credit portfolio is well diversified and consists of a large number of customers, mainly in sectors with medium risk. The credit strategy is based on the borrowers' expected ability to repay their debts and their credit history, and the borrowers are divided into different risk grades.

Credit risk is primarily managed through credit instructions and established risk management strategy with explicit risk appetite and risk tolerance. Active credit risk management is also achieved through prudent customer selection in the credit operations, which ensure that a careful and well-balanced customer selection is made. The credit operations are responsible for the credit decision process and to ensure compliance with policies and instructions for credit risk management.

The risk classification system is a central part of the credit process, encompassing work and decision-making processes for granting and monitoring credit, and quantification of credit risk. The credit granting presupposes that the borrower can fulfil their commitment to the Bank on good grounds. A sound, long-term robust and risk-balanced lending presupposes that the credit transaction is set in relation to influencing external factors. This means that the Bank's and others' knowledge of expected local, regional and global change and development, of significance to the business and its risk, are taken into account. Systematic analysis of the individual credit exposures takes place through ongoing follow-up of individual commitments.

Active credit risk management is also achieved by the collection operations responsible for non-performing loans, i.e. where customers have ceased to service their debt obligations and thereby

breached their contractual terms and attempt to implore customers to return to orderly payments or take other actions to mitigate the risk of loss.

In order to maintain a well-diversified credit portfolio, with a balanced risk profile and to have a good balance between risk and return, the Bank continuously strives to understand the borrowers and their individual conditions.

3.3.2 Credit-related concentration risk

Credit-related concentration risk is the risk of economic loss, negative change in earnings or material change in risk profile due to individual counterparty exposures, or groups of counterparty exposures whose credit risk represents a material degree of co-variation.

Since the Bank operates only in Sweden, Norway and Finland, and the outstanding loan portfolio mainly consists of secured loans, a certain level of exposure to concentration risk is inherent in the business model. The concentration risk is one of the core focus areas in the borrowers' credit assessment, and the Risk Management function continuously monitors and independently assesses the concentration risk to ensure that the risk profile is in line with set risk strategy and managed appropriately.

For concentration risk, Pillar II capital requirements are calculated under three different categories; individual concentration, industry concentration and geographical concentration. The total capital requirement for concentration risk is the sum of the capital requirements for the three different categories of concentration risk. Based on this, sufficient capital is maintained for the assessed concentration risk.

3.3.3 Credit valuation adjustment risk

Credit valuation adjustment ("**CVA**") risk is the risk of economic loss, negative change in earnings or material change in risk profile due to changes in counterparty credit spreads and market risk factors that drive market prices of derivative transactions and securities financing transactions.

Credit valuation adjustment risk results from that a counterparty in a transaction might fail before the final settlement of the transaction. More precisely, it means that an adjustment is made to the mid-market valuation of a portfolio of transactions with given 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 counterparty.

The Bank uses OTC derivatives for its hedging strategies, the credit valuation adjustment risk is very sensitive to mark-to-market valuations and the terms of the transaction.

Credit valuation adjustment exposures are continuously assessed and reported. As credit valuation adjustment risk is a consequence of the hedging activities, and the average term of these activities is below three years, no specific further risk mitigating actions are taken. The Bank does not have any rating triggers in its derivative contracts, i.e. the provision of collateral by the Bank under derivative agreements would not be affected by a change in the Bank's credit rating.

3.3.4 Foreign exchange rate risk

Foreign exchange rate ("**FX**") risk is a sub-risk category to market risk, and is defined as the risk of economic loss, negative change in earnings or material change in risk profile due to currency fluctuations in foreign exchange rates and changes in the relative value of the involved currencies.

Given the Bank's operations in Norway and Finland, and some financing in other currencies, the Bank is exposed to market risk related to changes in foreign exchange rates. The Treasury function hedges

the exchange rate risk by derivatives and currency-matching of liabilities and assets. There is a documented process for managing exposure to market risks and established policies and instructions.

3.3.5 Interest rate risk in the banking book

Interest rate risk is the risk of economic loss, negative change in earnings or material change in risk profile due to changes in market interest rates affecting the exposures.

The interest rate risk derives from income and market value of a loan portfolio as a result of uncertain future interest rates. In particular, the Bank may suffer losses or reduced income as interest rates fluctuate over time, and both the asset and liability bases are a mixture of fixed and variable interest-bearing items with different maturities and times for interest rate changes. The Bank is thus exposed to the risk of losses arising from negative movements in market interest rates and from the lending and deposits offered.

Interest rate risk is actively managed by matching fixed and floating interest rates, and durations of assets and liabilities, or, when not possible, by mitigating the risk with hedging instruments. By using numerous stress scenarios, the interest rate risk exposure is calculated under unfavourable conditions. If the exposures should exceed set limits, or is close to doing so, the Bank will enter into new hedging instruments to reduce the interest rate exposure to a level within set limits.

In accordance with 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. 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. Numerous stress scenarios are run, and the interest rate risk exposure under scenarios is calculated. The scenarios include contractual amortisations as well as assumed prepayments (based on historical patterns) in scenarios related to the net interest income. Non-maturity deposits are assumed to have a one-day tenor.

The tables below show the implications for own funds and earning given a positive/negative change in market rates of 200 bps.

Table 3.1 Sensitivity analysis for market interest rate change and effect on own funds for the Financial Group

	Change	Absolute risk (M SEK)	Risk, % of own funds
Increased interest rates	+200bp	-1	-0.1%
Decreased interest rates	-200bp	-4	-0.2%

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

Table 3.2 Sensitivity analysis for market interest rate change and effect on net interest income for the Financial Group

	Change	Absolute risk (M SEK)	Risk, % of net interest income
Increased interest rates	+200bp	-8	-1.0%
Decreased interest rates	-200bp	-24	-2.9%

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

The Treasury function is responsible for monthly assessment, monitoring and reporting all aspects of interest rate risk to the Board and the CEO, as well as to the Risk Management function, which performs independent monitoring and reporting.

3.3.6 Liquidity risk

Liquidity risk is the risk of economic loss, negative changes in earnings or material change in risk profile due to not being able to fulfil payment obligations on any given due date without the cost of obtaining the funds increasing considerably.

Enough excess liquidity is retained in a liquidity reserve to meet unforeseen cash outflows. The liquidity reserve is only composed of highly rated liquid securities (government bonds and covered bonds) and bank account balances according to the Liquidity and Financing Risk Management Policy. The Board has set the limit for the minimum liquidity reserve and liquidity buffer that shall be maintained at any time.

The Bank is mainly exposed to liquidity risk related to retail deposits and refinancing of issued securities (RMBS, senior unsecured bonds and covered bonds) and credit facilities. Diversification of funding reduces the liquidity risk. Ongoing interest payments and repayments related to RMBS financing are well matched with corresponding flows attributable to the underlying mortgage assets, which also reduces the liquidity risk. As the Bank diversifies its funding sources, deposit product features and pricing are designed to maximize the cost/risk efficiency. The retail deposits from the public in Sweden and Norway are covered by the respective country's deposit guarantee scheme, which further 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.

The Treasury function manages the operational handling of liquidity risks, and reports to the Chairman of the Board, CEO, the CFO and the Risk Management function on a daily basis, and to the Board in case of limits being breached. The CEO also submits monthly reports on liquidity management and liquidity risk to the Board.

3.3.7 Operational risk

Operational risk is the risk of economic loss, negative change in earnings or material change in risk profile due to inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

There are a range of measures and tools in place for identifying, assessing, managing, monitoring, controlling, documenting, and reporting operational risks. This have been developed into a solid set of policies, instructions, processes, routines and procedures to ensure that, for example, the staff has the proper competence, training and work experience to maintain the operational risks in the business at an acceptable level, and that processes and IT systems work as they should.

The business functions perform self-risk assessments of their operations twice a year, in order to identify risks that could otherwise have been overlooked. Identified operational risks are assessed based on their likelihood of occurrence and impact of such an event. Material risks are mitigated by ensuring sound processes, routines and/or controls, which also increases the knowledge and awareness of the staff and contributes to spreading a consensus of operational risks.

The Bank also regularly performs follow-ups and controls of outsourced operations to third-party suppliers in order to maintain steering and continuity of the operations.

Through the incident reporting tool, the staff can report incidents to concerned business and support functions for further analysis and follow-up. The Risk Management function continuously monitors reported incidents, and follows up with concerned staff and those responsible in the operations to ensure that proper actions are taken and to prevent the incidents from reoccurring. The Risk Management function reports incidents to the RiCO, the CEO and the Board.

IT related risks are mitigated in particular 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. Continuous tests of continuity management plans are carried out to protect information. To strengthen this work, a continuous review of processes and working methods is performed, to improve and supplement the Bank's information security.

NPAP is an established process for analysing and evaluating risks as a basis for approving new or changed products, services, systems, and materials organisational changes.

Furthermore, proactive work is performed to prevent, and strengthen the ability to manage, serious events that may affect the conduct of business operations or IT systems. Business continuity plans exist that describe how the Bank will operate in the event of serious disruptions, and the plans are tested annually to ensure that they are well adapted to the operations and system environments.

The day-to-day management of the mortgage loan and the administration of deposit accounts for Sweden is outsourced to the Bank’s subsidiary BSAB. The management of the mortgage portfolio and the administration of deposit accounts for Norway is provided in-house by the Norwegian loan administration department. The management of the loan portfolio for Finland was handled by the Finnish branch.

3.3.8 Other risks

In addition to the risks mentioned above, risk assessments are also performed for other risks to which the Bank is, or might be, exposed to, such as strategic risk, business risk, other market risks (settlement risk and credit spread risk), financing risk, credit risk in the liquidity reserve, matching risk, regulatory risk, reputational risk, and environmental, social and governance-related risks.

For these other risks, material risks are assessed quantitatively as part of the ICLAAP, and are included in the assessment of the Pillar II capital requirement to allocate capital to ensure continued financial stability.

3.4 Monitoring and control of risk

Identified risks are continuously monitored to ensure that the management and controls of risks are effective and efficient, and that the risks and the risk profile is within set risk appetite, risk tolerance and risk limits.

Risk control ensures sound risk management, and thus sound overall governance, as well as appropriate and effective regulatory compliance and assurance of achievement of objectives.

Risk owners are responsible for monitoring and controlling risks within their respective areas of responsibility. Control functions are responsible for carrying out independent monitoring and control of risks within their respective functional responsibilities.

3.5 Risk reporting

There are reporting procedures and routines, and IT systems, in place to ensure that the risk information is up-to-date, complete and relevant, and that external and internal reporting is reported on time.

The main internal independent risk reporting from the Risk Management function are the Risk Report to the Board, the CEO and the SMT, the Operational Risk Report and the Operational Risk Management Framework Report to the RiCO, the Credit Risk Report and the Performance Pack to the respectively Credit Committee, the House Price Index Report to the Board and the CEO, and the ICLAAP Report to the Board, the CEO, the SMT, and other relevant stakeholders.

The main external risk reporting from the Risk Management function are the COREP, the Leverage Ratio, the Large Exposures, the Data on Internal Assessment of Capital Needs, the Interest Rate Risk report to the SFSA, the risk notes in the Annual and Interim reports to the market, and the Pillar III report to the market.

3.6 Relevant risk-related policies, instructions and other documents

This section highlights the relevant risk-related policies, instructions, and other documents, that govern risk management of the risks that the Bank is, or could be, exposed to.

Policies are reviewed, at least, yearly and are prepared by the ARCCO before approval by the Board. Instructions are reviewed, at least, yearly and are approved by the CEO.

- Governance and Control Policy
  - The policy sets the framework for sound internal control, including strategies, processes, routines, internal rules, limits, controls, and reporting routines.
- Remuneration Policy
  - The policy sets the framework for sound remuneration structures, which includes the right behaviour and balanced risk taking in line with shareholders' expectations, and to ensure that remuneration to individual employees does not counteract with the long-term interest.
- Audit, Risk and Compliance Committee Policy
  - The policy is approved by the Board, and sets the purpose, tasks and mandates of the ARCCO.
- Risk and Compliance Committee Instruction
  - The instruction sets the purpose and mandates of the RiCO.
- Asset and Liability Management Committee Instruction
  - The instruction sets the purpose and mandates of the ALCO.
- New Product Approval Process Instruction
  - The instruction sets the purpose and mandated for the NPAP Committee, and the principles for approval of new or changed products, processes, services, systems, and material organisational changes .
- Risk Management Policy and Instruction
  - The policy sets the overall risk management framework, including identifying, assessing, managing, monitoring, reporting, and controlling risks. The policy also set the CRO's and the Risk Management function's responsibilities and tasks.
- Operational Risk Policy and Instruction
  - The policy sets the operational risk management framework and the incident management framework.
- Credit Risk Management Policy
  - The policy sets the credit risk management framework. Further internal requirements regarding credit risk management are set in the respective Credit Instruction,

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Impairment Policy, Valuation and Revaluation Policy, and the respective Collection Policy.

- Liquidity and Financing Risk Management Policy
  - The policy sets the liquidity and financing risk management framework.
- Foreign Exchange Rate Risk Management Policy
  - The policy sets the foreign exchange rate risk management framework.
- Interest Rate Risk Management Policy
  - The policy sets the interest rate risk management framework.
- Capital Management Policy
  - The policy sets the capital management framework, with the purpose to ensure awareness and understanding of the capital management, and that capital management is performed in an appropriate and efficient manner.
- ICLAAP Policy
  - The policy sets frames for the ICLAAP.

Other risk-related documents of importance are the following;

- Risk Management Strategy document
  - The risk management strategy is approved by the Board, and sets the framework to the extent that the Bank is willing to take risks and ensures that an appropriate balance is maintained between goal achievement and risk exposures with the aim of ensuring that the Bank should be a strong creditor to the customers, strong partner to other parties, as well as strong partner to the owners. The risk management strategy sets risk appetite, risk tolerance and risk limits covering material risks for risk-taking for carrying out the business and in achieving goals in accordance with the strategic, business and operational plans.
- Business Continuity Plans
  - The business continuity plans ("**BCPs**") is approved by the Board, and sets how the business would continue to operate in the event of a material short- or long-term loss or limitation on resources required to operate the business until it is in a position to return to business as usual. BCPs are approved for the Bank, the branches, and BSAB. The BCPs are supplemented with disaster recovery plans ("**DRPs**") for all defined material processes within the business approved by the CEO.
- Recovery Plan
  - The recovery plan is approved by the Board, and sets measures which could be taken for the restoration of the risk and capital position, and viability following significant deterioration.

4 Capital adequacy position

This section addresses the capital requirement and the capital adequacy situation of the Financial Group, as well as information on the main approaches, requirements and conclusions reported to the SFSA as part of the quarterly COREP reporting, and the performed ICLAAP.

4.1 Capital requirements

Risk-based and leverage ratio capital requirements are calculated.

4.1.1 Capital requirements in general

The risk-based capital requirements are calculated for the Bank and for the Financial Group in accordance with the Swedish Acts, the SFSA Regulations, and the CRR. The risk-based capital requirements consist of the Pillar I minimum capital requirement, the Pillar II capital requirement, and the combined buffer requirement.

- Pillar I minimum capital requirement
    - The Pillar I capital requirement for credit risk, credit valuation adjustment risk, and market risk (foreign exchange rate risk), is calculated by using the standardised method.
    - The Pillar I capital requirement for operational risk is from May 2020 calculated by using the alternative standardised approach. For previous years, the standard method was used. When calculation the Pillar I capital requirement for operational risk, all business activities are categorised to the business line “Retail banking”.
- Pillar II capital requirement
    - The Pillar II capital requirement is assessed even for risks not covered by the Pillar I capital requirement, with regard to the risk profile, capital, liquidity, and other actions to manage the risks within set risk appetite, risk tolerance and risk limits.
    - The Pillar II capital requirement is thus assessed in quantitative terms as well as qualitative terms for material risks, and is forward-looking and follow the strategic planning horizon of three years.
- Combined buffer requirement
    - In addition to the Pillar I and Pillar II capital requirements, extra capital buffers are held to absorb losses in periods of financial stress, and shall be met with CET1 capital. If the buffer requirement is not fulfilled restrictions apply on payment of dividends and bonuses.
- The leverage ratio capital requirement is calculated for the Bank and for the Financial Group in accordance with the CRR.

The Table 4.1 below shows an overview of methods used for calculating risk-based and leverage ratio capital requirements.

Table 4.1 Methods for calculating capital requirements

Risk-based capital requirements	Method
Pillar I Capital Requirement	
• Minimum Capital Requirement	
○ Credit risk	Standardised Approach
○ CVA risk	Standardised Approach
○ Market risk	Standardised Approach
○ Operational risk	Alternative Standardised Approach
Pillar II Capital Requirement	
• Specific Own Funds Requirement	-
○ Concentration risk	SFSA Method
○ Interest Rate risk	SFSA Method
○ Credit risk	Internal Method
○ Market (FX) risk	Internal Method
○ Liquidity risk	Internal Method
○ Operational risk	Internal Method
○ Business risk	Internal Method
○ Strategic risk	Internal Method
Combined Buffer Requirement	
• Counter-Cyclical Capital Buffer	-
• Capital Conservation buffer	-
• Capital Planning Buffer	-

The countercyclical capital buffer was reduced in March 2020 from 2.5% to 0% by the SFSA, and from 2.5% to 1% by the Norwegian Financial Supervisory Authority (the "**NFSA**"). The Finnish Financial Supervisory Authority (the "**FFSA**") decided to keep the level at 0%.

4.1.2 Risk-based capital requirements

The risk-based capital requirement is calculated based on the risk weighted assets ("**RWAs**"). The Table 4.2 shows the RWAs and the risk-based capital requirements for the Financial Group.

The Bank does not apply credit risk mitigation techniques.

Table 4.2 Risk weighted assets

Risk Weighted Assets (M SEK)	31-Dec-20	31-Dec-19
TOTAL RISK WEIGHTED ASSETS	8,223	8,252
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	7,087	6,889
Institutions	444	403
Corporates	-	-
Retail	558	770
Secured by mortgages on immovable property	5,638	5,261
Exposures in default	324	307
Covered bonds	29	53
Claims on institutions and corporates with a short-term credit assessment	-	-
Equity	11	-
Other items	84	95
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	310	260
Foreign Exchange	310	260
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK	775	1,036
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	52	67

Note: Exposures to equity consists of minority interest due to strategic investments.

The total capital requirements for the Financial Group are shown in Table 4.3.

Table 4.3 Total capital requirements

Total capital requirements (M SEK)	31-Dec-20	31-Dec-19
Pillar I capital requirement	**658**	**660**
Pillar II capital requirement	**80**	**93**
of which concentration risk	73	73
of which interest rate risk arising from non-trading book	7	21
Combined capital buffer	**237**	**413**
of which capital concervation buffer	206	206
of which countercyclical capital buffer	31	206
Sum capital requirements	**975**	**1,166**

Totalt capital requirements (% RWA)	31-Dec-20	31-Dec-19
Pillar I capital requirement	**8.0%**	**8.0%**
Pillar II capital requirement	**1.0%**	**1.1%**
Combined capital buffer	**2.9%**	**5.0%**
Sum capital requirements	**11.9%**	**14.1%**

4.1.3 Leverage ratio

The leverage ratio is a non-risk-based measure to limit build-up of leverage on the balance sheet. The leverage ratio is calculated as the Tier 1 capital divided by leverage ratio exposure amount, comprising of on- and off-balance sheet exposures with adjustments for certain items, such as derivatives.

The leverage ratio requirement is 3% of Tier 1 capital.

Table 4.4 shows information about the leverage ratio for the Financial Group.

Table 4.4 Leverage ratio calculation

Leverage ratio calculation (M SEK)	31-Dec-20	31-Dec-19
Total Leverage Ratio exposure	20,375	19,269
Tier 1 Capital	1,617	1,475
Leverage Ratio	**7.9%**	**7.7%**
Leverage Ratio Requirement (SEK)	*611*	*578*
Leverage Ratio Requirement (%)	*3.0%*	*3.0%*

The leverage ratio is managed as part of the risk management framework, and is integrated in the risk management strategy with set internal risk tolerance limits. The risk of excessive leverage is continuously analysed, monitored and reported by the Risk Management function to the Board and the CEO.

The leverage ratio increases during the reference period is mainly driven by an increase in Tier 1 capital due to retained earnings and reduced regulatory adjustments (intangible assets).

4.2 Own funds and capital adequacy

The own funds shall cover the Pillar I minimum capital requirement, the Pillar II capital requirement, and the combined capital buffer requirement. The elements of the own funds shall be classified in accordance with the Supervision Act, the SFSA's FFFS 2014:12, and the CRR.

Own funds and its composition as of 31st of December 2020 and 31st of December 2019 are shown in Table 4.5.

Table 4.5 Own funds

Own Funds (M SEK)	31-Dec-20	31-Dec-19
Common Equity Tier 1 (CET1) capital: instruments and reserves	***4,689***	***4,832***
Capital instruments and the related share premium accounts	4,477	4,477
of which: instrument type 1	*4,477*	*4,477*
Retained earnings	350	140
Accumulated other comprehensive income (and other reserves)	-17	4
Independently reviewed interim profits net of any foreseeable charge or dividend	-121	210
CET1 capital regulatory adjustments	***-3,072***	***-3,357***
Additional value adjustments (negative amount)	-1	-
Intangible assets (net of related tax liability) (negative amount)	-3,071	-3,357
CET1 capital	**1,617**	**1,475**
Tier 1 capital (T1= CET1 + AT1)	**1,617**	**1,475**
Total capital (TC = T1 + T2)	**1,617**	**1,475**
Total risk weighted assets	**8,223**	**8,252**
Capital ratios and buffers		
CET1 (as a % of total risk exposure amount)	*19.7%*	*17.9%*
T1 (as a % of total risk exposure amount)	*19.7%*	*17.9%*
TC (as a % of total risk exposure amount)	*19.7%*	*17.9%*
Institution specific buffer requirement	*2.9%*	*5.0%*
of which capital conservation buffer requirement	*2.5%*	*2.5%*
of which countercyclical buffer requirement	*0.4%*	*2.5%*
CET1 available to meet buffers (as a % of risk exposure amount)	*11.7%*	*9.9%*

5 Liquidity position

This section addresses the liquidity situation of the Financial Group.

5.1 Liquidity risk management

The liquidity risk management is based on having sufficient available liquidity and a strong funding base, and the liquidity strategy supports this by having sufficient liquidity reserve (“**LR**”) at all times.

The liquidity risk management strategy specifies how liquidity risks should not exceed the set risk appetite, risk tolerance and risk limits. The fundamental objective of the liquidity strategy is to ensure that surplus funds should be invested securely in highly liquid instruments. Liquidity is invested in assets compliant under the Liquidity Coverage Ratio (“**LCR**”) definitions at the time of acquisition.

The Head of Treasury is responsible for the day-to-day management of liquidity risk, and identifies, assesses, manages, monitors, controls, and reports liquidity risks for all relevant counterparties, investments and/or funding sources.

Despite the fact that the Bank operates in several countries, the liquidity decisions are cost-based, and the costs are calculated for liquidity and taken into account in the internal pricing and performance measures. The costs for liquidity reflect the current cost of refinancing and the cost incurred to maintain a liquidity reserve.

Assets and liabilities (for on- and off-balance sheet items) are placed into different time-horizons, from one day up to over 18 months. When calculating the efficiency of the liquidity reserve, all net cash outflows are calculated and the cumulative calculated net cash flow value over time determine the maximum time horizon the liquidity buffer could cover such outflows (i.e. survival horizon).

Identified liquidity risks are continuously monitored to ensure that the management and controls of risks are effective, and that the risks and risk profile are within set risk appetite, risk tolerance and risk limits. The monitoring is mainly performed by daily monitoring of key risk indicators (e.g. LR ratios in

relation to retail deposits or total liabilities, deposit in- and outflows etc.) in the Treasury function's internal models and planning tools and the treasury system. If any of the liquidity ratios falls to a stressed level, the Contingency Funding Team will be notified, the underlying reason for the stressed level identified and appropriate responses implemented as needed.

Control of liquidity risk ensures a sound liquidity risk management. The Treasury function performs own risk controls, and the Risk Management function performs independent controls of liquidity risk including the liquidity risk level and validation of models for liquidity risk.

Sensitivity analysis, stress tests and scenario analysis are performed to manage liquidity under abnormal conditions. Under the stress tests, it is assumed no access to unsecured market financing, and that the general public will make substantial deposit withdrawals. If existing credit facilities are utilised as a part of the funding, undrawn portions of them shall be excluded from the final liquidity calculation. The stress tests are based on the current risk profile, varying degrees of stress and duration and take into consideration both firm-specific and market-related stresses, scenarios should be tested both individually and in combination, and take into consideration intraday liquidity and the need for liquidity for time-critical payments.

5.2 Liquidity planning

The liquidity contingency planning enables rapid responses to mitigate the risks related to the size of the liquidity reserve, and addresses the range from low-impact to high-impact events as well as outlining the response to unforeseen liquidity shortfalls. The aim is to be able to take advantage of the most economical funding sources as appropriate to manage its interest rate risk, FX risk, and funding costs.

Available funding sources that could be used are, for example, share capital/shareholder contributions, Tier 1 and Tier 2 instruments, retail deposits, issuing covered bonds or senior preferred bonds, contracted credit facilities in secured or unsecured form, placing senior notes (e.g. RMBS) to investors, excess liquidity reserve, and selling alternative assets that the Bank owns.

5.3 Liquidity metrics

As of 31st of December 2020, as shown in Table 5.1, the Financial Group had a LCR of 439%, clearly above the regulatory minimum LCR requirement of 100%.

Table 5.1 Liquidity coverage ratio

Liquidity Coverage Ratio (M SEK)	31-Dec-20	31-Dec-19
Liquidity Coverage Ratio	**439%**	**361%**
High quality liquid assets	1,076	927
Total Outflows	981	1,028
Outflows from retail deposits	940	918
Other outflows	41	110
Total inflows (Max 75% of total outflows)	736	771
Inflows from retail customers, lending activities	211	218
Other inflows	1,700	1,560

Table 5.2 shows the composition of the liquidity reserve as of 31st of December 2020.

Table 5.2 Liquidity reserve

Liquidity Reserve (M SEK)	31-Dec-20	31-Dec-19
Cash and balances with central banks	402	266
Deposits in other banks	1,945	1,682
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	438	209
Covered bonds	288	534
Issued by other institutions	288	534
Securities issued by financial corporates (excl. Covered bonds)	-	-
Total	**3,074**	**2,691**

6 Asset encumbrance

This section addresses the encumbered and unencumbered assets of the Financial Group; shown in Table 6.1.

Table 6.1 Asset encumbrance

Encumbered and unencumbered assets (M SEK)	Encumbered				Unencumbered			
31-Dec-20	Carrying amount	Of which eligable EHQLA/HQLA	Fair value	Of which eligable EHQLA/HQLA	Carrying amount	Of which eligable EHQLA/HQLA	Fair value	Of which eligable EHQLA/HQLA
Assets	4,664	19	19	19	18,665	323	707	323
Loans on demand	139	-	-	-	2,209	-	-	-
Equity instruments	-	-	-	-	-	-	-	-
Debt securities	19	19	19	19	707	323	707	323
of which: covered bonds	-	-	-	-	288	103	288	103
of which: issued by general government	19	19	19	19	419	219	419	219
of which: issued by financial corporations	-	-	-	-	288	103	288	103
Loans and advances other than loans on demand	4,367	-	-	-	11,746	-	-	-
of which: mortgage loans	4,367	-	-	-	11,642	-	-	-
Other assets	140	-	-	-	4,003	-	-	-

Encumbered and unencumbered assets (M SEK)	Encumbered				Unencumbered			
31-Dec-19	Carrying amount	Of which eligable EHQLA/HQLA	Fair value	Of which eligable EHQLA/HQLA	Carrying amount	Of which eligable EHQLA/HQLA	Fair value	Of which eligable EHQLA/HQLA
Assets	6,058	20	20	20	16,442	724	724	724
Loans on demand	596	-	-	-	1,351	-	-	-
Equity instruments	-	-	-	-	-	-	-	-
Debt securities	20	20	20	20	724	724	724	724
of which: covered bonds	-	-	-	-	534	534	534	534
of which: issued by general government	20	20	20	20	190	190	190	190
of which: issued by financial corporations	-	-	-	-	534	534	534	534
Loans and advances other than loans on demand	5,266	-	-	-	10,880	-	-	-
of which: mortgage loans	5,266	-	-	-	9,801	-	-	-
Other assets	176	-	-	-	3,486	-	-	-

Collateral received (M SEK)	Encumbered		Unencumbered	
31-Dec-20	Fair value	Of which eligable EHQLA/HQLA	Fair value	Of which eligable EHQLA/HQLA
Collateral received by the reporting institution	-	-	-	-

Collateral received (M SEK)	Encumbered		Unencumbered	
31-Dec-19	Fair value	Of which eligable EHQLA/HQLA	Fair value	Of which eligable EHQLA/HQLA
Collateral received by the reporting institution	-	-	-	-

Sources of encumbrance (M SEK)				
	31-Dec-20		31-Dec-19	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	3,764	4,664	3,926	3,378
of which: derivatives	62	115	19	62
Deposits	-	19	-	20
Debt securities issued	3,702	4,530	3,907	3,296
of which: covered bonds issued	2,900	3,248	-	-
of which: asset-backed securities issued	802	1,282	3,907	3,296
Other sources of encumbrance	-	-	2,004	2,680
TOTAL SOURCES OF ENCUMBRANCE	**3,764**	**4,664**	**5,930**	**6,058**

7 Remuneration

7.1 Remuneration Policy

The Bank has a Remuneration Policy to secure sound remuneration structures within the business. The Remuneration Policy is in agreement with and promotes an effective risk management, thus preventing excessive risk taking and takes into account the size and nature, scope and complexity of the Bank's operation in accordance with the proportionality principle contained in relevant SFSA regulations. In particular, the Bank is not considered to be a Significant Company (*Swe. Betydande företag*).

Furthermore, the Remuneration Policy, which is based on the Bank's risk analysis, is designed so that remuneration to individual employees does not counteract the Bank's long-term interest. The Bank believes in, and promotes, a sound and dynamic performance culture as a means for achieving long-term success and encourage performance, the right behaviour, and balanced risk taking in line with shareholders' expectations. In addition, the Remuneration Policy supports the Bank's ability to attract, develop, and retain highly motivated, skilled and performance-oriented employees.

The Board resolves the Remuneration Policy and sees to that it is applied and followed. The Board has elected a Remuneration Committee to oversee the Remuneration Policy and that it is implemented, followed-up and that it is based on an analysis of the risks facing the Bank. The Committee consists of two non-executive directors. The Remuneration Committee has held three (3) meetings during 2020.

To avoid any conflict of interest, the Remuneration Committee recommends compensation levels for all identified Remuneration Code Staff ("RCS") (*Swe. "Anställda vars arbetsuppgifter har en väsentlig inverkan på företagets riskprofil"*) in the business, and the CEO, or direct assignee, set compensation levels for all non-RCS.

A control function shall when appropriate, and at least annually, review and see to that remuneration within the Bank complies with the Remuneration Policy. The control function shall immediately report the result of its review to the Board at least annually and no later than in conjunction with the adoption of the annual accounts. To avoid any conflict of interest, the control function will consist of the Bank's Internal Audit function. The control function performed its latest review in March 2021 and presented its statement to the Board on the 22nd of April 2021.

7.2 Risk analysis

As set out in the relevant SFSA regulations, financial institutions shall, when it establishes a remuneration policy, conduct a risk analysis with respect to this policy. Before taking any decision relating to the remuneration system, or significant changes to this, a risk analysis shall be conducted with respect to how the remuneration system affects the risks the company is exposed to and how these risks are managed.

The Bank has activities in Sweden, Norway and Finland. The Bank offers, in both Sweden and Norway, predominately two lines of business to the market, one being mortgage lending to private individuals and the other is to take deposits from the general public, and in Finland only mortgages is offered. Furthermore, the Bank did also, up until mid-February 2020, offer personal loans to private individuals in Sweden.

As laid out and analysed in Sections 2 and 3 above, the Bank's activities give rise to various risks that could influence the Bank's financial position and result, if not managed and controlled correctly. Given the nature of the business with mortgage lending, the Bank is exposed to credit risk, as well as liquidity and financing risks to secure funding of the lending. The Bank is further exposed to strategic and business risks in achieving set goals, and operational, regulatory, and reputational risks in conducting the lending and deposit operations, as well as environmental, social and governance ("**ESG**") risk.

7.3 Remuneration structure

The Bank's remuneration structure is based upon these components:

- Fixed Salary
- Bonus
- Pension and Insurance schemes

The components are used to achieve an adequate total remuneration with a sound balance between fixed and variable remuneration and short and long-term remuneration. The Bank has analysed and acknowledges the importance of paying the required compensation, as defined in the Remuneration Policy, in order to get the appropriately qualified, experienced, capable, and motivated staff. It has also acknowledged the importance to assess the value of the individual to the business based on previous performance within the business or externally and the availability of similarly calibre staff within, or outside, the group. The total remuneration shall reflect the complexity, responsibility, and leadership skills required in the position as well as the performance of the employee.

In order to ensure that the Bank can gain and retain appropriate skills and knowledge to ensure good and adequate level of staff and management, the Board has decided that part of the Bank's remuneration structure shall be variable (bonus). This is seen to encourage employees to participate in reaching the Bank's strategies, goals and objectives, and at the same time be able to reward employees that show good or exceptional performance in their work.

The balance between fixed and variable remuneration is heavily weighted in favour of fixed remuneration and the variable component does not encourage nor reward excessive risk taking. Furthermore, bonuses may never exceed 100 per cent of any employee's annual fixed compensation.

Bonuses are assessed based on what the individual achieves and contributes in addition to what is generally expected from the position. Bonus rewards are based on the individual's contribution, the contribution of the business unit the individual work in, and the overall performance of the Bank. At the start of each year, performance targets (such as sales, credit and risk profile, costs, compliance, customer service, and other relevant measures) are agreed with each member of staff and these are assessed throughout the year and adjusted if necessary to reflect changes in the business outlook

(e.g. changes in credit risk profile, volume targets, service level, and other relevant measures). The overriding core driver behind all targets is to get the desired long-term credit and liquidity risk profile within the business and having this at an acceptable level is the key priority.

In regards of the relation between result and paid remuneration, the remuneration reflects sustained business performance in combination with sound risk management by taking into account the availability and cost of funds, liquidity, desired credit risk profile, capital position and levels of credit losses.

The Board has decided that variable remuneration (bonus) will no longer be applied from 1st March 2021 since customer service staff should be granted mandates to make wider credit decisions, and thus bonuses will not align with sound risk-taking and the Bank's long-term ESG targets. The Bank is a transparent bank and conducts its operations in an ethically responsible and professional manner to maintain a sound risk culture counteracting excessive risk-taking behaviour.

7.4 Remuneration Code Staff and deferred variable remuneration

The definition of RCS in the Bank is based on Chapter 2, section 3 of FFFS 2011:1 and in accordance with the CRR, and is in general defined as employees, or other persons part of the Bank, that can significantly influence the risk or risk level of the latter.

To define the RCS, the Bank has interpreted the regulations in view of the Bank's business nature, size and complexity. The interpretations have then been used to recognise RCS based on risk areas and risk levels. This analysis has then been discussed internally, in the Remuneration Committee and the Board has finally decided on who are to be included as RCS. The Board, through recommendations from the Remuneration Committee, will continuously evaluate the RCS structure and who are included in this group. As of the 31st of December 2020, twenty (20) employees in the Bank are identified as RCS.

For these employees, at least 40 per cent of the variable remuneration should be deferred for at least three years. The Board has resolved that the RCS for 2020 shall have their variable remuneration deferred as follows in the table below.

Table 7.1 Terms of deferral for RCS

Terms of deferral for RCS 2020			
Deferral Period	3 years	5 years	Total*
Employees	1	0	1
Per cent of Deferral	40 %	60 %	Total*
Employees	1	0	1

The deferred variable remuneration may be paid out *pro rata* during the deferral period, commencing one year after the deferral. The deferred variable remuneration may be cancelled in part or in whole if at a later date it is demonstrated that the employee, department or the Bank did not fulfil the performance measures. Employees that leave the Bank during the deferral period do not lose their deferred variable remuneration, other than as required by potential risk adjustments.

To ensure that the material risks recognised and used in setting the deferred remuneration pay-out do not materially impact the Bank, a separate study has been done to stress test the triggers for a payment of the deferred remuneration. The study shows that the deferred remuneration pay-out triggers, based on the ICLAAP performance, do not cause the ICLAAP capital needs, the retained earnings, the liquidity position, or the need of emergency equity support to be affected in such way that material risk triggers would cause the Bank a long-term issue.

Bluestep Bank AB (publ)
Adress: Box 23138, 104 35 Stockholm
Besök oss: Sveavägen 163
Växel: 08-501 004 00
Fax: 08-501 004 11
E-post: info@bluestep.se
Org.nr: 556717-5129
Styrelsens säte: Stockholm
Hemsida: www.bluestep.se

7.5 Remuneration in the Financial Group *(all amounts are in SEK)*

7.5.1 Expensed remuneration

The expensed renumeration for 2020 is shown below.

Table 7.2 Total remuneration

Total remuneration to employees in the Financial Group				
	Total remuneration excluding variable pay[1)]	Total number of employees*	Short- and long-term variable pay[1)]	Number of employees with variable pay**
Sweden	125 223 158	286	8 647 997	177
Norway	44 086 499	99	3 777 798	64
Finland	6 807 433	14	418 875	14
Total	**176 117 090**	**385**	**12 844 669**	**241**
	Total remuneration excluding variable pay[1)]	Total number of employees	Short- and long-term variable pay[1)]	Number of employees with variable pay
RCS [2)]	30 492 496	22	2 223 350	21
Total	**30 492 496**	**22**	**2 223 350**	**21**

* Total number of individuals that have received fixed remuneration during the year

** Total number of individuals that have received variable remuneration during the year

1) Variable pay is defined as short-term cash-based Bonus (including the deferred part of the Bonus). All other remunerations reported as fixed remuneration and include Fixed Salary, holiday pay contribution and other benefits. The reported remuneration does not include pension contributions or social charges.

2) As stated in the regulations, information should be published in such manner that the economic conditions for individuals are not revealed. Due to the fact that only three out of the identified RCS are Executives, the Bank has chosen to publish the information for all RCS in totality instead of separating Executives and other RCS. This with the exception for the information published in the annual account in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

7.5.2 Specification of remuneration

A specification of renumeration is shown below.

Table 7.3 Specification of remuneration

Short-term cash-based bonus	100 %
Long-term incentive programme*	0 %

* The Financial Group does not offer any long-term incentive programme

Bluestep Bank AB (publ)
Adress: Box 23138, 104 35 Stockholm
Besök oss: Sveavägen 163
Växel: 08-501 004 00
Fax: 08-501 004 11
E-post: info@bluestep.se
Org.nr: 556717-5129
Styrelsens säte: Stockholm
Hemsida: www.bluestep.se

Bluestep.

7.5.3 Vested, deferred and paid out remuneration

The table below specifies the vested and deferred remuneration for the Financial Group.

Table 7.4 Vested and deferred remuneration

Vested 2020 (total remuneration)				
	Total remuneration excluding variable pay[1)]	Total number of employees	Short- and long-term variable pay	Number of employees with variable pay
RCS [2)]	17 448 219	14	1 471 638	14
Non-RCS	117 668 327	242	9 547 171	242
Total	**135 116 546**	**256**	**11 018 809**	**256**

Deferred variable remuneration for 2020		
	Total deferred amount	Total number of employees
RCS [2)]	42 812	1
Total	**42 812**	**1**

Paid out deferred variable remuneration total		
	Total deferred amount paid out	Total number of employees
RCS [2)]	2 053 873	23
Total	**2 053 879**	**23**

Accumulated deferred variable remuneration		
	Total deferred amount	Total number of employees
RCS [2)]	2 237 476	17
Total	**2 237 476 [3)]**	**17**

1) Variable pay is defined as short-term cash-based Bonus (including the deferred part of the Bonus). All other remunerations reported as fixed remuneration and include Fixed Salary, holiday pay contribution and other benefits. The reported remuneration does not include pension contributions or social charges.

2) As stated in the regulations, information should be published in such a manner that the economic conditions for individuals are not revealed. Due to the fact that only three out of the identified RCS are Executives, the Bank has chosen to publish the information for all RCS in totality instead of separating Executives and other RCS. This with the exception for the information published in the annual account in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

3) The deferred variable remuneration may be paid out pro rata during the deferral period, commencing one year after the deferral. The deferred variable remuneration may be cancelled in part or in whole if at a later date it is demonstrated that the employee, department or the Bank did not fulfil the performance measures.

Table 7.5 Employees remunerated EUR 1,000,000 or more

Number of employees in the Financial Group being remunerated EUR 1,000,000 or more in 2020	
Total number of employees	**0**

7.5.4 Severance pay and guaranteed bonus

The severance pay and guaranteed bonus for 2020 is shown below.

Table 7.6 Severance pay and guaranteed bonus

Paid out severance pay and guaranteed bonus 2020		
	Total paid out amount	**Total number of employees**
Severance pay	3 870 964	16
Guaranteed bonus	0	0
Total	**3 870 964**	**16**