Bluestep.

Periodic Information

on Risk Management, Capital Adequacy, Liquidity, and Remuneration

2022

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1. Introduction

1.1 Purpose

The report provides information about risk management, capital adequacy, liquidity, and remuneration as of 31st of December 2022 for the consolidated situation (the "**Financial Group**") of Bluestep Bank AB (publ) ("**BBAB**" or the "**Bank**"). The information disclosed, together with certain information in the financial statements, satisfies the regulatory requirements for disclosure, and allows market participants, including analysts, partner banks, investors, and customers, to assess the Bank from a risk, capital and liquidity perspective. The report is published on the Bank's website http://www.bluestepbank.com.

1.2 Regulatory context

Together with information addressed in the Bank's Annual Report, the Bank's Interim Report, and the Bank's website, the report complies with the disclosure requirements for credit institutions set out in the Swedish Financial Supervisory Authority (the "**SFSA**") Regulations (FFFS 2014:12) regarding prudential requirements and capital buffers, the SFSA Regulations (FFFS 2010:7) regarding management of liquidity risk in credit institutions and investment firms, the SFSA Regulations (FFFS 2011:1) 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 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 ("**CRR**"), and the Commission Implementing Regulation (EU) 2021/637 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013.

1.3 Scope of application

Bluestep Holding AB is the ultimate parent company of the Financial Group, and the information disclosed in the report is therefore on the basis of Bluestep Holding AB's consolidated situation. The Bank has a Norwegian branch Bluestep Bank AB (publ), filial Oslo and a Finnish branch Bluestep Bank AB (publ), filial i Finland. The following companies are included in the Financial Group: BBAB, Bluestep Servicing AB[1], Bluestep Finans Funding No 1 AB, Bluestep Mortgage Securities No 2 DAC[2], Bluestep Mortgage Securities No 3 DAC[3], and Bluestep Mortgage Securities No 4 DAC[4]. All entities are subject to full consolidation.

[1] After the reporting period, the Bank has made the decision to dissolve the subsidiary Bluestep Servicing AB.

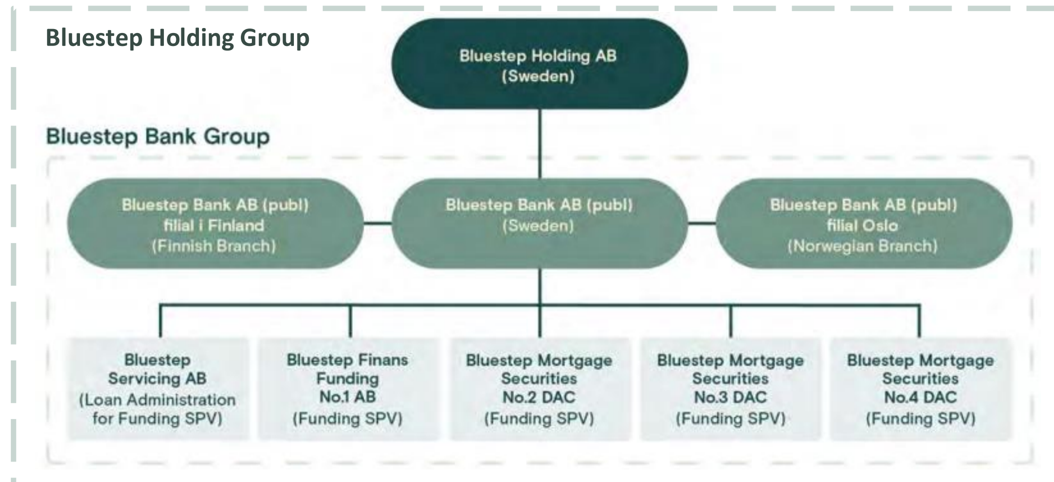
[2] Since February 2019, Bluestep Mortgage Securities No 2 DAC is a dormant company with no activity and is under liquidation.

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

[4] Since May 2022, Bluestep Mortgage Securities No 4 DAC is a dormant company with no activity and is under liquidation.

The figure below shows the legal structure of the Bluestep Holding group and the Bank group with included entities.

Figure 1.1. Legal structure



The disclosures should be read on the basis that the Bank and the consolidated situation is classified as “small and non-complex institution” in accordance with point 145 of Article 4(1) of the CRR.

The Bank and the Financial Group have prior permission from the SFSA to include interim profits in Common Equity Tier 1 capital in accordance with Article 26(2) of the CRR.

For further information on the legal structure, see the Annual Report 2022 and the corporate website http://www.bluestepbank.com.

1.4 Basis of preparation

The information in the report is prepared solely to meet the disclosure requirements, and to provide certain specified information about capital adequacy and liquidity risk, 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.

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

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 financial statements unless otherwise mentioned.

1.5 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 of the 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 positions.
- 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.

1.6 Declaration of the management body

The Board ensures that the risk management framework (including the liquidity risk management framework) are adequate with regard to the business model, risk profile and strategy.

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 Bank is a specialised mortgage bank, working to increase financial inclusion and enable financial empowerment for more people. The offering is mortgage services in Sweden, Norway and Finland, and equity release for customers over 60 years of age who own their home through 60plusbanken in Sweden, as well as savings accounts with competitive interest rates in Sweden and Norway. The lending operations were established in Sweden in 2005, in Norway in 2010, in Finland in 2020, and for 60plusbanken in 2019.

In 2022, the bank notified the SFSA of the intention to also provide cross-border services by offering deposit products to customers residing in Germany. The notification was acknowledged by the SFSA and thereafter also by the German Federal Financial Supervisory Authority ("**BaFin**"). This will enable further diversification of the funding.

The vision is to responsibly increase financial inclusion in society, and the mission to be a modern mortgage bank recognizing our customers' potential. 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 potential. Great emphasis is placed on the customer's future prospects and ability to pay, rather than merely looking at the credit history. The customers are people who wish to consolidate their debts, has one or more payment remarks, has variable income or limited credit history, are self-employed, or are senior citizens.

The lending activities consists of mortgage lending in all markets in which the Bank operates. There are national differences in the composition the product mix of the portfolios. In Sweden, the portfolio primarily consists of purchase related business, in Norway it is primarily driven by refinancing of existing loans, while the portfolio composition in Finland is approximately 50/50.

The main source of income is interest income, and the main costs are interest expenses, staff expenses, marketing costs, and IT costs.

The funding is diversified and consists of equity, deposits from the public, issuance of covered bonds and senior unsecured bonds, and from time-to-time contracted credit facilities.

The Bank has no trading book, and the market risk primarily arise from banking book positions in other currencies than SEK.

3. Risk management

This section addresses the risk governance and risk management framework, as well as information on risk categories.

3.1 Risk governance

The Bank's 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 and support functions, and control functions.

Figure 3.1 Organisational perspective

Board

The Board is appointed by the shareholders at the Annual General Meeting ("**AGM**"), and establishes 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 has the ultimate responsibility for risk management, capital management, compliance, and internal control. The responsibility includes deciding on the Bank's risk management strategies and risk appetite, 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 2022, the Board met on fifteen (15) occasions.

The Board has established the following committees;

- Audit, Risk and Compliance Committee (“**ARCCO**”) which assists the Board in reviewing financial reporting, risk management, compliance, internal control, and auditing. During 2022, the ARCCO met on seven (7) occasions.
- Remuneration Committee which assists the Board in preparing proposals for remuneration. During 2022, the Remuneration Committee met on six (6) occasions.

CEO

The CEO is appointed by the Board, and is 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.

The CEO has established the following committees and forums;

- Senior Management Team (“**SMT**”) which supports the CEO in the day-to-day management of the Bank. The SMT is chaired by the CEO. During 2022, the SMT met regularly, normally bi-weekly.
- Risk and Compliance Committee (“**RiCO**”) which supports the operations in operational risk management, compliance, and audit issues. The RiCO is chaired by the Chief Risk Officer (“**CRO**”). During 2022, the RiCO met on four (4) occasions.
- New Product Approval Process (“**NPAP**”) Committee which supports the operations in considerations of new or changed products, processes, services, systems, and material organisational changes. The NPAP Committee is chaired by the Head of Compliance. During 2022, the NPAP Committee met on 10 occasions.
- Asset and Liability Management Committee (“**ALCO**”) which supports the operations in management of balance sheet-related issues and risks. The ALCO is chaired by the Chief Financial Officer (“**CFO**”). During 2022, the ALCO met on elven occasions.

CRO and the Risk Management function

The Board has appointed a CRO directly subordinated to the CEO. The CRO leads the Risk Management function, which is responsible for supporting, monitoring and independently controlling the risk management within the Bank, thereby ensuring that the risks are identified, assessed, managed, monitored and reported correctly.

Head of Compliance and the Compliance function

The Board has appointed a Head of Compliance directly subordinated to the CEO. The Head of Compliance leads the Compliance function, which is responsible for ensuring regulatory compliance in the operations through providing training, advice, supervision and monitoring of compliance areas.

Internal Audit function

The Internal Audit function is described in the Section below.

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* – The business functions, where managers own their risks and are responsible for the day-to-day risk management, compliance and internal control. The managers of 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 audit of risk management, compliance and internal control in the business and control functions. The Internal Audit function reports directly to the Board. The Bank has outsourced the internal audit to Deloitte AB.

Figure 3.2 Three lines of defence perspective

3.2 Risk management framework

3.2.1 Risk management framework in general

The Bank's risk management aims to ensure that risk-taking is consistent with set risk management strategies and risk appetite, and to achieve an appropriate balance between risk and return. The Bank defines risk as the possibility that an event may occur and adversely affects the achievement of strategy and business objectives. The risk management covers backward-looking, actual, and forward-looking risks, on and off the balance sheet, that the Bank is, or might be, exposed to.

The risk management framework is integrated into the overall governance and internal control frameworks, and is linked to the strategic planning and capital management. The risk management framework covers principles, risk culture, risk management strategies, risk appetite and risk tolerance, risk profile, risk management process, risk control, approval process for new products, sensitivity analysis/stress tests/scenario analysis, internal capital and liquidity assessment process ("**ICLAAP**"), risk reporting, and risk-related policies and instructions.

The risk management framework is governed by the Risk Management Policy and Instruction, approved by the Board. The framework is operationalised through the risk management strategy, via approved policies and instructions, performed in day-to-day processes, procedures and routines, and followed-up and controlled by the risk owners, the control functions, as well as by the CEO, the Board and various committees.

3.2.2 Risk-related policies and instructions

In addition to the Risk Management Policy and Instruction, there are specific policies approved by the Board for the different risk categories; such as Operational Risk Management Policy and Instruction, Credit Risk Management Policy, Liquidity and Financing Risk Management Policy, Foreign Exchange Rate Risk Management Policy, Interest Rate Risk Management Policy, as well as Capital Management Policy, and ICLAAP Policy.

3.2.3 Risk management process

The risk management process, covering to identify, assess, manage, monitor, control and report risks, provides taking and managing risks while at the same time being given the opportunity to achieve set strategic, business, and operating goals.

The logic of the risk management process is described below in logic order.

3.2.3.1 Risk universe

The risks the Bank is, or might be, exposed to are grouped into risk categories which constitute the risk universe. Each risk category has dedicated risk owner, pre-defined risk assessment methods, and is governed and management by relevant risk-related polices and instructions.

3.2.3.2 Risk management strategy

The risk management strategy is approved by the Board, and sets the framework for the risks that the Board is willing to take, and ensures that an appropriate balance is maintained between goal achievement and risk exposures with the aim of ensuring that the Bank remains to be a strong creditor to the customers, strong partner to other parties, as well as strong partner to the owners.

The risk management strategy covers the risk appetite, risk tolerance and risk limits for material risks of carrying out the operations and in achieving goals in accordance with the strategic, business and operational plans. Risk appetite is the amount of risk that the Bank is willing to take in the pursuit to achieve its vision, mission and goals over the strategic time horizon. Risk tolerance is a specification of the risk appetite in order to achieve set goals over a tactical time horizon, and is normally expressed in quantitative terms that could be tolerated to achieve set goals.

3.2.3.3 Risk assessment and management

The Bank is exposed to a number of risks, such as strategic risk, business risk, operational risk (covering information security risk), credit risk, credit-related concentration risk, market risks, liquidity risk, financing risk, credit valuation adjustment risk, asset liability management risk, environmental, social and governance-related ("**ESG**") risk, regulatory risk, and reputational risk. Identified risks are assessed qualitatively based on probability and impact of economic loss, negative change in earnings or material change in risk profile, and quantitatively by calculating capital requirements where relevant. The most material risks are aggregated on overall level, and discussed with the SMT, the Head of Compliance, and ARCCO, and the Board.

The risks are limited and mitigated through set risk appetite and risk tolerances, approved policies and instructions, implemented procedures and routines, as well as other mitigating measures, which makes it possible to make well-informed decisions for risk-taking and to ensure awareness and understanding of risk management within the Bank. Risk mitigating actions are in advance prepared in the risk management strategy, in the business continuity and disaster recovery planning, capital planning, liquidity planning, and recovery planning.

3.2.3.4 Risk profile

Based on the aggregated risk outcomes, the risk profile refers to the aggregated risk exposure inherent in the operations activities and balance sheet at a specific point in time. The risk profile is to be kept within set risk appetite and risk tolerance.

The established risk management framework and arrangements are adequate with regard to the risk profile and strategy.

3.2.3.5 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 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.

Potential breaches of set risk appetite, risk tolerance and risk limits are managed in accordance with established escalation order.

3.2.3.6 Risk reporting
There are procedures and routines in place for independent risk reporting, including reporting tools and IT systems. This ensures that the risk information is up-to-date, complete and relevant, and that external reporting is reported on time. The risk information is collected and compiled for material and measurable risks, as well as compiled to identify and report risk exposures, risk concentrations and changes in risk profile. The IT systems support the compilation, and are flexible to meet different analysis needs.

The main internal risk reporting are the risk and control reports from the Risk Management function to the Board, the ARCCO, the CEO, the SMT, the RiCO, the ALCO, and the Credit Committees.

3.3 Specific risk management information
Specific risk management information for risk categories are disclosed below. For further risk management information for risk categories, see the Annual Report 2022 (Note 2 Risk Management).

3.3.1 Credit risk
Credit risk is defined as 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 material for the Bank. Credit losses could arise partly due to inability or unwillingness of a customer or a counterparty to fulfil its obligations in relation to lending (probability of default), and partly due to recoveries from the collateralized assets being insufficient to cover the principal amounts, accrued interest and other costs (loss given default). In addition, credit risk can be reflected as losses via provisions resulting from reduction in portfolio values arising from actual or perceived deterioration in credit quality.

The main credit risk exposures are mortgages, and liquidity reserve investments such as government bonds and covered bonds and exposures to other institutions. The credit risk appetite for mortgages is medium, and for liquidity reserve investments low.

The credit portfolio is well diversified and consists of a large number of customers, mainly in sectors with somewhat increased risk compared to traditional mortgage banks. The credit strategy is based on the borrowers' expected ability to repay their debts and credit history, and to assess the probability of default, 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.

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

For more information regarding measurement of credit risk by using probability of default ("**PD**"), exposure at default ("**EAD**") and loss given default ("**LGD**") for calculating expected credit losses ("**ECL**") under IFRS 9, see the Annual Report 2022 (Note 2 Risk management).

3.3.2 Credit-related concentration risk

Credit-related concentration risk is defined as 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.

The risk appetite for credit-related concentration risk is medium, and exposure to concentration risk is inherent in the business model, why the concentration risk is one of the core focus areas in customer credit assessment. Concentration risk might arise due to lack of diversification and lending too heavily in one industry, market, geographic area or purchase of only one type of financial instrument, as well as from concentration in funding and liquidity mix.

The maximum credit exposure to any client or counterparty as of 31st of December 2022 was SEK 1,159.6M. Credit quality, geographical exposure and the maximum exposure for credit risk are further disclosed in the Annual Report 2022 (Note 2 Risk Management).

Since the Bank only operates 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 is continuously monitored. The Risk Management function is independently assessing the concentration risk to ensure that the risk profile is in line with set risk strategy and managed appropriately, and reports the concentration risk to the Board and the CEO on a monthly basis.

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, the Bank maintains sufficient capital for the assessed concentration risk.

3.3.3 Credit valuation adjustment risk

Credit valuation adjustment ("**CVA**") risk is defined as 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.

CVA risk arise if a counterparty in a transaction might fail before the final settlement of the transaction is performed. More precisely, 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 risk appetite for credit valuation adjustment risk is low. The Bank uses OTC derivatives for its hedging strategies, and the CVA risk is very sensitive to mark-to-market valuations and the terms of the transaction.

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.

Credit valuation adjustment exposures are continuously assessed and reported. As CVA risk is a consequence of the hedging activities, and the average term of these activities in most cases is shorter than three years, no specific further risk mitigating actions are taken.

3.3.4 Market risk

3.3.4.1 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.

The risk appetite for FX risk is medium. Given the Bank's operations in Norway and Finland, 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 are established policies, instructions, processes and routines for managing exposure to market risk.

3.3.4.2 Interest rate risk in the banking book

Interest rate risk in the banking book 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 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, as both the asset and liability bases are a mix of fixed and variable interest-bearing items with different maturities and interest periods. 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 by the Bank.

The risk appetite for interest rate risk is low, and the Bank uses derivative instruments to achieve desired mitigation of interest rate risk. Interest rate risk is primarily attributable to fixed rates to a larger extent being applied to lending, whereas financing to a larger extent is conducted at variable rates. The Bank actively manages the interest rate risk by matching fixed and floating interest rates and durations of assets and liabilities when possible, or by mitigating the risk with hedging instruments.

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. By using numerous stress scenarios, the interest rate risk exposure is calculated under

unfavourable conditions. If the exposures should exceed set limits, or are close to doing so, the Bank will enter into new hedging instruments to reduce the interest rate exposure to a level within set limits.

The Treasury function performs monthly monitoring and reporting of interest rate risk to the management, and the Risk Management function performs independent follow-up and reporting.

The Bank calculates interest risk exposures in several ways, including those based on the SFSA's guidance on methods to assess individual risk types under the Pillar II capital requirement.

3.3.5 Liquidity risk

Liquidity risk is defined as the risk of economic loss, negative change 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.

The risk appetite for liquidity risk is low, and the Bank shall retain enough excess liquidity 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 limits for the minimum liquidity reserve and liquidity buffer that the Bank shall maintain at any time. The Bank uses key risk indicators ("**KRIs**"), 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.

The extent of the liquidity risk exposure depends on the Bank's, and its established branch offices' and subsidiaries' ability to raise the necessary funding to meet its obligations, hence funding risk is interconnected to the liquidity risk.

The Bank is mainly exposed to liquidity risk related to retail deposits and refinancing of issued securities (senior unsecured bonds and covered bonds) and credit facilities. Diversification of funding and maturity concentration limits reduces the liquidity risk. Ongoing interest payments 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, liquidity risk is reduced. Deposit product features and pricing are designed to maximize their cost/risk efficiency. The Bank has retail deposits from the public in Sweden and Norway, which are covered by the respective country's deposit guarantee scheme, thereby further reduces the 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 liquidity coverage ratio ("**LCR**") and the net stable funding ratio ("**NSFR**") are calculated and monitored on a monthly basis. The Treasury function manages the operational handling of liquidity risks, and reports the liquidity situation on a daily and monthly basis. Additional liquidity monitoring metrics ("**ALMM**") are also reported to the supervisory authorities on a quarterly basis.

3.3.6 Operational risk

Operational risk is defined as the risk of economic loss, negative change in earnings or material change in risk profile due to inadequate or failed internal processes, people, systems or from external events, including legal risk and information and communication technology ("**ICT**") risk.

The risk appetite for operational risk is medium, and the Bank has a range of measures and tools in place for identifying, assessing, managing, monitoring, controlling, documenting and reporting operational risks. These are part of a solid set of policies, instructions, processes, procedures and routines to ensure that the operational risks in the business operations are at an acceptable level, and that processes and IT systems work accordingly. Additionally, the Bank conducts regular training and education of staff, such as mandatory training in operational risk management, incident management,

anti-money laundering and terrorism financing, GDPR, bank secrecy, conflicts of interest, code of conduct, and information security. The Bank also has a formal whistle-blowing process to be able to report irregularities.

As part of the risk management framework, all business functions perform self-risk assessments of their operations twice a year, in order to identify and assess risks that could otherwise have been overlooked. Identified operational risks are assessed based on likelihood of occurrence and impact potential events. Material risks are mitigated by ensuring processes, routines and controls, which also increases the knowledge and awareness of the staff and contributes to spreading a consensus of operational risks within the Bank.

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

Through the incident reporting tool, the staff reports incidents for further analysis and follow-up. The Risk Management function continuously monitors reported incidents, and follows up with incident owner and incident responsible staff to ensure that proper actions are taken and to prevent incidents from reoccurring. The Risk Management function reports material incidents to the CEO, the RiCO, the CEO and the Board.

IT related risks are mitigated in particular through the development and maintenance 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 testing of business continuity management plans are carried out, and structured work is carried out to protect the information. To strengthen this work even further, a continuous review of processes and working methodologies is performed to improve and supplement the Bank's information security. The Bank has a security function that ensures and maintains a high level of information security in the operations, and the function proactively works to increase security awareness in the organisation as well as with partners and to continuously improve the security of the IT environment.

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.

3.3.7 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 liquidity reserve, asset liability management risk, ESG risks, regulatory risk, and reputational risk. For further information of ESG risk management, see the Annual Report 2022.

The risks are assessed qualitatively, and thereto material risks are assessed quantitatively as Pillar II capital requirement and in the Bank's ICLAAP to allocate capital to ensure continued financial stability over the strategic business horizon.

4. Capital management and capital adequacy

This section addresses the capital management framework and the capital adequacy for the Financial Group.

4.1 Capital management framework in general

The capital management is integrated into the strategic planning, the risk management framework, and the performance of the ICLAAP. The capital management is based on internal conditions, organisational structure, business model, and the risk, capital and liquidity situation. Through the capital management, sufficient capitalisation, appropriate composition of own funds from a loss absorption and cost perspective, efficient use of capital, and efficient capital planning, is ensured. This provides support for achieving set goals, target results, maintaining financial strength and continuity, maintaining sufficient liquidity to meet commitments, and to protect the Bank's brand and reputation. In addition, the operations can continue to generate returns and benefits for owners and other stakeholders. The Bank's capital management framework is governed by the Capital Management Policy, approved by the Board, and covers roles and responsibilities, principles, capital requirements and capital adequacy, capital planning and capital reporting.

The Bank's ICLAAP is performed annually, and more often when necessary, and the monitoring and reporting of KRI outcomes are performed monthly. As part of the ICLAAP, the size and composition of the capital and liquidity reserve is analysed and assessed against estimated contingency needs which addresses shortfalls in situations of financial stress.

4.2 Risk-based capital requirements

The risk-based capital requirement is calculated in accordance with the CRR, Swedish Acts[5], and SFSA Regulations and General Guidelines. The risk-based capital requirements consist of the Pillar I minimum capital requirement, the Pillar II capital requirement (“**P2R**”), the combined buffer requirements, and the Pillar II guidance (“**P2G**”).

Overview of the methodologies used for calculating the risk-based capital requirement is shown below.

Table 4.1 Risk-based capital requirement methodology

Risk-based capital requirement		**Methodology**
Pillar I Capital Requirement		
Minimum Capital Requirement	Credit risk	Standardised Approach
	Counterparty credit risk	Original Exposure Method
	CVA risk	Standardised Approach
	Market risk	Standardised Approach
	Operational risk	Alternative Standardised Approach
Pillar II Capital Requirement		
Pillar II Requirement (“**P2R**”)	For material risks, internal methodologies have been applied. For the following risks, SFSA methodologies have be applied; - Interest Rate risk - Credit Spread risk - Concentration risk	
Combined Buffer Requirement		
Countercyclical Capital Buffer (“**CCyCB**”)	-	-
Capital Conservation Buffer (“**CCB**”)	-	-
Pillar II Guidance		
Pillar II Guidance (“**P2G**”)	-	-

[5] Act (2014:968) regarding special supervision of credit institutions and securities companies, and Act (2014:966) regarding capital buffers.

Pillar I minimum capital requirement: The Pillar I capital requirement is calculated based on the standardised approach for credit risk, credit valuation adjustment risk and market risk, while the original exposure method is used for the counterparty credit risk and the alternative standardised approach is used for operational risk. The minimum capital requirement amounts to 8% of the risk weighted assets ("**RWAs**").

P2R: The P2R is based on qualitatively and quantitatively assessment of material risks to determine whether additional capital is needed for risks not covered, or not sufficient covered, by the Pillar I minimum capital requirement. The P2R for material risks is assessed using internal methodologies, as well as methods from the SFSA for concentration risk, interest rate risk, and credit spread risk. The SFSA performs a supervisory review and evaluation process ("**SREP**") and formally decides on a P2R. In accordance with the latest SFSA SREP decision, a risk-based P2R of 1.20% of the RWAs for the Consolidated situation and 1.10% of the RWAs for the Bank shall be met.

Combined buffer requirement: The combined capital buffers are regulatory buffers held to absorb losses in periods of financial stress. The applicable countercyclical capital buffer ("**CCyCB**") factors as of the reporting period are 1% in Sweden, 2% in Norway, and 0% in Finland.

P2G: The P2G level is notified by the SFSA as part of the SREP in addition to the other main components to cover risks and manage future financial stresses. The P2G applies if the SFSA considers the capital conservation buffer to be insufficient for covering risks the Bank might be exposed to. The SFSA has decided not to notify any P2G for the Consolidated Situation or the Bank.

The Consolidated situation and the Bank shall at all times satisfy the Common Equity Tier 1 capital ("**CET1**") ratio of at least 4.5%, Tier 1 capital ratio of at least 6%, total capital ratio of at least 8%, and the institution-specific buffer requirements.

In addition, the Bank maintains an extra capital buffer to prevent violating external regulatory requirements or internally set capital limits in situations of financial stress and significant negative impact on the financial system. The Board has established a long-term target of Common Equity Tier 1 capital ratio of 16%, and a minimum Common Equity Tier 1 capital ratio of 15%.

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Overview of risk weighted exposure amounts (EU OV1) is shown in the table below.

Table 4.2 Overview of risk weighted exposure amounts (EU OV1)

M SEK		Risk weighted exposure amounts (RWEAs) 31 Dec 2022	31 Dec 2021	Total own funds requirements 31 Dec 2022
1	Credit risk (excluding CCR)	7,863	6,957	629
2	*Of which the standardised approach*	7,863	6,957	629
3	*Of which the foundation IRB (FIRB) approach*			
4	*Of which: slotting approach*			
EU 4a	*Of which: equities under the simple riskweighted approach*			
5	*Of which the advanced IRB (AIRB) approach*			
6	Counterparty credit risk - CCR	118	189	9
7	*Of which the standardised approach*			
8	*Of which internal model method (IMM)*			
EU 8a	*Of which exposures to a CCP*			
EU 8b	*Of credit valuation adjustment - CVA*	29	21	2
9	*Of which other CCR*	89	168	7
15	Settlement risk			
16	Securitisation exposures in the non-trading book (after the cap)			
17	*Of which SEC-IRBA approach*			
18	*Of which SEC-ERBA (including IAA)*			
19	*Of which SEC-SA approach*			
EU 19a	*Of which 1250%/ deduction*			
20	Position, foreign exchange and commodities risks (Market risk)	702	494	56
21	*Of which the standardised approach*	702	494	56
22	*Of which IMA*			
EU 22a	Large exposures			
23	*Empty set in the EU*			
24	Operational risk	888	831	71
EU 24a	*Of which basic indicator approach*			
EU 24b	*Of which standardised approach*	888	831	71
EU 24c	*Of which advanced measurement approach*			
25	*Empty set in the EU*			
26	*Empty set in the EU*			
27	*Empty set in the EU*			
28	*Empty set in the EU*			
29	**Total**	9,570	8,471	766

The total risk-based capital requirements are shown below.

Table 4.3 Total risk-based capital requirements

Total capital requirements (M SEK)	31-Dec-22	31-Dec-21
Pillar I capital requirement	**766**	**678**
Pillar II capital requirement	**115**	**-**
Combined buffer requirement	**374**	**247**
Pillar II Guidance	-	-
Sum capital requirements	**1,254**	**925**

Totalt capital requirements (% RWA)	31-Dec-22	31-Dec-21
Pillar I capital requirement	**8.00%**	**8.00%**
Pillar II capital requirement	**1.20%**	**-**
Combined buffer requirement	**3.91%**	**2.91%**
Pillar II Guidance	-	-
Sum capital requirements	**13.11%**	**10.91%**

The internally assessed capital needs are shown below.

Table 4.4 Internally assessed capital need

Internally assessed capital need (M SEK)	31-Dec-22	31-Dec-21
Pillar I capital requirement	**766**	**678**
Pillar II capital requirement	**121**	**102**
Combined buffer requirement	**374**	**247**
Pillar II Guidance	-	-
Sum capital requirements	**1,261**	**1,026**

Internally assessed capital need (% RWA)	31-Dec-22	31-Dec-21
Pillar I capital requirement	**8.00%**	**8.00%**
Pillar II capital requirement	**1.27%**	**1.20%**
Combined buffer requirement	**3.91%**	**2.91%**
Pillar II Guidance	**-**	**-**
Sum capital requirements	**13.17%**	**12.11%**

The P2R was decided by the SFSA in July 2022. The own funds capital requirement is met for the Financial Group.

4.3 Leverage ratio requirement

The leverage ratio is calculated in accordance with the CRR, Swedish Acts[6], and SFSAs Regulations and General Guidelines. The leverage ratio is a non-risk-based measure to limit build-up of leverage on the balance sheet, and is calculated as the ratio between Tier 1 capital and the leverage ratio exposure amount, comprising of on- and off-balance sheet exposures.

The leverage ratio capital requirement is calculated in accordance with the table below.

Table 4.5 Leverage ratio requirement methods

Leverage ratio requirement
Minimum Capital Requirement
Minimum Capital Requirement
Pillar II Capital Requirement
Pillar II Requirement (“**P2R**”)
Pillar II Guidance
Pillar II Guidance (“**P2G**”)

The minimum capital requirement for the leverage ratio is 3% of the leverage exposure amount, and additional 0.15% should be met for the Consolidated situation as P2G in accordance with the latest SFSA SREP decision.

The minimum and Pillar II leverage ratio requirements shall be met with Tier 1 capital, while P2G shall be met with CET1 capital.

[6] Act (2014:968) regarding special supervision of credit institutions and securities companies, and Act (2014:966) regarding capital buffers.

The leverage ratio requirement is shown below.

Table 4.6 Leverage ratio requirement

Total capital requirements (M SEK)	31-Dec-22	31-Dec-21
Minimum capital requirement	**714**	**633**
Pillar II capital requirement	**-**	**-**
Pillar II guidance	36	-
Totalt Leverage ratio requirement and Pillar II Guidance	**750**	**633**

Totalt capital requirements (% RWA)	31-Dec-22	31-Dec-21
Minimum capital requirement	**3.00%**	**3.00%**
Pillar II capital requirement	**-**	-
Pillar II guidance	**0.15%**	-
Totalt Leverage ratio requirement and Pillar II Guidance	**3.15%**	**3.00%**

The Consolidated situation and Bank are fulfilling the total leverage ratio requirement of 3.15% of the leverage exposure amount.

4.4 Composition of regulatory own funds

The composition of regulatory own funds (EU CC1) is shown below.

Table 4.7 Composition of regulatory own funds (EU CC1)

	Composition of regulatory own funds (M SEK)	31 Dec 2022	31 Dec 2021
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	4,451	4,451
	of which: Instrument type 1		
	of which: Instrument type 2		
	of which: Instrument type 3		
2	Retained earnings	-69	-69
3	Accumulated other comprehensive income (and other reserves)	19	28
EU-3a	Funds for general banking risk		
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	210	0
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**4,611**	**4,410**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-2	-2
8	Intangible assets (net of related tax liability) (negative amount)	-2,985	-3,019
9	Not applicable		
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-2,987**	**-3,020**
29	**Common Equity Tier 1 (CET1) capital**	**1,624**	**1,390**
Additional Tier 1 (AT1) capital: instruments			
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**		
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**		
44	**Additional Tier 1 (AT1) capital**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,624**	**1,390**
Tier 2 (T2) capital: instruments			
51	**Tier 2 (T2) capital before regulatory adjustments**		
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**		
58	**Tier 2 (T2) capital**		
59	**Total capital (TC = T1 + T2)**	**1,624**	**1,390**
60	**Total risk exposure amount**	**9,570**	**8,471**
Capital ratios and requirements including buffers			
61	Common Equity Tier 1	16.97%	16.41%
62	Tier 1	16.97%	16.41%
63	Total capital	16.97%	16.41%
64	Institution CET1 overall capital requirements	9.08%	7.62%
65	*of which: capital conservation buffer requirement*	2.50%	2.50%
66	*of which: countercyclical capital buffer requirement*	1.41%	0.62%
67	*of which: systemic risk buffer requirement*		
EU-67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement*		
EU-67b	*of which: additional own funds requirements to address the risks other than the risk of excessive leverage*	0.68%	
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**8.97%**	**8.41%**

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4.5 Key metrics

Key metrics for the Financial Group are shown below.

Table 4.8 Key metrics (EU KM1)

	Key Metrics (M SEK)	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1) capital	1,624	1,616	1,493	1,515	1,390
2	Tier 1 capital	1,624	1,616	1,493	1,515	1,390
3	Total capital	1,624	1,616	1,493	1,515	1,390
Risk-weighted exposure amounts						
4	Total risk exposure amount	9,570	9,000	8,794	8,874	8,471
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio (%)	16.97%	17.95%	16.97%	17.07%	16.41%
6	Tier 1 ratio (%)	16.97%	17.95%	16.97%	17.07%	16.41%
7	Total capital ratio (%)	16.97%	17.95%	16.97%	17.07%	16.41%
Additional own funds requirements to address risks other than the risk of excessive leverage						
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.20%	1.20%			
EU 7b	*of which: to be made up of CET1 capital (percentage points)*	0.68%	0.68%			
EU 7c	*of which: to be made up of Tier 1 capital (percentage points)*	0.90%	0.90%			
EU 7d	Total SREP own funds requirements (%)	9.20%	9.20%	8.00%	8.00%	8.00%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure						
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the levelof a Member State (%)					
9	Institution specific countercyclical capital buffer (%)	1.41%	1.19%	0.62%	0.42%	0.41%
EU 9a	Systemic risk buffer (%)					
10	Global Systemically Important Institution buffer (%)					
EU 10a	Other Systemically Important Institution buffer (%)					
11	Combined buffer requirement (%)	3.91%	3.69%	3.12%	2.92%	2.91%
EU 11a	Overall capital requirements (%)	13.11%	12.89%	11.12%	10.92%	10.91%
12	CET1 available after meeting the total SREP own funds requirements (%)	8.97%	9.95%	8.97%	9.07%	8.41%
Leverage ratio						
13	Total exposure measure	23,805	21,540	21,776	21,900	21,107
14	Leverage ratio (%)	6.82%	7.50%	6.86%	6.92%	6.59%
Additional own funds requirements to address the risk of excessive leverage (as a percentage						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)					
EU 14b	*of which: to be made up of CET1 capital (percentage points*					
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure						
EU 14d	Leverage ratio buffer requirement (%)					
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	1,297	949	1,261	1,196	1,140
EU 16a	Cash outflows - Total weighted value	1,098	1,127	937	949	919
EU 16b	Cash inflows - Total weighted value	2,033	1,055	1,390	1,355	1,206
16	Total net cash outflows (adjusted value)	275	282	234	237	230
17	Liquidity coverage ratio (%)	472.43%	336.83%	538.42%	503.91%	496.28%
Net Stable Funding Ratio						
18	Total available stable funding	19,726	18,566	17,941	18,474	18,227
19	Total required stable funding	14,936	14,612	14,467	14,744	14,068
20	NSFR ratio (%)	132.07%	127.06%	124.01%	125.29%	129.56%

4.6 Capital planning

The capital planning is forward-looking in alignment with the strategic planning horizon, and ensures that own funds at all times are, and remain, sufficient in terms of size and quality (loss absorbing capacity) to bear the risks that result from the business performance and the strategic planning. The capital planning also ensures continuity to take measures to strengthen the capital and liquidity situation beyond the strategic planning horizon, when necessary.

The Bank performs capital planning for the size of the own funds based on;

- identified and assessed risks,
- risk profile,
- sensitivity analysis, stress tests and scenario analysis,
- expected expansion of lending and financing opportunities, and
- new or changed legislation, business and competitive situation, and other external conditions.

Capital planning is performed for the size of the own funds based on identified and assessed risks, risk profile, sensitivity analysis, stress tests and scenario analysis, expected expansion of lending and financing opportunities, and new or changed legislation, business and competitive situation, and other external conditions.

The measures are selected and prioritized so that the result is maximized, and risk diversification is maintained in accordance with the strategic planning, risk management strategy and internal rules. Sources for raising capital could be from shares, shareholder's contributions, the market in the form of capital instruments, or increased own funds due to retained earnings. Further capital raising actions are set in the recovery plan approved by the Board.

The capital plan is reviewed at least once a year.

4.7 Monitoring and reporting

The Risk Management function monitors the capital requirements and capital adequacy outcomes against set risk tolerance limits on a monthly basis, and reports to the Board and the CEO.

The ICLAAP, where the capital management is integrated, is performed at least annually, or when necessary, and monitoring of outcomes and reporting is performed quarterly.

5. Liquidity risk management

This section addresses the liquidity risk management framework and the liquidity situation of the Financial Group.

5.1 Liquidity risk management framework in general

The liquidity management is integrated into the strategic planning, risk management framework, capital management, and the performance of the ICLAAP, to ensure sufficient and appropriate composition of liquidity. The liquidity management framework covers roles and responsibilities, principles, risk management strategy, risk management process, risk control and reporting related to liquidity. The framework is governed by the Liquidity and Financing Risk Management Policy, approved by the Board.

5.2 Liquidity risk management strategy

The liquidity risk management aims to ensure sufficient available liquidity and a strong funding base. The liquidity risk management strategy thereby ensures sufficient liquidity reserves at all times specifying how liquidity risks should not exceed the set risk appetite, risk tolerance and risk limits. The fundamental objective of the liquidity risk management strategy is to ensure that surplus funds should be invested securely in highly liquid instruments. Liquidity is invested in assets compliant under the LCR definitions at the time of acquisition.

The objective of the LCR is to promote the short-term resilience of the liquidity risk profile, by ensuring an adequate stock of unencumbered high quality liquid assets ("**HQLA**") that could be converted easily and immediately in markets into cash to meet the liquidity needs for a 30-calendar day liquidity stress scenario. The LCR thus in general terms aims to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spill over from the financial sector to the real economy. The Bank complies with the LCR requirement on a consolidated basis. Furthermore, a good balance of the currency composition in the liquidity reserve is also sought in relation to potential net outflows for each relevant currency, namely SEK, NOK and EUR. The Bank also complies with the requirements for the NSFR, which ensures that the 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 set risk tolerance. The internal measurements and limits are primarily attributable to the size and composition of the liquidity reserve. The liquidity reserve is set primarily in relation to total liabilities as well as 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 liquidity risk management strategy is closely connected with the funding and financing risk management strategy. If needed, in the short-term, the level of funding (based on the deposit activity from the general public) could be adjusted by increasing or decreasing the deposit interest rate payable to depositors, which affects both the actual liquidity reserve level and the liquidity reserve level that should be maintained.

5.3 Liquidity risk management process

The Treasury function is responsible for the day-to-day management of liquidity risk, and to identify, assess, manage, monitor, control and report liquidity risks for relevant counterparties, investments and 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 upcoming maturities and the cost the Bank incurs to maintain a liquidity reserve.

Assets and liabilities are placed into different time-horizons, from one (1) 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).

For management of liquidity risk, no pledged collateral is included in the liquidity reserve. The minimum liquidity reserve is partly calibrated depending on the term-structure and the size of the retail deposit book, and a sizeable buffer is retained above the calibrated minimum level. In the event that there is a material and unplanned outflow of deposits, liquidity stress tests and actions are performed. The liquidity levels are then re-built to ensure alignment with the risk appetite, risk tolerance and risk limits. For mitigating counterparty risk, there are limits for placing excess liquidity.

Liquidity risks are continuously monitored to ensure that the management and controls of risks are effective, and that the risks and the risk profile are within set risk appetite, risk tolerance and risk limits. There are regularly performed sensitivity analysis, stress tests and scenario analysis to manage liquidity under stressed conditions. The monitoring is mainly performed via KRIs (e.g. various liquidity reserve ratios, LCR scenarios, and deposit in- and outflows) 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, consisting of the CEO, the CFO and the Head of Treasury, 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 risk controls where the segregation of duties is central (e.g., purchase/registration of HQLA and reconciliation/control related to the transaction). The Risk Management function performs independent controls of liquidity risk including the liquidity risk level and validation of models for liquidity risk.

5.4 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 when necessary selling alternative assets that the Bank owns.

The liquidity plan is reviewed at least once a year.

5.5 Monitoring and reporting

Outcome of the liquidity situation is monitored and reported internally to the Board, the ARCCO, the CEO, the SMT, and the ALCO, in daily Liquidity Reports, monthly CFO Reports, monthly Risk Reports, and meeting materials for ALCO.

5.6 Liquidity situation

This section addresses the liquidity situation for the Financial Group.

The LCR is shown in the table below.

Table 5.1 Liquidity coverage ratio

Liquidity Coverage Ratio (M SEK)	31-Dec-22	31-Dec-21
Liquidity Coverage Ratio	**472%**	**496%**
High quality liquid assets	1,297	1,140
Total Outflows	1,098	919
Outflows from retail deposits	815	761
Other outflows	283	157
Total inflows (Max 75% of total outflows)	824	689
Inflows from retail customers, lending activities	227	180
Other inflows	1,807	1,027

The composition of the liquidity reserve is shown in the table below.

Table 5.2 Liquidity reserve

Liquidity Reserve (M SEK)	31-Dec-22	31-Dec-21
Cash and balances with central banks	502	356
Deposits in other banks	1,702	1,164
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	641	552
Covered bonds	208	284
Issued by other institutions	208	284
Securities issued by financial corporates (excl. Covered bonds)	-	-
Total	**3,053**	**2,356**

The NSFR with available and required stable funding is shown in the table below.

Table 5.3 Net stable funding ratio

Net stable funding ratio (M SEK)	31-Dec-22	31-Dec-21
Net stable funding ratio	**132.1%**	**129.6%**
Available stable funding	19,726	18,227
Required stable funding	14,936	14,068

The average LCR, average liquidity outflows, inflows and net outflows, and average total liquid assets after applying the relevant haircuts based on end-of-month observations over the preceding 12 months, is shown in the table below.

Table 5.4 Average liquidity coverage ratio and average liquidity outflows, inflows and net liquidity outflows

Liquidity coverage ratio averages over the preceding 12 months (M SEK)	
Liquidity coverage ratio	**441.6%**
Total liquid assets (after haircuts)	1,184
Net liquidity outflows	279
liquidity outflows	1,118
liquidity inflows (before cap, max 75% of outflows)	1,302

The LCR for the Financial Group is well above the regulatory minimum LCR requirement of 100%.

5.7 External funding sources

This section addresses the size and composition of the Financial Group's external funding sources.

The aim is to have a diversified funding structure in order to limit refinancing risks. The external funding sources, volumes and relative shares are shown in the table below.

Table 5.5 External funding sources, volumes and relative shares

External funding sources (M SEK)	31-Dec-22	Share (%)
Senior unsecured bonds	2,148	10%
Covered bonds	6,019	28%
Deposits from the public	13,189	62%
Total	**21,356**	**100%**

6. Non-performing and forborne exposures

For loans and advances where the contractual terms have been amended in favor for the customer because of financial difficulties are referred to as forborne exposures. Forbearance measures can consist of grace periods, interest rate reductions and rescheduled payments. For more information regarding credit risk, assumptions and definitions, see the annual Report 2022 (Note 2 Risk management).

The credit quality of forborne exposures is shown in the table below.

Table 6.1 Credit quality of forborne exposures (EU CQ1)

	(M SEK)	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
005	Cash balances at central banks and other demand deposits								
010	Loans and advances	2,002	159	159	159	-18	-7	2,134	152
020	*Central banks*								
030	*General governments*								
040	*Credit institutions*								
050	*Other financial corporations*								
060	*Non-financial corporations*								
070	*Households*	2,002	159	159	159	-18	-7	2,134	152
080	Debt Securities								
090	Loan commitments given								
100	***Total***	2,002	159	159	159	-18	-7	2,134	152

The credit quality of performing and non-performing exposures by past due days is shown in the table below.

Table 6.2 Credit quality of non-performing exposures by past due days (EU CQ3)

(M SEK)	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Cash balances at central banks and other demand deposits	2,204	2,204										
Loans and advances	20,034	19,109	924	373		178	106	78	10	0	0	373
Central banks												
General governments												
Credit institutions												
Other financial corporations												
Non-financial corporations	1	1	0	0	0	0	0	0	0	0	0	0
Of which SMEs	1	1	0	0	0	0	0	0	0	0	0	0
Households	20,033	19,108	924	373	0	178	106	78	10	0	0	373
Debt securities	842	842	0	0	0	0	0	0	0	0	0	0
Central banks												
General governments	635	635	0	0	0	0	0	0	0	0	0	0
Credit institutions	207	207	0	0	0	0	0	0	0	0	0	0
Other financial corporations												
Non-financial corporations												
Off-balance-sheet exposures												
Central banks												
General governments												
Credit institutions												
Other financial corporations												
Non-financial corporations												
Households												
Total	23,079	22,155	924	373	0	178	106	78	10	0	0	373

Performing and non-performing exposures and related provisions is shown in the table below.

Table 6.3 Performing and non-performing exposures and related provisions (EU CR1)

	(M SEK)	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	Cash balances at central banks and other demand deposits	2,204	2,204	0	0	0	0	0	0	0	0	0	0		0	0
010	Loans and advances	20,034	17,085	1,937	373	0	373	-39	-7	-32	-21	0	-21		19,925	351
020	*Central banks*															
030	*General governments*															
040	*Credit institutions*															
050	*Other financial corporations*															
060	*Non-financial corporations*	*1*	*1*	*0*	0	0	0	0	0	0	0	0	0		1	0
070	*Of which SMEs*	*1*	*1*	*0*	0	0	0	0	0	0	0	0	0		1	0
080	*Households*															
090	Debt securities	842	0	0	0	0	0	0	0	0	0	0	0		0	0
100	*Central banks*															
110	*General governments*	*635*	*0*	*0*	0	0	0	0	0	0	0	0	0		0	0
120	*Credit institutions*	*207*	*0*	*0*	0	0	0	0	0	0	0	0	0		0	0
130	*Other financial corporations*															
140	*Non-financial corporations*															
150	Off-balance-sheet exposures															
160	*Central banks*															
170	*General governments*															
180	*Credit institutions*															
190	*Other financial corporations*															
200	*Non-financial corporations*															
210	*Households*															
220	***Total***	***23,079***	***19,289***	***1,937***	***373***	***0***	***373***	***-39***	***-7***	***-32***	***-21***	***0***	***-21***	***0***	***19,925***	***351***

The Bank has no collateral obtained by taking possession and execution processes.

7. Remuneration

7.1 Remuneration Policy

The Bank has a Remuneration Policy to secure sound remuneration structures within the business. The Remuneration Policy stipulates that remuneration shall be aligned with the Bank's strategy, goals, values and ensure that conflicts of interest are avoided. 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 has taken into account that it is not a Significant Company (Sw. *ett företag som är betydande i fråga om storlek, intern organisation och verksamhetens art, omfattning och komplexitet*) nor a large Institution (Sw. *stort institut*), but rather a small and non-complex institution. When designing the Remuneration Policy, the European Commission's delegated regulation (EU) No. 2021/923 of 25 March 2021 and the European Banking Authority Guidelines (EBA/GL/2021/04) on sound remuneration policies under Directive 2013/36/EU has been considered.

Furthermore, the Remuneration Policy, based on the Bank's risk analysis, is designed for 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, equality, 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 and the Remuneration Policy ensures that remuneration to individuals is based on gender neutral factors.

The Remuneration Policy is applicable to all employees within the Financial Group.

The Board resolves the Remuneration Policy and ensures that it is applied and followed. The Remuneration Policy is adopted by the Board each year, and the most recent Remuneration Policy was adopted in March 2022. The adjustments mainly concerned the implementation of the European Banking Authority Guidelines (EBA/GL/2021/04) on sound remuneration policies under Directive 2013/36/EU.

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 six (6) meetings during 2022.

To avoid any conflict of interest, the Remuneration Committee recommends compensation levels for all staff whose professional activities have a material impact on the Bank's risk profile (Identified staff, "**IDS**") (Sw. *"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-IDS.

Remuneration to the Head of Compliance and the CRO, which are identified as IDS, are decided upon by the Board and is set independently of the business they oversee.

A control function conducts at least annually, or when appropriate, a review to oversee that the remuneration within the Bank complies with the Remuneration Policy. The control function immediately reports 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 consists of the Bank's Internal Audit function. The control function performed its latest review in April 2023, and presented its statement to the Board on the 25th of April 2023.

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.

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 and credit-related concentration 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 ESG risk.

7.3 Remuneration structure

As of 31st of December 2022, the Bank's remuneration structure was based upon these components;

- Fixed remuneration
    - Base Salary
    - Vacation Pay
    - Allowance
    - Pension and Insurance schemes
    - Parental Pay
    - Other benefits
- Variable Remuneration
    - Severance Pay
    - Retention Incentives

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.

Should variable remuneration be awarded, this shall, unless related to Severance Pay granted under certain circumstances, never exceed 100% of any employee's annual total fixed remuneration.

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.

As of 1st of March 2021, the Bank no longer offer performance related bonuses.

7.4 Remuneration structure and deferred variable remuneration for identified staff

The definition of IDS in the Bank is based on the SFSA regulation FFFS 2011:1 (as amended through FFFS 2021:17) 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 IDS, 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 IDS 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 IDS. The Board, through recommendations from the Remuneration Committee, will continuously evaluate the IDS structure and who are included in this group. As of the 31st of December 2022, 28 individuals are identified as IDS.

Bluestep.

7.4.1 Specification of remuneration to Indentified staff

The table below shows, for IDS, a specification (i) of amounts of remuneration for the financial year, split into fixed and variable remuneration, and (ii) amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types.

Table 7.1 EU REM1 – Remuneration awarded for the financial year (amounts in SEK)

		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff	7	1	8	12
	Total fixed remuneration	2,647,709	5,011,148	14,785,673	12,796,307
	Of which: cash-based	2,647,709	5,011,148	14,785,673	12,796,307
	(Not applicable in the EU)				
	Of which: shares or equivalent ownership interests				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: other instruments				
	(Not applicable in the EU)				
	Of which: other forms				
	(Not applicable in the EU)				
Variable remuneration	Number of identified staff				
	Total variable remuneration				
	Of which: cash-based				
	Of which: deferred				
	Of which: shares or equivalent ownership interests				
	Of which: deferred				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: deferred				
	Of which: other instruments				
	Of which: deferred				
	Of which: other forms				
	Of which: deferred				
Total remuneration (2 + 10)		2,647,709	5,011,148	14,785,673	12,796,307

As the Bank, previously, have granted performance related bonuses (variable remuneration), this remuneration has, for IDS, been deferred with at least 40% and for at least three years.

This 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 (ex-post risk adjustments) 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 additional 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.

7.4.2 Employees remunerated EUR 1,000,000 or more

There are no employees in the Bank with remuneration of 1 million EUR or more.

Bluestep.

7.4.3 Deferred and paid out remuneration

The table below specifies, for IDS, the (i) amounts of outstanding deferred remuneration, split into vested and unvested portions, and (ii) amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments.

Table 7.2 EU REM3 – Deferred remuneration (amounts in SEK)

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function								
2	Cash-based								
3	Shares or equivalent								
4	Share-linked instruments or equivalent non-cash								
5	Other instruments								
6	Other forms								
7	MB Management function								
8	Cash-based	860,458	547,224	313,234				547,224	313,234
9	Shares or equivalent								
10	Share-linked instruments or equivalent non-cash								
11	Other instruments								
12	Other forms								
13	Other senior management								
14	Cash-based	154,616	136,534	18,082				136,534	18,082
15	Shares or equivalent								
16	Share-linked instruments or equivalent non-cash								
17	Other instruments								
18	Other forms								
19	Other identified staff								
20	Cash-based								
21	Shares or equivalent								
22	Share-linked instruments or equivalent non-cash								
23	Other instruments								
24	Other forms								
25	Total amount	1,015,074	683,758	331,316				683,758	331,316

7.4.4 Severance payments and guaranteed bonus

Severance pay may be paid in connection with early termination of an employment, and (where applicable) in order to avoid potential or actual labour disputes or to enforce a non-compete restriction. Any severance pay will be determined in accordance with the Bank's internal severance pay practise, applicable employment laws and reflect performance achieved over time and not reward excessive risk-taking, failure or misconduct.

As a general rule, the Bank do not grant guaranteed bonuses.

Bluestep.

Severance pays and guaranteed bonus for IDS is shown below.

Table 7.3 EU REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (amounts in SEK)

		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff				
2	Guaranteed variable remuneration awards -Total amount				
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap				
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff			1	2
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount			740,000	1,895,522
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff				
7	Severance payments awarded during the financial year - Total amount				
8	Of which paid during the financial year				
9	Of which deferred				
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap				
11	Of which highest payment that has been awarded to a single person				