Bluestep Bank.

Periodic Information

on Risk Management, Capital Adequacy, Liquidity, and Remuneration

2023

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

The report provides information about risk management, capital adequacy, liquidity, and remuneration, as of 31st of December 2023 for the consolidated situation (the "Financial Group") of Bluestep Bank AB (publ) (the "Bank"), covering Bank2 ASA ("Bank2"). The information disclosed, together with certain information in the financial statements, satisfies the regulatory requirements for disclosure, and allows market participants, including analysts, investors, and customers, to assess the Bank from a risk, capital and liquidity perspective. The report is published on the Bank's website 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 ("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"), 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, and the EBA Guidelines (EBA/GL/2022/13) amending Guidelines (EBA/GL/2018/10) on disclosure of nonperforming and forborne exposures.

1.3 Scope of application

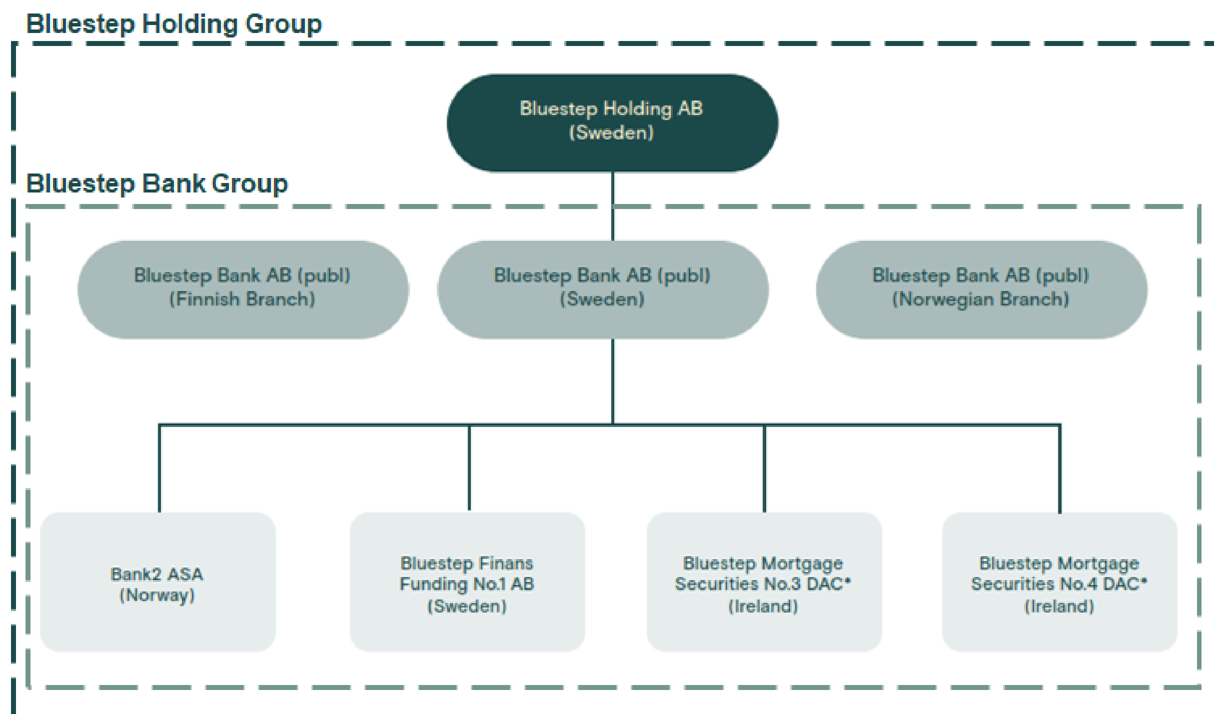
Bluestep Holding AB is the ultimate parent company of the consolidated situation, and the information disclosed in the report is therefore on the basis of Bluestep Holding AB's consolidated situation. The Bank has a Norwegian branch Bluestep Bank AB (publ), filial Oslo and a Finnish branch Bluestep Bank AB (publ), filial i Finland. The following companies are included in the consolidated situation: Bluestep Bank AB, Bank2 ASA, Bluestep Finans Funding No 1 AB, Bluestep Mortgage Securities No 3 DAC[1], and Bluestep Mortgage Securities No 4 DAC[2]. All entities are subject to full consolidation.

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

[2] 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 consolidated situation 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 2023 and the corporate website 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 statement relating to the consolidated situation, or any form of contemporary or forward-looking record or opinion about the consolidated situation.

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 the 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 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.

1.6 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, increasing financial inclusion and enable financial empowerment of more people. The vision is to responsibly increase financial inclusion in society, with focus is on helping those who for various reasons are excluded from the traditional banking sector. Instead of solely relying on automated processes, the Bank trust each individual's potential and choose to see possibilities instead of obstacles.

The offering is mortgage products in Sweden, Norway and Finland, equity release product for customers over 60 years of age who own their home in Sweden, as well as deposit products in SEK, NOK and EUR. Following the notification to the SFSA and the German Federal Financial Supervisory Authority ("BaFin") in 2022, deposit products in EUR to customers residing in Germany was offered from mid-2023. The lending operations were established in the Swedish market in 2005, in the Norwegian market in 2010, in the Finnish market in 2020, and the equity release product in the Swedish market in 2019.

On the 31st of October 2023, the acquisition of Bank2 was finalised, and consolidated as subsidiary. After the reporting period, Bank2 was merged into the Bank as of the 2nd of April 2024. At the acquisition of Bank2, Bluestep Holding AB issued capital instruments totalling MSEK 191 during Q4 2023. As these capital instruments had not been formally approved by the SFSA as of 31st of December 2023, they are not included in the own funds at year-end 2023. The capital instruments were approved by the Financial Supervisory Authority during Q1 2024, resulting in a significant strengthening of the consolidated own funds.

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

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 based on the perspectives of legal, organisational, and three lines of defence, structure.

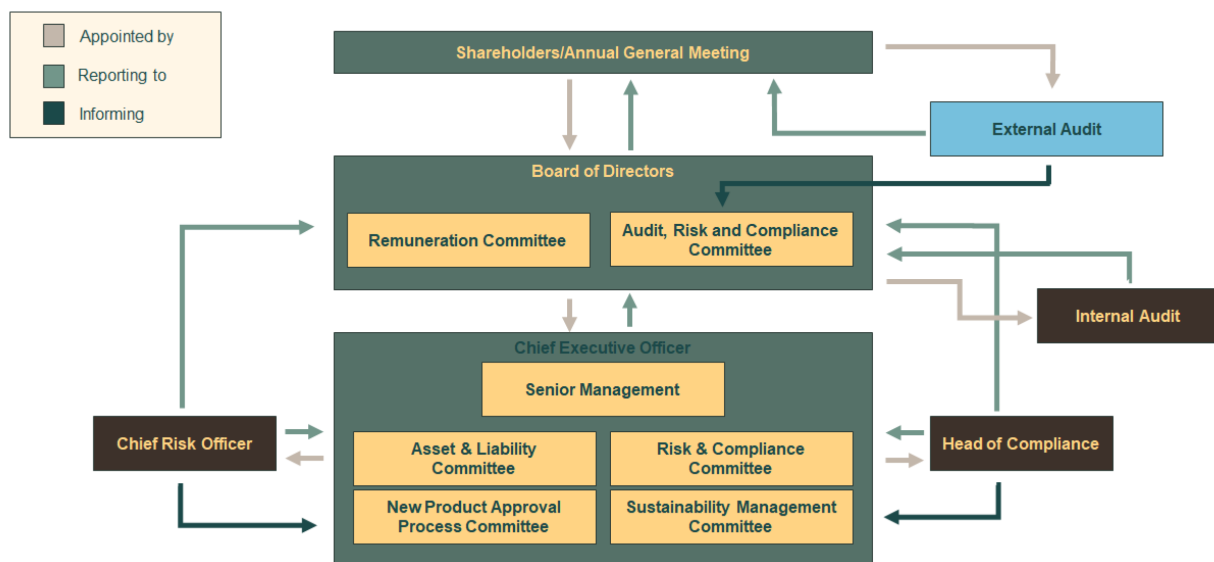
3.1.1 Legal structure

The legal structure is addresses in the section 1.3 Scope of application.

3.1.2 Organisational structure

The organisational structure 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

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effective challenge regarding the running of the business. During 2023, the Board met on sixteen (16) 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 2023, the ARCCO met on six (6) occasions.
- Remuneration Committee which assists the Board in preparing proposals for remuneration. During 2023, the Remuneration Committee met on seven (7) 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 2023, 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 2023, 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 2023, the NPAP Committee met on 12 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 2023, the ALCO met on 11 occasions.
- Sustainability Management Committee which establishes and oversees sustainability policies, frameworks and strategy as well as operational oversight of implementation of sustainability activities. During 2023, the Sustainability Management Committee met on three (3) 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.

3.1.3 Three lines of defence structure

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, 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 risk management aims to ensure that risk-taking is aligned with established risk management strategies and risk appetite, as well as achieving 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 process, covering identification, assessment, management, monitoring, control, and reporting of risks, enables taking and managing risks while achieving set strategic, business, and operational 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.

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, Credit Risk Management Policy, Liquidity and Financing Risk Management Policy, Foreign Exchange Rate Risk Management Policy, Interest Rate Risk Management Policy, 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.

3.2.4 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.

3.2.5 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.

3.2.6 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, environmental, social and governance-related 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 risks are mitigated and limited through established risk appetite and risk tolerances, approved policies and instructions, implemented procedures and routines, as well as 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.

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, ICLAAP, risk reporting, and risk-related policies and instructions.

The risk management 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 and the control functions, as well as by the CEO, the Board, and various committees.

The risk governance is performed from an organisational perspective as well as from a perspective with three lines of defence. The risk management framework is governed by the Risk Management Policy and Instruction, approved by the Board of Directors.

3.2.7 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 deemed sufficient in relation to the risk profile and strategy.

3.2.8 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.

3.2.9 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, the Credit Committees, and the Sustainability Committee.

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 2023 (Note 2 Risk Management).

3.3.1 Risks in 2023

The year has been characterized by the uncertain macroeconomic situation and geopolitical tension with rising interest rates and elevated inflation, leading to increased stress for households, decreased property prices and thereby affecting the asset quality of the Bank. Additionally, bank failures in the United States and Europe have caused volatility in the financial market, even though the spillover effects have been limited for Nordic banks and the Nordic financial market in general.

The Bank has no trading book, hedges its interest rate risks, and has liquidity reserves placed with stable counterparties with good credit ratings. Furthermore, cyber security remains an area of increased risk from a global perspective.

3.3.2 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 collateralised 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 risk appetite for credit risk in mortgage loans is medium, and low for credit risk in liquidity reserve investments.

The credit portfolio is well diversified and consists of a large number of customers, with somewhat increased risk compared to traditional mortgage banks. The credit strategy is based on the borrowers' expected ability to repay their debts and their credit history, as well as the underlying security. To assess the probability of default, the borrowers are divided into different risk grades.

Credit risk is primarily managed through credit policy and credit instructions, as well as established risk management strategy with set risk appetite and risk tolerance. Active credit risk management is achieved through prudent customer selection in the credit operations, to ensure careful and well-balanced customer selection. The credit operations are responsible for the credit decision processes, 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 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. when 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 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 2023 (Note 2 Risk management).

3.3.3 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 in non-financial as well as financial counterparties is low. Exposures to concentration risk are inherent in the business model, why the concentration risk is one of the core focus areas in customer and financial counterparty credit assessment. Concentration risk might arise due to lack of diversification and lending too heavily in one industry, market, or geographic area.

Credit quality, geographical exposure, and the maximum exposure for credit risk, are further disclosed in the Annual Report 2023 (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 established risk management 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.

3.3.4 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 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 is generally shorter than three years, no specific further risk mitigating actions are taken.

3.3.5 Market risk

Market risk is defined as the risk of economic loss, negative change in earnings or material change in risk profile due to fluctuations in the level or volatility of the market prices of assets, liabilities, and financial instruments.

3.3.6 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 low. Given the Bank's operations in Norway, Finland and Germany, 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.

3.3.7 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 adverse changes in market interest rates affecting assets, liabilities and off-balance sheet items, including gap risk, basis risk and option risk.

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. The Bank uses derivative instruments to achieve desired mitigation of interest rate risk. Interest rate risk is primarily attributable to fixed rates 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 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.

3.3.8 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 mainly 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. Continuous 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 maximise their cost/risk efficiency. The Bank offers retail deposit products to the public in Sweden, Norway and Germany. Deposit products in Sweden and Germany are covered by the Swedish deposit guarantee scheme. In Norway, the deposit products of the Norwegian branch are covered by the Swedish deposit guarantee (up to SEK 1,050,000) and the Norwegian deposit guarantee (up to NOK 2,000,000), respectively. The NOK deposits related to Bank2 are covered by the Norwegian deposit guarantee. 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.

3.3.9 ESG risk

ESG risk is defined as the risk of economic loss, negative change in earnings or material change in risk profile due to external and internal contribution to climate change, biodiversity, energy consumption, pollution and waste management (Environmental), deficiencies in human capital, labour standards, equality, diversity, and inclusion, and workplace health and safety (Social), and deficiencies in corporate governance and corporate behaviour (Governance).

The Bank maintains a robust sustainability structure within its operations with a dedicated Head of Sustainability, and overseen by a Sustainability Management Committee. The Sustainability Policy is approved by the Board, and the sustainability strategy is integrated with the business strategy and risk management framework. The risk appetite is set as low, with defined key risk indicators and limits in place, aligned with the sustainability strategy.

ESG risks are assessed using methodologies and procedures akin employed for other operating-related risks. The risk assessment gauge the likelihood and potential impact on the Bank's business model viability, sustainability, and long-term resilience. The aim is to ensure alignment with the broader risk management framework and safeguard the Bank's stability. ESG risks are regularly qualitative assessed, based on likelihood and impact, in the ESG Material Assessment, regular risk assessment, and integrated within the ICLAAP. ESG risks are categorised into physical and transitional environmental risks, social risks, and governance risks, for precise identification and assessment. ESG risks are proportionately integrated as factors and risk drivers, and the potential impact of ESG factors may materialise through various other risks, such as business risk, credit risk, financial risk, operational risk, or reputational risk. ESG risks are effectively managed and limited within defined risk appetite and risk tolerance levels, enabling informed risk-taking decisions and fostering a comprehensive understanding of risk management through-out the Bank's operations.

The sustainability efforts, including ESG risks, are reported by the Head of Sustainability to the Sustainability Management Committee and the Board, and by the Risk Management function as part of the risk reporting.

3.3.10 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 and systems or from external events, including legal risk, model 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 governed by 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 and control functions perform self-risk assessments within the 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/or controls, and also increase knowledge and awareness of the staff and contributes to spreading a consensus of operational risk management within the Bank.

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

Through incident management, 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 SMT, the RiCO, and the Board.

IT related risks are in particular mitigated through the development and maintenance of reliable IT systems with built-in controls, reconciliation, 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 is carried out, and structured work is carried out to protect information. To strengthen the work even further, continuous review of processes and working methodologies is performed to improve and supplement the Bank's information security. The Bank has a security function established 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 material 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.

3.3.11 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, asset liability management risk, regulatory risk, and reputational risk.

The risks are assessed qualitatively, and material risks are additionally assessed quantitatively as part of the 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.

4.1 Capital management framework in general

The capital management is integrated in the strategic planning, risk management framework, and 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. 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 ICLAAP is conducted on an annual basis, and more often when necessary, and monitoring and reporting on key risk indicators occur on a monthly basis. As an integral part of the ICLAAP process, an analysis is conducted to evaluate the adequacy of the capital and liquidity reserves in terms of size and composition against estimated contingency needs addressing 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[3], and SFSA Regulations and General Guidelines. The risk-based capital requirements includes Pillar I capital requirement, Pillar II capital requirement, combined buffer requirements, and Pillar II guidance.

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

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, SFSA SREP and internal methodologies have been applied, where applicable. For the following risks, SFSA methodologies have be applied; - Interest Rate risk - Credit Spread risk - Concentration risk	
Combined Buffer Requirement		
Countercyclical Capital Buffer ("CCyB")	-	-
Systemic Risk Buffer ("SyRB")	-	-
Capital Conservation Buffer ("CCB")	-	-
Pillar II Guidance		
Pillar II Guidance ("P2G")	-	-

Pillar I capital requirement: The Pillar I capital requirement is calculated based on the standardised approach for credit risk, credit valuation adjustment risk, and market risk, the original exposure method for counterparty risk, and the alternative standardised approach for operational risk. The Pillar I capital requirement amounts to 8% of the risk weighted assets ("RWAs"), and at least 4.5% shall be met by CET1 capital.

Pillar II requirement: The Pillar II requirement 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 capital requirement. The Pillar II capital requirement 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 supervisory review and evaluation process ("SREP") and formally decides on Pillar 2 requirement. The risk-based Pillar II requirement is, in accordance with the latest SFSA SREP decision, 1.20% of the RWAs for the Consolidated situation. In accordance with the latest SFSA SREP decision, Pillar II requirement is 1.10% of the RWAs for the Bank.

Combined buffer requirement: The combined buffer requirement absorbs losses in periods of financial stress, and consist of capital conservation buffer of 2.5%, contracyclical buffer, and for credit risk exposures in Norway a systemic risk buffer of 4.5%. The applicable countercyclical capital buffer rates as of the reporting date are 2% in Sweden, 2.5% in Norway, and 0% in Finland. The combined buffer requirement shall bet met by CET1 capital.

Pillar II guidance: The Pillar II guidance level is notified by the SFSA as part of the SREP in addition to other main components to cover risks and manage future financial stresses. The Pillar II guidance 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 Pillar II guidance for the Consolidated Situation or the Bank.

In addition, the Bank maintains 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%.

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)

MSEK		Risk weighted exposure amounts (RWEAs) 31-Dec-23	Risk weighted exposure amounts (RWEAs) 31 Dec 2022	Total own funds requirements 31 Dec 2023
1	Credit risk (excluding CCR)	10,889	7,863	871
2	*Of which the standardised approach*	10,889	7,863	871
6	Counterparty credit risk - CCR	242	118	19
EU 8b	*Of which credit valuation adjustment - CVA*	114	29	9
9	*Of which other CCR*	128	89	10
15	Settlement risk			
16	Securitisation exposures in the non-trading book (after the cap)			
20	Position, foreign exchange and commodities risks (Market risk)	304	702	24
21	*Of which the standardised approach*	304	702	24
EU 22a	Large exposures			
23	*Operational risk*	1,455	888	116
EU 23a	Of which basic indicator approach			
EU 23b	*Of which standardised approach*	1,455	888	116
29	**Total**	12,891	9,570	1,031

The total risk-based capital requirements are shown below.

Table 4.3 Total risk-based capital requirements

Total capital requirements (MSEK)	31-Dec-23	31-Dec-22
Pillar I capital requirement	1,031	766
Pillar II capital requirement	155	115
Combined buffer requirement	881	374
Pillar II guidance	-	-
Sum capital requirements	**2,067**	**1,254**

Totalt capital requirements (% of RWAs)	31-Dec-23	31-Dec-22
Pillar I capital requirement	8.00%	8.00%
Pillar II capital requirement	1.20%	1.20%
Combined buffer requirement	6.84%	3.91%
Pillar II guidance	-	-
Sum capital requirements	**16.04%**	**13.11%**

The internally assessed capital needs are shown below.

Table 4.4 Internally assessed capital need

Internally assessed capital need (MSEK)	31-Dec-23	31-Dec-22
Pillar I capital requirement	1,031	766
Pillar II capital requirement	155	121
Combined buffer requirement	881	374
Pillar II guidance	-	-
Sum capital requirements	**2,067**	**1,261**

Internally assessed capital need (% of RWAs)	31-Dec-23	31-Dec-22
Pillar I capital requirement	8.00%	8.00%
Pillar II capital requirement	1.20%	1.27%
Combined buffer requirement	6.84%	3.91%
Pillar II guidance	-	-
Sum capital requirements	**16.04%**	**13.17%**

The own funds exceed the total capital requirements.

4.3 Leverage ratio requirement

The leverage ratio requirement is calculated in accordance with the CRR, Swedish Acts, and SFSA 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.

Overview of the leverage ratio capital requirements is shown in the table below.

Table 4.5 Leverage ratio requirement methods

Leverage ratio requirement
Minimum Capital Requirement
Pillar II Capital Requirement ("P2R")
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 Pillar II guidance in accordance with the latest SFSA SREP decision.

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

The leverage ratio requirement is shown below.

Table 4.6 Leverage ratio requirement

Total capital requirements (MSEK)	31-Dec-23	31-Dec-22
Minimum capital requirement	951	714
Pillar II capital requirement	-	-
Pillar II guidance	48	36
Total Leverage ratio and Pillar II Guidance	**998**	**750**

Totalt capital requirements (% of Exposure mea	31-Dec-23	31-Dec-22
Minimum capital requirement	3.00%	3.00%
Pillar II capital requirement	-	-
Pillar II guidance	0.15%	0.15%
Total Leverage ratio and Pillar II Guidance	**3.15%**	**3.15%**

The Tier 1 capital exceeds the total leverage ratio requirement.

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 (MSEK)	31 Dec 2023	31 Dec 2022
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	0	4,451
	of which: Instrument type 1		
	of which: Instrument type 2		
	of which: Instrument type 3		
2	Retained earnings	4,928	-69
3	Accumulated other comprehensive income (and other reserves)	-4	19
EU-3a	Funds for general banking risk		
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	201	210
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**5,125**	**4,611**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-3	-2
8	Intangible assets (net of related tax liability) (negative amount)	-3,082	-2,985
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-30	0
27a	Other regulatory adjusments	-7	0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-3,122**	**-2,987**
29	**Common Equity Tier 1 (CET1) capital**	**2,003**	**1,624**
Additional Tier 1 (AT1) capital: instruments			
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	30	0
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	30	0
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**		
44	**Additional Tier 1 (AT1) capital**	30	0
45	**Tier 1 capital (T1 = CET1 + AT1)**	**2,033**	**1,624**
Tier 2 (T2) capital: instruments			
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	35	0
51	**Tier 2 (T2) capital before regulatory adjustments**	35	0
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**		
58	**Tier 2 (T2) capital**	35	0
59	**Total capital (TC = T1 + T2)**	**2,068**	**1,624**
60	**Total risk exposure amount**	**12,891**	**9,570**
Capital ratios and requirements including buffers			
61	Common Equity Tier 1	15.54%	16.97%
62	Tier 1	15.77%	16.97%
63	Total capital	16.04%	16.97%
64	Institution CET1 overall capital requirements	12.01%	9.08%
65	*of which: capital conservation buffer requirement*	2.50%	2.50%
66	*of which: countercyclical capital buffer requirement*	2.22%	1.41%
67	*of which: systemic risk buffer requirement*	2.11%	0.00%
EU-67b	*of which: additional own funds requirements to address the risks other than the risk of excessive leverage*	0.68%	0.68%
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**6.84%**	**7.77%**
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	13	0
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	4	0
Applicable caps on the inclusion of provisions in Tier 2			
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			

4.5 Key metrics

Key metrics (EU KM1) are shown below.

Table 4.8 Key metrics (EU KM1)

	Key Metrics (MSEK)	31-Dec-23	30-Jun-23	31-Dec-22
Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital	2,003	1,731	1,624
2	Tier 1 capital	2,033	1,731	1,624
3	Total capital	2,068	1,731	1,624
Risk-weighted exposure amounts				
4	Total risk exposure amount	12,891	9,788	9,570
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	15.54%	17.68%	16.97%
6	Tier 1 ratio (%)	15.77%	17.68%	16.97%
7	Total capital ratio (%)	16.04%	17.68%	16.97%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)				
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)			
EU 7d	Total SREP own funds requirements (%)	9.20%	9.20%	9.20%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	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 (%)	2.22%	2.15%	1.41%
EU 9a	Systemic risk buffer (%)	2.11%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)			
EU 10a	Other Systemically Important Institution buffer (%)			
11	Combined buffer requirement (%)	6.84%	4.65%	3.91%
EU 11a	Overall capital requirements (%)	16.04%	13.85%	13.11%
12	CET1 available after meeting the total SREP own funds requirements (%)	6.84%	8.48%	7.77%
Leverage ratio				
13	Total exposure measure	31,690	22,830	23,805
14	Leverage ratio (%)	6.42%	7.58%	6.82%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)				
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%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)				
EU 14d	Leverage ratio buffer requirement (%)			
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%
Liquidity Coverage Ratio				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	2,554	955	1,297
EU 16a	Cash outflows - Total weighted value	1,466	1,146	1,098
EU 16b	Cash inflows - Total weighted value	1,904	1,222	2,033
16	Total net cash outflows (adjusted value)	367	286	275
17	Liquidity coverage ratio (%)	696.89%	333.18%	472.44%
Net Stable Funding Ratio				
18	Total available stable funding	26,243	19,751	19,726
19	Total required stable funding	19,735	14,474	14,936
20	NSFR ratio (%)	132.98%	136.46%	132.07%

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 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 prioritised so that the result is maximised, 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.

Liquidity contingency planning enables rapid responses to mitigate the risks related to the size of the liquidity reserves, and addresses the range from low-impact to high-impact events as well as outlining the Bank's responses to unforeseen liquidity shortfalls.

Recovery planning establishes measures that might be taken for restoration of the financial position and viability in situations of financial stress.

The capital plan, liquidity plan, and recovery plan are reviewed at least annually.

4.7 Monitoring and reporting

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

The ICLAAP, covering capital management, is performed at least annually, or when necessary, and monitoring of outcomes and reporting is performed on a quarterly basis.

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

5. Liquidity risk management

This section addresses the liquidity risk management framework and the liquidity situation.

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.

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 linked to 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 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

The liquidity coverage ratio ("LCR") is shown in the table below.

Table 5.1 Liquidity coverage ratio

Liquidity Coverage Ratio (MSEK)	31-Dec-23	31-Dec-22
Liquidity Coverage Ratio	**696.89%**	**472.43%**
High quality liquid assets	2,554	1,297
Total Outflows	1,466	1,098
Outflows from retail deposits	1,116	815
Other outflows	350	283
Total inflows (Max 75% of total outflows)	1,100	824
Inflows from retail customers, lending activities	349	227
Other inflows	1,555	1,807
Net outflows	367	275

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

Table 5.2 Liquidity reserve

Liquidity Reserve (MSEK)	31-Dec-23	31-Dec-22
Cash and balances with central banks	1,045	502
Deposits in other banks	1,504	1,697
Securities issued or guaranteed by sovereigns, central banks or multinational development banks	1,042	644
Covered bonds	664	284
Total	**4,255**	**3,126**

The net stable funding ratio ("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-23	31-Dec-22
Net stable funding ratio	**132.98%**	**132.07%**
Available stable funding	26,243	19,726
Required stable funding	19,735	14,936

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, are 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)	31-Dec-23
Liquidity coverage ratio	**454.14%**
Total liquid assets (after haircuts)	1,586
Net liquidity outflows	375
liquidity outflows	1,420
liquidity inflows (before cap, max 75% of outflows)	1,998

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

5.7 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-23	Share (%)
Senior unsecured bonds	2,418	9%
Covered bonds	5,105	18%
T2	60	0%
Deposits from the public	20,513	73%
Total	**28,096**	**100%**

6. Non-performing and forborne exposures

For loans and advances where the contractual terms have been amended in favour 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 2023 (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)

		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	
			Non-performing forborne						
	(MSEK)	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	2,799	255	255	255	-23	-14	2,974	232
020	Central banks								
030	General governments								
040	Credit institutions								
050	Other financial corporations								
060	Non-financial corporations								
070	Households	2,799	255	255	255	-23	-14	2,974	232
080	Debt Securities								
090	Loan commitments given								
100	***Total***	2,799	255	255	255	-23	-14	2,974	232

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)

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
	(MSEK)		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 due ≤ 90 days	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
005	Cash balances at central banks and other demand deposits	2,559	2,559										
010	Loans and advances	25,360	23,647	1,713	1,020		454	368	171	24	2	0	1,013
020	*Central banks*												
030	*General governments*												
040	*Credit institutions*												
050	*Other financial corporations*												
060	*Non-financial corporations*	200	1	199	7	0	7	0	0	0	0	0	0
070	*Of which SMEs*	200	1	199	7	0	7	0	0	0	0	0	0
080	*Households*	25,161	23,647	1,514	1,013	0	447	368	171	24	2	0	1,013
090	Debt securities	1,705	1,705	0	0	0	0	0	0	0	0	0	0
100	*Central banks*												
110	*General governments*	1,040	1,040	0	0	0	0	0	0	0	0	0	0
120	*Credit institutions*	664	664	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***	29,624	27,911	1,713	1,020	0	454	368	171	24	2	0	1,013

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)

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							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			Accumulated partial write-off	On performing exposures	On non-performing exposures
	(MSEK)		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	2,559	2,559	0	0	0	0	0	0	0	0	0	0		0	0
010	Loans and advances	25,360	20,423	3,624	1,020	0	1,020	-103	-10	-93	-72	0	-72		24,642	923
020	*Central banks*															
030	*General governments*															
040	*Credit institutions*															
050	*Other financial corporations*															
060	*Non-financial corporations*	*200*	*1*	*199*	7	0	7	-30	0	-30	0	0	0		170	7
070	*Of which SMEs*	*200*	*1*	*199*	7	0	7	-30	0	-30	0	0	0		170	7
080	*Households*	*25,161*	*20,422*	*3,425*	1,013		1,013	-73	-10	-63	-72		-72		24,473	916
090	Debt securities	1,705	0	0	0	0	0	0	0	0	0	0	0		0	0
100	*Central banks*															
110	*General governments*	*1,040*	*0*	*0*	0	0	0	0	0	0	0	0	0		0	0
120	*Credit institutions*	*664*	*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***	***29,624***	***22,981***	***3,624***	***1,020***	***0***	***1,020***	***-103***	***-10***	***-93***	***-72***	***0***	***-72***	***0***	***24,642***	***923***

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, with the exception for the employees within Bank2 as further described below.

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 2023. The adjustments made was minor and mainly consisted of editorial changes such as a changes in terminology.

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 seven (7) meetings during 2023.

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 2024, and presented its statement to the Board on the 23rd of April 2024.

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, Finland and Germany. 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 2023, 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.

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

7.4 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 2023, 29 individuals are identified as IDS.

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

SEK		MB Supervisory function	MB Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff	11	2	12	20
	Total fixed remuneration	9,015,153	8,056,759	21,156,857	22,562,777
	Of which: cash-based	9,015,153	8,056,759	21,156,857	22,562,777
	(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)		9,015,153	8,056,759	21,156,857	22,562,777

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 EUR 1,000,000 or more.

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 Deferred remuneration (amounts in SEK) (EU REM3)

Deferred and retained remuneration SEK	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
MB Supervisory function								
Cash-based								
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
MB Management function								
Cash-based	319,801	167,036	152,765				167,036	152,765
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
Other senior management								
Cash-based								
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
Other identified staff								
Cash-based								
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
Total amount	319,801	167,036	152,765				167,036	152,765

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.

Severance pays and guaranteed bonus for IDS is shown below.

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

	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			2	2
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount			3,360,036	1,106,629
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff				2
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				

7.5 Remuneration within Bank2

On the 31st of October 2023, the Bank acquired Bank2 and from that date Bank2 is part of the Financial Group as further described above. However, as a bank in Norway with an independent banking license, Bank2 continues to be under the direct supervision of the Financial Supervisory Authority of Norway ("NFSA") until the date of the completion of the merger between Bank2 and the Bank. Due to this, Bank2 has a remuneration policy which is based on Regulation 9 December 2016 no. 1502 on financial undertakings and financial groups (No. *Finansforetaksforetaksforskriften*) and relevant guidance in the NFSA circulars. Although based on Norwegian rules and regulations, the overarching principles of Bank2's remuneration policy is very similar to the Remuneration Policy hence what is stated in this Section 7 applies, in general, to Bank2. Individuals in Bank2 identified as IDS are also included in the tables above.